0000022921

PART II
SEE
BAR CODE
0000021960
FOR
PART I

ARIZONA WATER COMPANY
CAP COST RECOVERY PROPOSAL (REJOINDER)
CASA GRANDE
TEST YEAR 2003

Line	Description		Used Portion (a)	Unused Portion (b)	Total (c)
1	Deferred Balance CAP M&I Charges ($3,525,803)	Exh. SLH-RJ4 (p.8,L15)	142,896 (A)	3,382,907	3,525,803
2	**To Rate Base - Used Portion Only**	Line 1 (Column a only)	**142,896**	**0**	**142,896**
3	Required Rate of Return	Schedule D-1	10.50%	10.50%	10.50%
4	Required Operating Income	Line 2 X Line 3	15,004	0	15,004
5	Income Taxes on Required NOI	Line 4 X 61.25745%	9,191	0	9,191
6	Amortization of Deferred Balance CAP M&I Charges	Line 1 / 10 years	**14,290**	**338,290**	**352,580**
7	Ongoing M&I Charges	Exh. SLH-RJ4 (p.14,L7)	**0**	**133,483**	**133,483**
8	Total Required Revenue	(Ln 4 + Ln 5 + Ln 6 + Ln 7)	**38,485**	**471,773**	**510,259**

(A) - $3,525,803 x (279 AF/(8,884 AF-2,000 AF))

EXHIBIT
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admitted

ARIZONA WATER COMPANY
CAP COST RECOVERY PROPOSAL (REJOINDER)
WHITE TANK
TEST YEAR 2003

Line	Description		Used Portion (a)	Unused Portion (b)	Total (c)
1	Deferred Balance CAP M&I Charges ($506,268)	Exh. SLH-RJ4 (p.10,L15)	0	506,268	506,268
2	**To Rate Base - Used Portion Only**	Line 1 (Column a only)	**0**	**0**	**0**
3	Required Rate of Return	Schedule D-1	10.50%	10.50%	10.50%
4	Required Operating Income	Line 2 X Line 3	0	0	0
5	Income Taxes on Required NOI	Line 4 X 61.25745%	0	0	0
6	Amortization of Deferred Balance CAP M&I Charges	Line 1 / 10 years	**0**	**50,627**	**50,627**
7	Ongoing M&I Charges	Exh. SLH-RJ4 (p.16,L7)	**0**	**27,104**	**27,104**
8	Total Required Revenue	(Ln 4 + Ln 5 + Ln 6 + Ln 7)	**0**	**77,731**	**77,731**

ARIZONA WATER COMPANY
CAP COST RECOVERY PROPOSAL (REJOINDER)
COOLIDGE
TEST YEAR 2003

Line	Description		Used Portion (a)	Unused Portion (b)	Total (c)
1	Deferred Balance CAP M&I Charges ($1,046,011)	Exh. SLH-RJ4 (p.8,L15)	0	1,046,011	1,046,011
2	**To Rate Base - Used Portion Only**	Line 1 (Column a only)	**0**	**0**	**0**
3	Required Rate of Return	Schedule D-1	10.50%	10.50%	10.50%
4	Required Operating Income	Line 2 X Line 3	0	0	0
5	Income Taxes on Required NOI	Line 4 X 61.25745%	0	0	0
6	Amortization of Deferred Balance CAP M&I Charges	Line 1 / 10 years	**0**	**104,601**	**104,601**
7	Ongoing M&I Charges	Exh. SLH-RJ4 (p.18,L7)	**0**	**56,000**	**56,000**
8	Total Required Revenue	(Ln 4 + Ln 5 + Ln 6 + Ln 7)	**0**	**160,601**	**160,601**

ARIZONA WATER COMPANY
PROPOSED CAP COST RECOVERY - CASA GRANDE
TOTAL CAP ALLOCATION AND DEFERRED M&I BALANCE

INPUTS:	
CAP ALLOCATION (ACRE FEET (AF))	8,884
Estimated Annual Growth	1986 new customers in 2006; 2202 thereafter
Proposed Hook-Up Fee - Gross (Net of tax $325)	$325

Line	Description	Cost per AF	Customer Projection	Amount
	Balance @ 12/31/2003			$3,525,802
2004	M&I Charges at $28/AF			266,520
	NP-260 Tariff M&I Charges			(98,370)
	AFUDC-estimated based on 2004 rate			186,400
	Balance @ 12/31/2004			3,880,351
2005	M&I Charges at $28/AF	$28		248,752
	NP-260 Tariff M&I Charges			(63,812)
	AFUDC-estimated based on 2004 rate			209,645
	Balance @ 12/31/05			4,274,936
2006	M&I Charges at $24/AF	$24		213,216
	NP-260 Tariff M&I Charges			(54,696)
	AFUDC-estimated based on 2004 rate			229,371
	Hook-Up Fees Collected		1986	(645,450)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/06			4,017,378
2007	M&I Charges at $21/AF	$21		186,564
	NP-260 Tariff M&I Charges			(47,859)
	AFUDC-estimated based on 2004 rate			215,190
	Hook-Up Fees Collected		2202	(715,650)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/07			3,655,623
2008	M&I Charges at $21/AF	$21		186,564 [1]
	NP-260 Tariff M&I Charges			(47,859)
	AFUDC-estimated based on 2004 rate			196,253
	Hook-Up Fees Collected		2202	(715,650) [1]
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/08			3,274,931
2009	M&I Charges at $21/AF	$21		186,564
	NP-260 Tariff M&I Charges			(47,859)
	AFUDC-estimated based on 2004 rate			176,324
	Hook-Up Fees Collected		2202	(715,650)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/09			2,874,310
2010	M&I Charges at $21/AF	$21		186,564
	NP-260 Tariff M&I Charges			(47,859)
	AFUDC-estimated based on 2004 rate			155,352
	Hook-Up Fees Collected		2202	(715,650)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/10			2,452,716
2011	M&I Charges at $21/AF	$21		186,564
	NP-260 Tariff M&I Charges			(47,859)
	AFUDC-estimated based on 2004 rate			133,281
	Hook-Up Fees Collected		2202	(715,650)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/11			2,009,053
2012	M&I Charges at $21/AF	$21		186,564
	NP-260 Tariff M&I Charges			(47,859)
	AFUDC-estimated based on 2004 rate			110,056
	Hook-Up Fees Collected		2202	(715,650)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/12			1,542,164
2013	M&I Charges at $21/AF	$21		186,564
	NP-260 Tariff M&I Charges			(47,859)
	AFUDC-estimated based on 2004 rate			85,615
	Hook-Up Fees Collected		2202	(715,650)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/13			1,050,833
2014	M&I Charges at $21/AF	$21		186,564
	NP-260 Tariff M&I Charges			(47,859)
	AFUDC-estimated based on 2004 rate			59,894
	Hook-Up Fees Collected		2202	(715,650)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/14			533,782
2015	M&I Charges at $21/AF	$21		186,564
	NP-260 Tariff M&I Charges			(47,859)
	AFUDC-estimated based on 2004 rate			32,826
	Hook-Up Fees Collected		2202	(715,650)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/15			(10,336)

[1] Customer growth projections, hook-up fee and M&I rate may be adjusted in rate case filed in 2007.

EXHIBIT
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admitted

ARIZONA WATER COMPANY
PROPOSED CAP COST RECOVERY - COOLIDGE
UNUSED CAP ALLOCATIONS

INPUTS:	
CAP ALLOCATION (ACRE FEET (AF))	2,000
Estimated Annual Growth	1000 new customers annually
Proposed Hook-Up Fee - Gross (Net of tax $652)	$211

Line	Description	Cost per AF	Customer Projection	Amount
	Balance @ 12/31/2003			1,046,011
2004	M&I Charges at $28/AF			60,000
	AFUDC-estimated based on 2004 rate			55,234
	Balance @ 12/31/2004			1,161,245
2005	M&I Charges at $28/AF	$28		56,000
	AFUDC-estimated based on 2004 rate			61,047
	Balance @ 12/31/05			1,278,292
2006	M&I Charges at $24/AF	$24		48,000
	AFUDC-estimated based on 2004 rate			66,849
	Hook-Up Fees Collected		1000	(211,000)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/06			1,182,141
2007	M&I Charges at $21/AF	$21		42,000
	AFUDC-estimated based on 2004 rate			61,760
	Hook-Up Fees Collected		1000	(211,000)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/07			1,074,901
2008	M&I Charges at $21/AF	$21		42,000 [1]
	AFUDC-estimated based on 2004 rate			56,255
	Hook-Up Fees Collected		1000	(211,000) [1]
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/08			962,156
2009	M&I Charges at $21/AF	$21		42,000
	AFUDC-estimated based on 2004 rate			50,468
	Hook-Up Fees Collected		1000	(211,000)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/09			843,623
2010	M&I Charges at $21/AF	$21		42,000
	AFUDC-estimated based on 2004 rate			44,383
	Hook-Up Fees Collected		1000	(211,000)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/10			719,006
2011	M&I Charges at $21/AF	$21		42,000
	AFUDC-estimated based on 2004 rate			37,986
	Hook-Up Fees Collected		1000	(211,000)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/11			587,993
2012	M&I Charges at $21/AF	$21		42,000
	AFUDC-estimated based on 2004 rate			31,261
	Hook-Up Fees Collected		1000	(211,000)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/12			450,254
2013	M&I Charges at $21/AF	$21		42,000
	AFUDC-estimated based on 2004 rate			24,190
	Hook-Up Fees Collected		1000	(211,000)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/13			305,444
2014	M&I Charges at $21/AF	$21		42,000
	AFUDC-estimated based on 2004 rate			16,757
	Hook-Up Fees Collected		1000	(211,000)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/14			153,201
2015	M&I Charges at $21/AF	$21		42,000
	AFUDC-estimated based on 2004 rate			8,942
	Hook-Up Fees Collected		1000	(211,000)
	Taxes on Hook-Up Fees			0
	Balance @ 12/31/15			(6,857)

[1] Customer growth projections, hook-up fee and M&I rate may be adjusted in rate case filed in 2007.

RUCO'S RESPONSE
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SECOND SET OF DATA REQUESTS
FROM ARIZONA WATER COMPANY
TO THE RESIDENTIAL UTILITY CONSUMER OFFICE
(Docket No. W-01445A-04-0650)

2.10 On pages 21-22 of his direct testimony, Mr. Coley describes RUCO's proposed adjustment to property tax expense. With respect to that adjustment, provide the following:

(a) Identify each prior rate proceeding (utility name, docket number and decision number) in which RUCO has proposed an adjustment to property tax expense using the methodology proposed by Mr. Coley.

(b) For each proceeding identified in the preceding sub-part of this data request, state whether RUCO's methodology was adopted and used to compute adjusted property tax expense and, if RUCO's methodology was not adopted, describe the methodology that was ultimately adopted and used.

Response (Coley):

(a)

1. Arizona Water Company – Northern Group, Docket No. W-01445A-00-0962, Decision No. 64282.

2. Arizona Water Company – Eastern Group, Docket No. W-01445A-02-0619, Decision No. 66849.

3. Arizona-American Water – Sun City West, Docket No. WS-01303A-02-0867, Sun City, Docket No. WS-01303A-02-0868, Mohave & Havasu, Docket No. WS-01303A-02-0869, Anthem & Aqua Fria, Docket No. WS-01303A-02-0870, and Tubac, Docket No. WS-01303A-02-0908. All these cases were decided in Decision No. 67094.

4. Green Valley Water Company, Docket No. W-02025A-01-559, and no decision rendered because the application was withdrawn.

5. Litchfield Park Service Company, Docket No.s W-1427-01-0487 & WS-1428-01-0487, Decision No. 65436.

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admitted

6. Rio Rico Utilities, Docket No. WS-02676A-03-0434, and Decision No. 67279.

7. Rio Verde Utilities, Docket No.'s WS-02156A-00-0321 & WS-02156A-00-0323, Decision No. 63585.

8. Chaparral Water Company, Docket No. W-02113A-04-0616, no decision because case is still pending.

(b)	Adopted	Methodology Adopted
1.	No	See Decision No. 64282
2.	No	See Decision No. 66849
3.	No	See Decision No. 67094
4.	N/A	No Decision Rendered
5.	No	See Decision No. 65436
6.	No	See Decision No. 67279
7.	No	See Decision No. 63585
8.	N/A	Decision Pending

40-370. Water utility surcharges to recover operating costs; notice; definition

A. Subject to the limitations provided in subsection D, the commission shall authorize water utilities to recover increases in specific operating costs by means of a surcharge on water sales and to reduce rates when those specific operating costs decrease. The operating costs that may be considered in this procedure are limited to specific, readily identifiable costs that are subject to the control of another person, including the cost of purchasing electricity or gas, the cost of purchasing water from another utility, municipality or district and the payment of ad valorem taxes or any similar tax or assessment levied on the water utility. The surcharge shall not exceed ten per cent of current rates.

B. The water utility shall file written notice of a surcharge or rate decrease pursuant to this section with the commission, clearly advising the commission of:

1. The specific operating cost being considered for the rate decrease or recovery by the surcharge.
2. The amount of the operating cost being considered for the rate decrease or recovery by the surcharge.
3. The timing and method of cost recovery or rate reduction.

C. The water utility shall also deliver to each customer with the customer's next bill for service a notice of the proposed surcharge or rate reduction. This notice to customers shall include the following information:

1. The information prescribed by subsection B.
2. The customer's right to comment on the proposed surcharge or rate reduction.
3. The address and telephone number of the commission.

D. A surcharge imposed by this section is effective thirty days after the date on which the water utility files the written notice with the commission, unless within that time the commission in its discretion adjusts or denies the surcharge or determines that further investigation of the surcharge is required. The commission shall notify the water utility in writing of a decision to adjust or deny the surcharge or to further investigate the appropriateness of the surcharge. If the commission determines that further investigation of the surcharge is required, the commission may conduct a hearing regarding the appropriateness of the surcharge. If the commission does not issue a decision within one hundred twenty days after the date the water utility files the written notice, the surcharge is effective without further action.

E. For purposes of this section, "water utility" means a public service corporation that is subject to the commission's jurisdiction and that engages in supplying water utility service in this state.

Last legislative year: 1997

JUDICIAL DECISIONS

Applicability.

In the absence of an emergency or automatic adjustment clause, the Arizona corporation commission cannot impose a rate surcharge based on a specific cost increase without first determining a utility's fair value rate base; thus, the commission exceeded its authority by approving utility company's request for a surcharge. Residential Util. Consumer Office v. State Corp. Comm'n, 199 Ariz. 588, 20 P.3d 1169, 2001 Ariz. App. LEXIS 57 (Ct. App. 2001).

EXHIBIT
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admitted

APS

APPENDIX F

SCHEDULE 10

TERMS AND CONDITIONS FOR DIRECT ACCESS

The following terms and conditions and any changes authorized by law will apply to Arizona Public Service Company (Company), Energy Service Providers (ESPs), and their agents that participate in Direct Access under the Arizona Corporation Commission's (ACC) rules for retail electric competition (A.A.C. R14-2-1601, et seq., referred to herein as the "Rules"). "Direct Access customer" refers to any Company retail customer electing to procure its electricity and any other ACC authorized Competitive Services directly from ESPs as defined in the Rules.

Customer Selections

All Company retail customers shall obtain service under one of two options:

1. Standard Offer Service. With this election, retail customers will receive all services from Company, including metering, meter reading, billing, collection and other consumer information services, at regulated rates authorized by the ACC. Any customer who is eligible for Direct Access who does not elect to procure Competitive Services shall remain on Standard Offer Service. Direct Access customers may also choose to return to Standard Offer Service after having elected Direct Access.

2. Competitive Services (Direct Access). This service election allows customers who are eligible for Direct Access to purchase electric generation and other Competitive services from an ACC certificated ESP. Direct Access customers with single premise demands greater than 20 kW or usage of 100,000 kWh annually will be required to have Interval Metering, as specified in Section 3.6.1. Pursuant to the Rules, and any restrictions herein, the ESP serving these customers will have options available for choosing to offer Meter Services, Meter Reading Services and/or Billing Services on their own behalf (or through a qualified third party), or to have Company provide those services (when permitted by the Rules) as specified within.

1. General Terms

1.1. Definitions. The definitions of principal terms used in this Schedule shall have the same meaning as ascribed to them in the Rules, unless otherwise expressly stated in this Schedule.

1.1.1. Customer - Unless otherwise stated, all references to Customer in this agreement refer to Company customers who are eligible for and have elected Direct Access.

1.1.2. Service Account - Unless otherwise stated, all references to "Service Account" in this agreement shall refer to an installed service, identified by a Universal Node Identifier (UNI).

1.1.3. Local Arizona Time – All time references in this Schedule are in Local Arizona Time, which is Mountain Standard Time (MST).

2. General Obligations of Company

2.1. Non-Discrimination

2.1.1. Company shall discharge its responsibilities under the Rules in a non-discriminatory manner as to providers of all Competitive Services. Unless otherwise authorized by the ACC, the Federal Energy Regulatory Commission ("FERC") or applicable affiliate transactions rules, Company shall not:

2.1.1.1. Represent that its affiliates or customers of its affiliates will receive any different treatment with regard to the provision of Company services than other, unaffiliated services providers as a result of affiliation with Company; or

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admitted
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2.1.1.2. Provide its affiliates, or customers of its affiliates, any preference based on the affiliation including but not limited to terms and conditions of service, information, pricing or timing over non-affiliated suppliers or their customers in the provision of Company services.

2.2. Transmission and Distribution Service

Company will offer transmission and distribution services under applicable tariffs, schedules and contracts for delivery of electric generation to Direct Access customers under the provisions of State law, the terms of the ACC's Rules and Regulations, this Schedule, the ESP Service Acquisition Agreement, applicable tariffs and applicable FERC rules.

3. General Obligations of ESPs

3.1. Timeliness, Due Diligence and Security Requirements

3.1.1 ESPs shall exercise due diligence in meeting their obligations and deadlines under the Rules to facilitate customer choice. ESPs shall make all payments owed to Company in a timely manner.

3.1.2 ESPs shall adhere to all credit, deposit and security requirements specified in the ESP Service Acquisition Agreement and Company tariffs and schedules.

3.2. Arrangements with ESP Customers

ESPs shall be solely responsible for having appropriate contractual or other arrangements with their customers necessary to implement Direct Access. Company shall not be responsible for monitoring, reviewing or enforcing such contracts or arrangements.

3.3. Responsibility for Electric Purchases

ESPs will be responsible for the purchase of their Direct Access customers' electric generation needs and the delivery of such purchases to designated receipt points as set forth on schedules given to the Scheduling Coordinators ("SCs").

3.4. Company Not Liable for ESP Services

To the extent the customer elects to procure services from an ESP, Company has no obligations to the customer with respect to the services provided by the ESP.

3.5. Load Aggregation for Procuring Electric Generation/Split Loads

3.5.1 ESPs may aggregate individually-metered electric loads for procuring competitive electric generation only. Load aggregation shall not be used to compute Company charges or for tariff applicability.

3.5.2. Customers requesting Direct Access Services may not partition the electric loads of a Service Account among electric service options or providers. The entire load of a Service Account must be provided by only one (1) ESP. This provision shall not restrict the use of separate parties for metering and billing services.

3.6 Interval Metering

3.6.1. "Interval Metering" refers to the purchase, installation and maintenance of electricity metering equipment capable of measuring and recording minimum data requirements, including hourly interval data required for Direct Access settlement processes and distribution billing. Interval Metering is required for all customers that elect Direct Access and reach a single site maximum demand in excess of 20 kW one or more times or annual usage of 100,000 kWh or more. Interval Metering is provided by the ESP, at no cost to Company. Interval Metering is optional for those customers with single site maximum demands that are 20 kW or less or annual usage of less than 100,000 kWh.

3.6.2. Company shall determine if Customer meets the requirements for Interval Metering based on historical data, or an estimated calculation of the demand and/or usage for new customers.

3.7. Meter Data Requirements

Minimum meter data requirements consist of data required to bill Company distribution tariffs and determine transmission settlement. Company shall have access to meter data necessary for regulatory purposes or rate-setting purposes pursuant to mutually agreed upon terms with the ESP for such data access.

3.8. Statistical Load Profiles

Company will offer statistical load profiles in place of Interval Metering, for qualifying Customers to estimate hourly consumption for settlement and scheduling purposes. Statistical load profiles will be applied as authorized by FERC.

3.9 Fees and Other Charges

Direct Access customers shall pay all applicable fees, surcharges, impositions, assessments and taxes on the sale of energy or the provisions of other services as authorized by law. The ESP and Company will each be respectively responsible for paying such fees to the taxing or regulatory agency to the extent it is their obligation to do so. Both the ESP and Company will be responsible for providing the authorized billing agent the information necessary to bill these charges to the customer.

3.10 Liability In Connection With ESP Services

3.10.1. "Damages" shall include all losses, harm, costs and detriment, both direct and indirect, and consequential, suffered by Customer or third parties.

3.10.2 Company shall not be liable for any damages caused by Company conduct in compliance with, or as permitted by, Company's electric rules and tariffs, the ESP Service Acquisition Agreement, the Rules, and associated legal and regulatory requirements related to Direct Access service, or as otherwise set forth in Company's Schedule #1.

3.10.3 Company shall not be liable for any damages caused to Customer by any ESP, including failure to comply with Company's electric rules and tariffs, the ESP Service Acquisition Agreement, the Rules, and associated legal and regulatory requirements related to Direct Access service.

3.10.4 Company shall not be liable for any damages caused by the ESP's failure to perform any commitment to Customer.

3.10.5. An ESP is not a Company agent for any purpose. Company shall not be liable for any damages resulting from acts, omissions, or representations made by an ESP in connection with soliciting customers for Direct Access or rendering Competitive Services.

3.10.6 Under no circumstances shall Company be liable to Customer, ESP (including any entity retained by it to provide competitive services to the customer) or third parties for lost revenues or profits, indirect or consequential damages or punitive or exemplary damages in connection with Direct Access Services. This provision shall not limit remedies otherwise available to customers under Company's schedules and tariffs and applicable laws and regulations.

4. Customer Inquiries and Data Accessibility

4.1 Customer Inquiries – For customers requesting information on Direct Access, Company shall make available the following information:

4.1.1 Materials to consumers about competition and consumer choices.

4.1.2 A list of ESPs that have been issued a Certificate of Convenience and Necessity to offer Competitive Services within Company's service territory. Company will provide the list maintained by the ACC, but Company is under no obligation to assure the accuracy of this list. Reference to any particular ESP or group of ESPs on the list shall not be considered an endorsement or other form of recommendation by Company.

4.2. Access to Customer Usage Data. For Company customers on Standard Offer Service, Company shall provide customer specific usage data to ESP or to Customer, subject to the following provisions:

4.2.1. ESPs may request Customer usage data prior to submission of a Direct Access Service Request ("DASR") by obtaining and submitting to Company the Customer's written authorization on a Customer Information Service Request ("CISR") form. Company may charge for customer usage data at rates approved by the ACC.

4.2.2. Company will provide the most recent twelve (12) months of customer usage data or the amount of data available for that Customer if there is less than twelve (12) months of usage history.

4.3 Customer Inquires Concerning Billing Related Issues

4.3.1 Customer inquiries concerning Company charges or services shall be directed to Company.

4.3.2 Customer inquiries concerning ESP charges or services shall be directed to the ESP.

4.4 Customer Inquiries Related to Emergency Situations and Outages

4.4.1. Company shall be responsible for responding to all Standard Offer Service or, in the case of Direct Access customers, distribution service emergency system conditions, outages and safety situation inquiries related to Company's distribution system. Customers contacting an ESP with such inquiries are to be referred directly to Company for resolution. ESPs performing consolidated billing must show Company's emergency telephone number on their bills.

4.4.2. Company may shed or curtail customer load as provided by its ACC-approved tariffs and schedules, or by other ACC rules and regulations.

5. ESP Service Establishment

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SCHEDULE 10
TERMS AND CONDITIONS FOR DIRECT ACCESS

5.1 Before the ESP or its agents can offer Direct Access services in Company's distribution service territory they must meet the applicable provisions as listed:

5.1.1 All ESPs must obtain a Certificate of Convenience and Necessity from the ACC which authorizes the ESP to offer Competitive Services in Company's distribution service territory.

5.1.2 All ESPs must register to do business in the State of Arizona and obtain all other licenses and registrations needed as a legal predicate to the ESP's ability to offer Competitive Services in Company's distribution service territory.

5.1.3 Load Serving ESPs must satisfy creditworthiness requirements as specified in the ESP Service Acquisition Agreement if the ESP chooses the ESP Consolidated Billing option. If the ESP chooses Company UDC Consolidated Billing, they must enter into a Customized Billing Services Agreement.

5.1.4 Load Serving ESPs must enter into an ESP Service Acquisition Agreement with Company.

5.1.5. All ESPs must satisfy any applicable ACC electronic data exchange requirements including:

5.1.5.1. The ESP and/or its designated agents must complete to Company's satisfaction all necessary electronic interfaces between the ESP and Company to exchange DASRs and general communications.

5.1.5.2. The ESP or its agent must complete to Company's satisfaction all electronic interfaces between the ESP and Company to exchange meter reading and usage data. This includes communication to and from the Meter Reading Service Provider's (MRSP) server for sharing of meter reading and usage data.

5.1.5.3. The ESP must have the capability to electronically exchange data with Company. Alternative arrangements may be acceptable at Company's option.

5.1.5.4. The ESP and its agents must use Electronic Data Interchange (EDI) using Arizona Standard Formats to exchange billing and remittance data with Company when offering ESP Consolidated Billing or Company UDC Consolidated Billing. The ESP and its agents must use the Arizona Standard Format to exchange meter reading data with Company when providing meter reading services. Alternative arrangements may be allowed at Company's option.

5.1.6 For Company UDC Consolidated Billing or ESP Consolidated Billing options, compliance testing is required. Both parties must demonstrate the ability to perform data exchange functions required by the ACC and the ESP Service Acquisition Agreement. Any change of the billing agent will require a revalidation of the applicable compliance testing. Provided the ESP is acting diligently and in good faith, its failure to complete such compliance testing shall not affect its ability to offer electric generation to Direct Access customers. Dual Company/ESP Billing will be performed until the compliance testing is completed to Company's satisfaction.

5.1.7. Compliance testing will be required for a MRSP when providing meter reading services to ensure that meter data can be delivered successfully. Any change of the MRSP's system, or any change to the Arizona Standard 867 EDI format, will require a revalidation of the applicable compliance testing.

6 Direct Access Service Request (DASR)

6.1 A DASR is submitted pursuant to the terms and conditions of the Arizona DASR Handbook, the ESP Service Acquisition Agreement and this section, and shall also be used to define the Competitive Services that the ESP will provide the customer.

6.2 ESPs shall have a CC&N from the ACC; shall have entered into an ESP Service Acquisition Agreement with Company, if required, and shall have successfully completed data exchange compliance testing before submitting DASRs.

6.3 The customer's authorized ESP must submit a completed DASR to Company before Customer can be switched from Standard Offer Service or Competitive Service provided by another ESP. The DASR process described herein shall be used for customer Direct Access elections, updates, cancellations, customer-initiated returns to Company Standard Offer Service, or requests for physical disconnection of service and ESP- or customer-initiated termination of an ESP/customer service agreement.

6.4. A separate DASR must be submitted for each service delivery point. Each of the five (5) DASR operation types [Request (RQ), Termination of Service Agreement (TS), Physical Disconnect (PD), Cancel (CL) and Update/Change (UC)] has specific field requirements that must be fully completed before the DASR is submitted to Company. A DASR that does not contain the required field information or is otherwise incomplete may be rejected. In accordance with the provisions of the applicable Service Acquisition Agreement, Company may deny the ESP or customer request for service if the information provided in the DASR is false, incomplete, or inaccurate in any material respect. ESPs filing DASRs are thereby representing that they have their customer's authorization for such transaction.

6.5. Company requires that DASRs be submitted electronically using Electronic Data Interchange (EDI) or Comma Separated Value (CSV) formats through the Company's web site (http://esp.apsc.com).

6.6. DASRs will be handled on a first-come, first-served basis. Each request shall be time and date stamped when received by Company.

6.7 Once the DASR is submitted, the following timeframes will apply:

6.7.1. Company will respond to RQ, TS, CL and UC DASRs within two (2) working days of the time and date stamp. Company will exercise best efforts (no later than five (5) working days) to provide the ESP with a DASR status notification informing them whether the DASR has been accepted, rejected or placed in a pending status awaiting further information. If accepted, the effective switch date will be determined in accordance with Sections 6.8, 6.9, and 6.12 and will be confirmed in the response to the ESP and the former ESP if applicable. If a DASR is rejected, Company shall provide the reasons for the rejection. If a DASR is held pending further information, it shall be rejected if the DASR is not completed with the required information within thirty (30) working days, or a mutually agreed upon date, following the status notification. Company will send written notification to the customer once the RQ DASR has been processed.

6.7.2. When a customer requests electric services to be disconnected, the ESP is responsible for submitting a PD DASR to Company on behalf of the customer, regardless of the Meter Service Provider (MSP).

6.7.2.1. When Company is acting as the MSP, Company shall perform the physical disconnect of the service. The PD DASR must be received by Company at least three (3) working days prior to the requested disconnect date. Company will acknowledge the PD DASR status within two (2) working days of the time and date stamp.

6.7.2.2 When Company is not acting as the MSP, the ESP is responsible for performing the physical disconnect. The ESP shall notify Company by DASR of the date of the physical disconnect. Disconnect reads must be posted to the server within three (3) working days following the disconnection.

6.8. DASRs that do not require a meter exchange must be received by Company at least fifteen (15) calendar days prior to the next scheduled meter read date. The actual meter read date would be the effective switch date. DASRs received less than fifteen (15) calendar days prior to the next scheduled meter read date will be scheduled for switch to Direct Access on the following month's read date.

6.9 DASRs that require a meter exchange will have an effective change date to Direct Access as of the meter exchange date. Notification of meter exchange dates shall be coordinated between the ESP, MSP and Company's Meter Activity Coordinator ("MAC").

6.10 If more than one (1) RQ DASR is received for a service delivery point within a Customer's billing cycle, only the first valid DASR received shall be processed in that period. All subsequent DASRs shall be rejected.

6.11. Upon acceptance of an RQ DASR, a maximum of twelve (12) months of customer usage data, or the available usage for that customer switching from Standard Offer, shall be provided to the ESP. If there is an existing ESP currently serving that customer, that ESP shall be responsible for submitting the customer usage data to the new ESP. In both cases, the customer usage data will be submitted to the appropriate ESP no later than five (5) working days before the scheduled switch date.

6.12. Customers returning to Company Standard Offer service must contact their ESP. The ESP shall be responsible for submitting the DASR on behalf of the customer.

6.13. ESPs requesting to return a Direct Access customer to Company Standard Offer service shall submit a TS DASR and shall be responsible for the continued provision of the customer's electric supply service, metering, and billing services until the effective change date.

6.14. Customers requesting to return to Company Standard Offer service are subject to the same timing requirements as used to establish Direct Access service. Direct Access customers returning to Company Standard Offer service may be subject to the RCDAC-1.

6.15. Company may assess a fee for processing DASRs. All fees are payable to Company within fifteen (15) calendar days after the invoice date. All unpaid fees received after this date will be assessed applicable late fees pursuant to Schedule 1. If an ESP fails to pay these fees within thirty (30) days after the due date, Company may suspend accepting DASRs from the ESP unless a deposit sufficient to cover the fees due is currently available or until such time as the fees are paid. If an ESP is late in paying fees, a deposit or an additional deposit may be required from the ESP.

6.16. A customer moving to new premises may retain or start Direct Access immediately. The customer must first contact Company to establish a Service Account. The customer will be provided the necessary information that will enable its ESP to submit a DASR. The same timing requirements apply as set forth in Section 6.8 and 6.9.

6.17 Billing and metering option changes are requested through a UC DASR and cannot be changed more than once per billing cycle.

6.18. Company shall not hold the ESP responsible for any customer unpaid billing charges prior to the customer's switch to Direct Access. Unpaid billing charges shall not delay the processing of DASRs and shall remain the customer's responsibility to pay Company. Company's Schedule 1 applies in the event of customer non-payment, which includes the possible disconnection of distribution services. Company shall not accept any DASRs submitted for customers who have been terminated for nonpayment and have not yet been reinstated. Disconnection by Company of a delinquent customer shall not make Company liable to the ESP or third-parties for the customer's disconnection.

6.19 Company shall not accept DASRs that specify a switch date of more than sixty (60) calendar days from the date the DASR is submitted.

7 Billing Service Options and Obligations

7.1 Subject to availability, and pursuant to the terms in the ESP Service Acquisition Agreement, this Schedule 10, and applicable tariffs and the restrictions therein, ESPs may select among the following billing options:

7.1.1 COMPANY UDC CONSOLIDATED BILLING

7.1.2 ESP CONSOLIDATED BILLING

7.1.3 DUAL COMPANY/ESP BILLING

7.2 COMPANY UDC CONSOLIDATED BILLING

7.2.1 The customer's authorized ESP sends its bill-ready data to Company, and Company sends a consolidated bill containing both Company and ESP charges to the Customer.

7.2.2 Company Obligations:

7.2.2.1 Company shall bill the ESP charges and send the bill either by mail or electronic means to the customer. Company is not responsible for computing or determining the accuracy of the ESP charges. Company is not required to estimate ESP charges if the expected bill ready data is not received nor is Company required to delay Company billing. Billing rendered on behalf of the ESP by Company shall comply with A.A.C. R14-2-1612.

7.2.2.2 Company bills shall include in Customer's bill a detailed total of ESP charges and applicable taxes, assessments and billed fees, the ESP's name and telephone number, and other information provided by the ESP.

7.2.2.3 If Company processes Customer payments on behalf of the ESP, the ESP shall receive payment for its charges as specified in Section 7.7.

7.2.3 ESP Obligations

7.2.3.1 Once a billing election is in place as specified in the ESP Service Acquisition Agreement, the ESP may offer Company UDC Consolidated Billing services to Direct Access customers pursuant to the terms and conditions of the applicable ACC approved tariff.

7.2.3.2. The ESP shall submit the necessary billing information to facilitate billing services under this billing option by Service Account, according to Company's meter reading schedule,

and pursuant to the applicable tariff. Timing of billing submittals is provided for in Section 7.2.4 below.

7.2.4 Timing Requirements

7.2.4.1. Bills under this option will be rendered once a month. Nothing contained in this Schedule shall limit Company's ability to render bills more frequently consistent with Company's existing practices. However, if Company renders bills more frequently than once a month, ESP charges need only to be calculated based on monthly billing periods.

7.2.4.2. Except as provided in Section 7.2.4.1, Company shall require that all ESP and Company charges be based on the same billing period data.

7.2.4.3. ESP charges for normal monthly customer billing and any adjustments for prior months' metering or billing errors must be received by Company in EDI "810" format no later than 4:00 p.m. Local Arizona Time on the third working day following the Last Meter Read/First Bill Date. If billing charges have not been received from the ESP by this deadline, Company will render a bill for Company charges only. The ESP must wait until the next billing cycle, unless there is a mutual agreement for Company to send an interim bill. If Company renders the bill for Company charges only, Company will include a note on the bill stating that ESP charges will be forthcoming. An interim bill issued pursuant to this Section may also include a message that Company charges were previously billed.

7.2.4.4. ESP charges for a Physical Disconnect Final Bill must be received by 4:00 p.m. Local Arizona Time on the sixth working day following the actual disconnect date. If final billing charges have not been received from the ESP by this date, Company will render the customer's final bill for Company charges only, without the ESP's final charges. If Company renders the bill for Company charges only, Company will include a note on the bill stating that ESP charges will be forthcoming. The ESP must send the final charges to Company. Company will produce and send a separate bill for the final billing charges.

7.2.5 Restrictions

Company UDC Consolidated Billing shall be an option for individual customer bills only, not an aggregated group of customers. Nothing in this Section precludes each individual customer in an aggregated group, however, from receiving the customer's individual bills under Company UDC Consolidated Billing.

7.3. ESP CONSOLIDATED BILLING

7.3.1 Company calculates and sends its bill-ready data to the ESP. The ESP in turn sends a consolidated bill to its customer. The ESP shall be obligated to provide the customer detailed Company charges to the extent that the ESP receives such detail from Company. The ESP is not responsible for the accuracy of Company charges.

7.3.2 Company Obligations:

7.3.2.1 Company shall calculate all its charges once per month based on existing Company billing cycles and provide these to the ESP to be included on the ESP consolidated bill or as otherwise specified. Company and the ESP may mutually agree to alternative options for the calculation of Company charges.

7.3.2.2 Company shall provide the ESP with sufficient detail of its charges, including any adjustments for prior months' metering and billing error, by EDI "810" format. Company charges that are not transmitted to the ESP by 4:00 p.m. Local Arizona Time on the third working day following the Last Meter Read/First Bill Date need not be included in the ESP's bill. If Company's billing charges have not been received by such date, the ESP may render the bill without Company charges unless there is a mutual agreement to have the ESP send an interim bill to the customer including Company charges. The ESP will include a message on the bill stating that Company charges are forthcoming.

7.3.2.3 For a Physical Disconnect Final Bill, Company will provide the ESP with Company's final bill charges by 4:00 p.m. Local Arizona Time on the sixth working day following the actual disconnect date. If Company's billing charges have not been received by such date, the ESP may render the bill without Company charges. The ESP shall include a message on the bill stating that Company charges are forthcoming. Company will send the final bill charges to the ESP, and the ESP will produce and deliver a separate bill for Company charges.

7.3.3 ESP Obligations:

7.3.3.1 Once an ESP Service Acquisition Agreement is entered into, including an appropriate billing election, and all other applicable prerequisites are met, the ESP may offer consolidated billing services to Direct Access customers they serve.

7.3.3.2 The ESP bill shall include any billing-related details of Company charges. Company charges may be printed with the ESP bill or electronically transmitted. Billing rendered on behalf of Company by the ESP shall comply with A.A.C. R14-2-1612.

7.3.3.3 Other than including the billing data provided by Company on the customer's bill, the ESP has no obligations regarding the accuracy of Company charges or for disputes related to these charges. Disputed charges shall be handled according to ACC procedures.

7.3.3.4 The ESP shall process customer payments and handle collection responsibilities. Under this billing option, the ESP must pay all charges due to Company and not disputed by the customer as specified in Section 7.7.2.1.

7.3.3.5 Subject to the limitations of this Section and with the written consent of the Customer, the ESP may offer customers customized billing cycles or payment plans which permit the Customer to pay the ESP for Company charges in different amounts than Company charges to the ESP for any given billing period. Such plans shall not, however, affect in any manner the obligation of the ESP to pay all Company charges in full. Should Customer select an optional payment plan, all Company charges must be billed in accordance with A.A.C. R14-2-210(G).

7.3.4 Timing Requirements

ESPs may render bills more or less frequently than once a month. However, Company shall continue to bill the ESP each billing cycle period for the amounts due by the customer for that billing month.

7.4 DUAL COMPANY/ESP BILLING

Company and the ESP each separately bill the customer directly for services provided by them. The billing method is the sole responsibility of Company and the ESP. Company and the ESP shall process only the customer payments relating to their respective charges.

7.5 Billing Information and Inserts

7.5.1 All customers, including Direct Access customers, shall receive mandated legal, safety and other notices equally in accordance with A.A.C. R14-2-204 (B). If the ESP is providing consolidated billing, Company shall make available one (1) copy of these notices to the ESP for distribution to customers or, at the ESP's request, in electronic format to the ESP for production and communication to electronically billed Customers. If Company is providing Consolidated billing services, Company shall continue to provide these notices.

7.5.2 Under Company UDC Consolidated Billing, ESP bill inserts may be included pursuant to the applicable Company tariff.

7.6 Billing Adjustments for Meter and Billing Error

7.6.1 Meter and Billing Error

7.6.1.1 The MSP (including the ESP or Company if providing such services) shall resolve any meter errors and must notify the ESP and Company, as applicable, so any billing adjustments can be made. All other affected parties, including the appropriate Scheduling Coordinator, shall be notified by the ESP.

7.6.1.2 A billing error is the incorrect billing of Customer's energy or demand. If the MSP, MRSP, ESP or Company becomes aware of a potential billing error, the party discovering the billing error shall contact the ESP and Company, as applicable, to investigate the error. If it is determined that there is in fact a billing error, the ESP and Company will make any necessary adjustments and notify all other affected parties in a timely manner.

7.6.1.3 Company UDC Consolidated Billing

7.6.1.3.1 Company shall be responsible for notifying Customer and adjusting the bill for its charges to the extent those charges were affected by the meter or billing error.

7.6.1.3.2 The ESP shall be responsible for any recalculation of the ESP charges. Following the receipt of the recalculated charges from the ESP, the charges or credits will be applied to Customer's next normal monthly bill, unless there is mutual agreement to have Company send an interim bill to the Customer including the ESP's charges.

7.6.1.4 ESP Consolidated Billing

7.6.1.4.1 The ESP shall be responsible for notifying the Customer and adjusting the bill for ESP charges to the extent those charges were affected by the meter or billing error. The Customer shall be solely responsible for obtaining refunds of ESP electric generation overcharges from its current and prior ESPs, as appropriate.

7.6.1.4.2 Company shall transmit its adjusted charges and any refunds to the ESP with Customer's next normal monthly bill. The ESP shall apply the charges to Customer's

next normal monthly bill, unless there is a mutual agreement to have the ESP send an interim bill to Customer including Company charges.

7.6.1.5 Dual Company/ESP Billing

7.6.1.5.1 Company and the ESP shall be separately responsible for notifying Customer and adjusting its respective bill for their charges.

7.7 Payment and Collection Terms

7.7.1 Company UDC Consolidated Billing

7.7.1.1 Company shall remit payments to the ESP for the total ESP charges collected from Customer within three (3) working days after Customer's payment is received. Company is not required to pay amounts owed to the ESP for ESP charges billed but not received by Company.

7.7.1.2 Customer is obligated to pay Company for all undisputed Company and ESP charges consistent with existing tariffs and other contractual arrangements for service between the ESP and the customer.

7.7.1.3 The ESP is responsible for all collections related to the ESP services on the Customer's bill, including, but not limited to, security deposits and late charges unless otherwise agreed upon in the customized billing services agreement between ESP and Company.

7.7.1.4 Payment for any Company charges for Consolidated Billing is due in full from the ESP within fifteen (15) calendar days of the date Company charges are rendered to the ESP. Any payment not received within this time frame will be assessed applicable late charges pursuant to Schedule 1. If an ESP fails to pay these charges prior to the next billing cycle, Company may revert the billing option for that ESP's customers to Dual Billing pursuant to Section 7.10.4. If an ESP is late in paying charges a deposit or additional deposit as provided for in Section 7.11 may be required.

7.7.2 ESP Consolidated Billing

7.7.2.1 Payment is due in full from the ESP within fifteen (15) calendar days after the date Company's charges are rendered to the ESP. The ESP shall pay all undisputed Company charges regardless of whether Customer has paid the ESP. All payments received after fifteen (15) calendar days will be assessed applicable late charges pursuant to Schedule 1. If an ESP fails to pay these charges prior to the next billing cycle, Company may revert the billing option for that ESP's customers to Dual Billing pursuant to Section 7.10.4. If an ESP is late in paying charges a deposit or additional deposit as provided for in Section 7.11 may be required.

7.7.2.2 Company shall be responsible for any follow-up inquiries with the ESP if there is question concerning the payment amount.

7.7.2.3 Company has no payment obligations to the ESP for Customer payments under ESP Consolidated Billing services.

7.7.3 Dual Company/ESP Billing

Company and the ESP are separately responsible for collection of Customer payment for their respective charges.

7.8 Late or Partial Payments and Unpaid Bills

7.8.1 Company UDC Consolidated Billing

7.8.1.1 Company shall not be responsible for ESP's Customer collections, collecting the unpaid balance of ESP charges from Customers, sending notices informing Customers of unpaid ESP balances, or taking any action to recover the unpaid amounts owed the ESP. The ESP shall assume any collection obligations and/or late charge assessments for late or unpaid balances related to ESP charges under this billing option.

7.8.1.2 All Customer payments shall be applied first to unpaid balances identified as Company charges until such balances are paid in full, then applied to ESP charges. A Customer may dispute charges as provided by A.A.C. R14-2-212, but a Customer will not otherwise have the right to direct partial payments between Company and the ESP.

7.8.1.3 ACC rules shall apply to late or non-payment of all Company customer charges. Undisputed Company delinquent balances owed on a customer account shall be considered late and subject to Company late payment procedures.

7.8.2 ESP Consolidated Billing

The ESP shall be responsible for collecting both unpaid ESP and Company charges, sending notices informing Customers of unpaid ESP and Company balances, and taking appropriate actions to recover the amounts owed. Company shall not assume any collection obligations under this billing option and ESP is liable to Company for all undisputed payments owed Company.

7.8.3 Dual Company/ESP Billing

Company and the ESP are responsible for collecting their respective unpaid balances, sending notices to Customers informing them of the unpaid balance, and taking appropriate actions to recover their respective unpaid balances. Customer disputes with ESP charges must be directed to the ESP and Customer disputes with Company charges must be directed to Company.

7.9 Service Disconnects and Reconnects

In accordance with ACC rules, Company has the right to disconnect electric service to the Customer for a variety of reasons, including, but not limited to, the non-payment of Company's final bills or any past due charges by Customer, or evidence of safety violations, energy theft, or fraud, by Customer. The following provides for service disconnects and reconnects.

7.9.1 Company shall notify Customer and Customer's ESP of Company's intent to disconnect electric service for the non-payment of Company charges prior to disconnecting electric service to the Customer. Company shall further notify the ESP at the time Customer has been disconnected. To

the extent authorized by the ACC, a service charge shall be imposed on Customer if a field call is performed to disconnect electric service.

7.9.2 Company shall reconnect electric service for a fee when the criteria for reconnection have been met to Company's satisfaction. Company shall notify the ESP of a Customer's reconnection.

7.9.3 Company shall not disconnect electric service to Customer for the non-payment of ESP charges by Customer. In the event of non-payment of ESP charges by Customer, the ESP may submit a DASR requesting termination of the service agreement and request return to Company Standard Offer Service. Company will then advise the Customer that they will be placed on Company Standard Offer Service unless a DASR is received from another ESP on their behalf.

7.10. Involuntary Service Changes

7.10.1. A Customer may have its service of electricity, billing, or metering from an ESP changed to another provider, including Company, involuntarily in the following circumstances:

7.10.1.1. The ACC has decertified the ESP or the ESP otherwise receives an ACC order that prohibits the ESP from serving the customer.

7.10.1.2 The ESP, including its agents, has materially failed to meet its obligations under the terms of its ESP Service Acquisition Agreement with Company (including applicable tariffs and schedules) so as to constitute an Event of Default under the terms of the ESP Service Acquisition Agreement, and Company exercises its contractual right to terminate the ESP Service Acquisition Agreement.

7.10.1.3 The ESP has materially failed to meet its obligations under the terms of the ESP Service Acquisition Agreement (including applicable tariffs and schedules) so as to constitute an Event of Default and Company exercises a contractual right to change billing options.

7.10.1.4 The ESP ceases to perform by failing to provide schedules through a Scheduling Coordinator whenever such schedules are required, or the ESP fails to have a Service Acquisition Agreement in place with a Scheduling Coordinator.

7.10.1.5. The Customer fails to meet its Direct Access requirements and obligations under the ACC rules and Company tariffs and schedules.

7.10.2. Change of Service Election in Exigent Circumstances

In the event Company finds that an ESP or the Customer has materially failed to meet its obligations under this Schedule or the ESP Service Acquisition Agreement such that Company elects to invoke its remedies under Section 7.10 (other than termination of ESP Consolidated Billing under Section 7.10.1.3) and the failure constitutes an emergency (defined as posing a substantial threat to the reliability of the electric system or to public health and safety), or the failure relates to ESP's sale of unscheduled energy, Company may initiate a change in the Customer's service election, or terminate an ESP's ability to offer certain services under Direct Access. In such case, Company shall initiate the change or termination by preparing a DASR, but the change or termination may be made immediately notwithstanding the applicable DASR processing times set forth in this Schedule. Company shall provide such notice and opportunity to remedy the problem if there are reasonable circumstances prevailing. Additionally, Company shall notify the ACC of the circumstances that required the change or the termination and the

resulting action taken by Company. The ESP and/or Customer shall have the right to seek an order from the ACC restoring the customer's service election and/or the ESP's ability to offer services. Unless expressly ordered by the ACC, the provisions of this section shall not disconnect electric service provided to Customer other than as provided in Section 4.4.2 .

7.10.3. Change in Service Election Absent Exigent Circumstances

7.10.3.1. In the event Company finds that an ESP has materially failed to meet its obligations under this Schedule or the ESP Service Acquisition Agreement such that Company seeks to invoke its remedies under Section 7.10 (other than termination of ESP Consolidated Billing under Section 7.10.1.3), and the failure does not constitute an emergency (as defined in Section 7.10.2) or involve an ESP's unauthorized energy use, Company shall notify the ESP and the ACC of such finding in writing stating the following:

7.10.3.1.1. The nature of the alleged failure;

7.10.3.1.2. The actions necessary to remedy the failure;

7.10.3.1.3. The name, address and telephone number of a contact person at the Company authorized to discuss resolution of the failure.

7.10.3.2. The ESP shall have thirty (30) calendar days from receipt of such notice to remedy the alleged failure or reach an agreement with Company regarding the alleged failure. If the failure is not remedied and no agreement is reached between Company and the ESP following this thirty (30) day period, Company may initiate the DASR process set forth in this Schedule to accomplish its remedy and shall notify the customers of such remedy. Unless expressly ordered by the ACC, the provisions of this section shall not disconnect electric service provided to the customer other than as provided in Section 4.4.2.

7.10.4. Termination of ESP Consolidated Billing

7.10.4.1. Company may terminate ESP Consolidated Billing under the following circumstances:

7.10.4.1.1. The Company shall notify affected Customers that ESP Consolidated Billing services will be terminated, and the Company may switch affected Customers to Dual Company/ESP billing as promptly as possible if any of the following occur:

7.10.4.1.1.1 Company finds that the information provided by the ESP in the ESP Service Acquisition Agreement is materially false, incomplete, or inaccurate.

7.10.4.1.1.2 The ESP attempts to avoid payment of Company charges.

7.10.4.1.1.3 The ESP files for bankruptcy.

7.10.4.1.1.4 The ESP fails to have an involuntary bankruptcy proceeding filed against the ESP dismissed within sixty (60) calendar days.

7.10.4.1.1.5 The ESP admits insolvency.

7.10.4.1.1.6 The ESP makes a general assignment for the benefit of creditors.

7.10.4.1.1.7 The ESP is unable to pay its debts as they mature.

7.10.4.1.1.8 The ESP has a trustee or receiver appointed over all, or a substantial portion, of its assets.

7.10.4.1.2. If the ESP fails to pay Company (or dispute payment pursuant to the procedures set forth in this Schedule) the full amount of all Company charges and fees by the applicable due date, Company shall notify the ESP of the past due amount within two (2) working days of the applicable past due date. If the ESP incurs late charges on more than two (2) occasions or fails to pay overdue amounts including late charges within five (5) working days of the receipt of notice by Company, Company may notify the ESP's customers and the ESP that ESP Consolidated Billing services will be terminated, and that Customers shall be switched to Dual Billing.

7.10.4.1.3. If the ESP fails to comply within thirty (30) calendar days of the receipt of notice from Company of any additional credit, security or deposit requirements set forth in Sections 5.1.3 and 7.11, Company may notify the ESP that ESP Consolidated Billing services will be terminated, and that Customers shall be switched to Dual Billing.

7.10.4.2. Upon termination of ESP Consolidated Billing pursuant to Section 7.10.4, Company may deliver a separate bill for all Company charges which were not previously billed by the ESP.

7.10.4.3 Company may reinstate the ESP's eligibility to engage in ESP Consolidated Billing upon a reasonable showing by the ESP that the problems causing the revocation of ESP Consolidated Billing have been cured, including payment of any late charges, reestablishing credit requirements in compliance with Sections 5.1.4 and 7.11, and payment to Company of all costs associated with changing ESP customers' billing elections to and from dual billing.

7.10.4.4 In the event Company terminates ESP Consolidated Billing, Company will return any security posted by the ESP pursuant to the ESP Service Acquisition Agreement.

7.10.5. Termination of Company UDC Consolidated Billing

7.10.5.1. Company may terminate Company UDC Consolidated Billing and revert to Dual Billing upon providing thirty (30) calendar days notice to an ESP if ESP fails to pay Company charges in connection with Company UDC Consolidated Billing or otherwise fails to comply with its obligations under Section 7.2.

7.10.5.2 Company may terminate Consolidated Billing upon providing thirty (30) days notice to an ESP if Company cancels or changes the tariff governing Company UDC Consolidated Billing.

7.10.6. Upon termination of ESP Direct Access services pursuant to Section 7.10, the provision of the affected service(s) shall be assumed by another eligible ESP from which the Customer elects to obtain the affected service(s). Absent an election by Customer, Company shall provide such services, until such time that Customer makes an election.

7.10.7. Company shall not use involuntary service changes in an anticompetitive or discriminatory manner.

7.11 ESP Security Deposits

7.11.1. Company may, at its discretion, require cash security deposits from any ESP that has on more than one occasion failed to pay Company charges or ACC-approved Direct Access charges within the established time frame, such as DASR fees, meter or billing error or service fees, and other fees applicable to an ESP through Schedule 10 and Company's other tariffs and schedules.

7.11.2. The amount of the security deposit required shall not exceed two and one-half times the estimated maximum monthly bill to the ESP for such charges, and a separate security deposit may be required for separate categories of ESP or Direct Access charges.

7.11.3. Security deposits required pursuant to Section 7.11 shall be in the form of a cash deposit accruing interest as specified in Section 2.7.4 of Company Schedule 1. Company shall issue the ESP a nonnegotiable receipt for the amount of the deposit.

7.11.4. Company may refuse to accept DASRs from, or provide other Company services to, an ESP that fails to comply within thirty (30) calendar days to a demand that the ESP establish a security deposit pursuant to Section 7.11.

8. Meter Services

8.1 Under Direct Access, ESPs may offer certain metering services for Direct Access implementation, including meter ownership, MSP and MRSP services.

8.2 Company has the right to offer the following meter services:

8.2.1 Metering and Meter Reading for Residential Load-Profiled Customers

8.2.2 Services as authorized by the ACC.

8.2.3 Company reserves the right to perform meter disconnects, regardless of meter ownership, in cases of potential safety hazards or non-payment for Company charges.

8.3 A Load Serving ESP may sub-contract Metering or Meter Reading Services to a certificated third party. If the ESP sub-contracts any of the components of these services to a third party, the ESP shall, for the purposes of this Schedule, remain responsible for the services.

8.4 Load Serving ESPs providing Metering or Meter Reading Services to Direct Access customers either on their own or through a third party assume full responsibility for meeting the applicable meter and communication standards, as well as assuming responsibility for the safe installation and operation of the meter and any personal injuries and damage caused to customer or Company property by the meter or its installation. This liability will lie with the ESP regardless of whether the ESP or its subcontractors perform the work.

8.5 Meter Specifications

8.5.1 The Director of Utilities Division of the ACC has determined the following specifications and standards shall apply to competitive metering where applicable (see Performance Metering Specifications and Standards document):

8.5.2 Metering standards (American National Standards Institute):

ANSI C12.1	Code for Electricity Metering
ANSI C12.6	Marketing & Arrangement of Terminals for Phase Shifting Devices used in Metering
ANSI C12.7	Watt-hour Meter Socket
ANSI C12.10	Electromechanical Watt-hour Meters
ANSI C12.13	Electronic TOU Registers for Electricity Meters
ANSI C12.18	Type 2 Optical Port
ANSI C12.20	0.2% & 0.5% Accuracy Class Meters
ANSI C37.90	Surge Withstand Test
ANSI 57.13	Instrument Transformers (All CTs & PTs)
ANSI Z1.4	Sampling Procedures and Tables for Inspection
ANSI Z1.9	Sampling Procedures and Tables for Inspection

8.5.3 EEI Electricity Metering Handbook

8.5.4 Electric Utilities Service Equipment Requirements Committee (EUSERC)

8.5.5 NEC & Local Requirements by jurisdictions

8.5.6 Company's Electric Service Requirements Manual (ESRM)

8.5.7 National Electrical Safety Code (NESC)

8.5.8 ESPs or their contractors providing competitive metering services shall also comply with such other specifications or standards determined to be applicable or appropriate by the ACC's Director of Utilities Division.

8.6 Meter Conformity

8.6.1 All Direct Access meters shall have a visual kWh display and must have a physical interface to enable on-site interrogation of all stored meter data. All meters installed must support the Company's rate schedules.

8.6.2 If Company is providing MRSP functions for the ESP, pursuant to the Rules, meters must be compatible with Company's meter reading system.

8.6.3 No meter or associated metering equipment shall be set or allowed to remain in service if it is determined that the meter or its associated equipment did not meet approved specifications, as set forth in Company's ESRM, or is in violation of any code listed in Section 8.5.

8.7 Meter Testing

8.7.1 If a manufacturer's sealed meter has not previously been set and the meter was tested within the last twelve (12) months, the meter shall be deemed in compliance with ACC standards without additional testing.

8.7.2 Any meter removed from service shall be processed according to the following table prior to its re-installation:

METER TYPE	REMOVAL REASON	ACTION REQUIRED
1 Ph kWh Electro-Mechanical	Routine	Meter Inspection
1 Ph kWh Electro-Mechanical	Trouble	Meter Test
1 Ph kWh Hybrid or Solid State	Routine	Meter Test
1 Ph TOU (all)	Trouble	Meter Test
3 Ph Meters (all)	All	Meter Test
1 Ph or 3 Ph IDR Meters	All	Meter Test

8.7.3 Meter tests are to be conducted in accordance with ANSI C12.1 recommended testing standards.

8.7.4 Records on meter testing shall be maintained by the MSP and provided to the requesting parties within three (3) working days of such a request for such records. The latest meter test record shall be kept as long as the meter is in service.

8.8 Meter Test Requests

Pursuant to A.A.C. R14-209(F), either party may request that the other party perform a meter test, in which instance the requesting party is entitled to witness the test if it so chooses. The requesting party shall be notified of the test date and written test results from the testing party. If the meter is found to be within ACC-approved standards, the requesting party shall reimburse the other party for all costs incurred in the process of testing the meter (per ACC approved tariffs). The MSP shall take reasonable measures to detect meter error. The MSP shall notify Company as soon as it becomes aware of any meter that is not operating in compliance with ACC performance specifications. The MSP shall make any repairs or changes required to correct the error. ESPs and Company shall use a form approved by the ACC Process Standardization Working Group (PSWG) to initiate and respond to such action.

8.9 Meter Identification

8.9.1 The ESP or its agent shall install a Company provided unique number on each meter. Company will provide the unique numbers printed on stickers in blocks of up to 1,000 numbers. These stickers must be readily visible from the front of the meter. The number assigned to that meter shall remain solely with that meter while in use in Company's service territory.

8.9.2 When an ESP installs either its own meter or a customer owned meter, the ring or lock ring must be secured with a blue seal that is imprinted with the name and/or logo of the ESP or their agent.

8.10 Installation of metering equipment

8.10.1 All metering equipment shall be installed according to all applicable ACC requirements and Company's Electric Service Requirements Manual.

8.10.2 An ESP or its agent must be authorized by Company to remove a Company owned meter. The Existing Meter Information (EMI) form will be sent to the ESP and MSP within five (5) working days within receiving the DASR acceptance notification indicating a pending meter exchange. When the MSP intends to remove a Company meter, Company must receive a Meter Data Communication Request (MDCR) format at least five (5) working days prior to the exchange.

Upon completion of the meter exchange, the MSP will return the Meter Installation/Removal Notification (MIRN) form to Company by the end of business, three (3) working days from the day of the exchange.

8.10.3 The ESP or its agent shall inform Company of all meter activity, such as meter installations or exchanges, via the Meter Activity Coordination (MAC) Form within the time frames specified above. If final meter reads are not provided to Company, are inaccurate, or otherwise result in Company not being able to render accurate final bills to customers pursuant to ACC Rules and Regulations, the ESP shall be responsible for any unbilled, disputed, or unrecoverable amounts and applicable late charges.

8.10.4 The ESP or its agent shall return the existing meter to Company at one of Company's designated locations identified in the meter drop off list within fifteen (15) working days after its removal, or be charged the cost of the meter and metering equipment and /or any other charges per the applicable ACC-approved tariff. The ESP or its agent shall be responsible for damage to the meter occurring during shipment.

8.11 *On-Site Inspections/Site Meets*

8.11.1 Company may perform on-site inspections of meter installations. The ESP shall be notified if the inspections uncover any material non-compliance by the MSP with the approved specifications and standards.

8.11.2 For new construction, the party installing the meter shall ensure that the owner/builder has met the construction standards outlined in Company's ESRM, and Company's Transmission and Distribution construction manual, as well as local municipal agency requirements, and any updates, supplements, amendments and other changes that may be made to these manuals and requirements. Company shall perform a preinstallation inspection on all new construction. Local city/county clearances may also be required prior to energizing any new construction.

8.11.3 Company may require a site meet for: the exchange or removal of an IDR meter which requires an optical device to retrieve interval data; the exchange or removal of equipment at an existing totalized metering installation; a restricted access location for which Company forbids key access; cogeneration sites, bi-directional or detented metering sites; or upon request of an ESP or MSP. The ESP and Company's MAC shall coordinate the time of the site meet. If the ESP or MSP miss two (2) site meets, Company may cancel the applicable DASR. Company may charge for a site meet requested by the ESP or MSP, or if the ESP or MSP fails to arrive within thirty (30) minutes of the appointment time, or if the ESP fails to cancel a site meet at least one (1) working day in advance of the appointment time.

8.12 Meter Service Options and Obligations

8.12.1 Meter Ownership shall be limited to Company, an ESP, or the customer. The customer must obtain the meter through Company or an ESP. Although a customer may own the electric meter, maintenance and servicing of the metering equipment shall be limited to Company, the ESP, or the ESP's qualified representative (MSP).

8.12.2 If the ESP or customer owns the meter, the ESP must own the CTs, PTs, and associated equipment, except as provided in Section 8.12.3. The ESP may purchase existing CTs and PTs and associated metering equipment from Company.

8.12.3 The following provisions apply to the ownership of CTs and PTs.

8.12.3.1 For distribution voltages up to 25kV, the ESP or Company shall own the CTs and PTs. For transmission primary voltages (over 25kV), the CTs and PTs shall be owned by Company. ESP owned CTs and PTs must meet Company specifications. No CTs and PTs or associated metering equipment shall be set or allowed to remain in service if it is determined that the CTs and PTs or their associated equipment does not meet Company's approved specifications, as set forth in Company's Electric Service Requirements Manual in place at the time of installation.

8.12.4 All CT-rated meter installations shall utilize safety test switches, and all self-contained commercial metering shall utilize safety-test blocks as provided in Company's ESRM. During meter exchanges, the ESP or its agent's employees who are certificated to perform the related MSP activities may install, replace or operate Company test switches and operate Company-sealed customer-owned test blocks.

8.13 Installation Options

8.13.1 The ESP is responsible for Direct Access customer meter installation. Company may optionally provide meter installation pursuant to the Rules.

8.13.2 ESPs or their agents must be certificated by the ACC in order to offer MSP services. The policies and procedures described in this Section 8.13 assume that the MSP and their meter installers have ACC certification. ESPs may elect to offer metering services by:

8.13.2.1 Becoming a certificated MSP.

8.13.2.2 Subcontracting with a third party that is a certificated MSP.

8.13.2.3 Subcontracting with Company under the circumstances described in Section 8.2.

8.14 As part of providing metering services, ESPs or their agents shall:

8.14.1 Obtain lock ring keys for meters originally installed by Company or request site meets with Company. Company will issue lock ring keys to certified MSPs upon receipt of a refundable deposit. The deposit will not be refunded if a key is either lost or stolen, and a fee will be applied to replace lost or damaged keys. For more information about the cost of lock rings, standard rings, or lock ring keys, please consult the Company MAC.

8.14.2 If lock rings are used they shall meet Company requirements. If a meter is installed and the readings are obtained from a source other than a physical inspection, a lock ring must be utilized. Lock rings may be purchased from Company.

8.14.3 Provide information to Company on the specifications and other specifics on meters not purchased from or installed by Company.

8.14.4 Allow Company to remove the customer's meter, or schedule a site meet to remove the meter transferring from Direct Access to Standard Offer service. If the ESP allows Company to remove meters, ESP shall coordinate with Company regarding the return of the meters.

8.14.5 Be responsible for obtaining and providing reads from any meter that it installs from the time it is installed to the time it is removed or until meter reading responsibilities are assumed by another ESP or the customer returns to Standard Offer service.

8.14.6 Ensure that ESP and MSP employees working in Company's territory follow ACC and other applicable safety standards.

8.14.7 Company shall notify the ESP immediately and the ESP shall notify Company immediately of any suspected unauthorized energy use when a safety hazard exists. In instances where there is not a safety hazard, each party will notify each other within twenty-four (24) hours. The ESP shall ensure that a lock ring is installed to secure any meter that does not require a monthly local (i.e., manual) meter read. The Parties agree to preserve any evidence of unauthorized energy use. Once unauthorized energy use is suspected, Company, in its sole discretion, may take any or all of the actions permitted under Company's tariffs and schedules and shall notify the ACC of any such action taken.

8.14.8 Take no action to impede Company's safe and unrestricted access to a customer's service entrance.

8.14.9 Glass over any socket when a meter is removed and a new meter is not installed.

8.15 MSRP Services provided as a responsibility of an ESP

Only certificated MRSP's acting on the ESP's behalf in accordance with ACC regulations shall perform MRSP functions. The MRSP for each Direct Access customer will be specified on the DASR received from the ESP. Any changes to Customers MRSP will be updated by the ESP with a "UC" DASR at least ten (10) days prior to the next scheduled read date. MRSP obligations and responsibilities are stated in the ACC's Rules and Regulations and include:

8.15.1 Meter data for Direct Access Customers shall be read, validated, edited, and transferred pursuant to Arizona's Validation, Editing, and Estimation Process (VEE). It is the responsibility of the MRSP to comply with this process. In cases where validated data is unavailable for transfer by the posting deadline, it is the responsibility of the MRSP to provide an estimated data file for the entire read cycle until actual meter data is available. At such time as actual data becomes available, a corrected data file shall be posted immediately.

8.15.2 Both Company and the ESP shall have 24-hour/7 days per week access to the MRSP server.

8.15.3 Meter read data shall include beginning and ending reads as well as the validated usage for load-profiled customers. Validated interval data shall be provided for all interval metering customers. Data must be posted to the MRSP server using the Arizona Standard EDI "867" format. Estimated data shall contain applicable reason codes pursuant to the 867 guidelines.

8.15.4 The MRSP shall provide Company with access to meter data at the MRSP server as required to allow the proper performance of billing and settlement.

8.15.5 MRSPs must have a CC&N from the ACC authorizing it to offer MSRP services, and must be certified in Company territory.

8.15.6 MRSPs shall read Customer's meter based on the scheduled read date per Company's Yearly Meter Read Schedule. The billing cycle for each meter shall contain the full period from read date to the following read date. Interval data cycles shall be considered from 00:15 on the read date to 00:00 on the following read date (i.e. 9/1/00 00:15 through 10/1/00 00:00). The first complete interval timestamp shall begin at 00:15 in each cycle. For meter exchanges to Direct Access, the first complete interval through the first read date at 00:00 shall constitute the billing cycle. For meter exchanges back to Standard Offer, every interval shall be included up to the last full interval prior to the exchange. It is the responsibility of the MRSP to provide estimation of any intervals that are necessary to constitute the full billing cycle.

8.15.7 The MRSP shall provide re-reads or read verifies within ten (10) working days of a request by Company or Customer. The requesting party may be charged per the applicable ACC tariff if the original read was not in error.

8.16 Meter Reading Data Obligations

8.16.1 Accuracy for all meters.

8.16.1.1 Meter clocks shall be maintained according to Arizona time within +/- three (3) minutes of the National Time Standard.

8.16.1.2 Meter read date and time shall be accurate.

8.16.1.3 All meter reading data shall be validated pursuant to the approved Arizona VEE guidelines.

8.16.2 Timeliness for Validated Meter Reading Data

Pursuant to guidelines established by the Utilities Division Director, one hundred percent (100%) of the validated meter data shall be available by 3:00 p.m. Local Arizona Time (MST) on the third working day after the scheduled read date. If the meter data is not posted, is unavailable, or clearly contains errors by this deadline, the billing determinants including usage (kWh) and demand (kW) may be estimated by Company and the ESP shall be charged an approved charge for this service.

8.16.3 Proof of Operational Ability

Prior to performing MRSP services in Company's distribution service territory, or prior to making any significant change in MRSP service methodology, each MRSP will perform compliance testing to demonstrate its ability to read meters, validate data, edit data, estimate missing data and post validated data in Company-compatible EDI format to the MRSP server. In addition, upon installation of the initial meter on Direct Access accounts in Company's distribution service territory, each MRSP shall prove its ability to read its meters and post validated data in Company-compatible EDI format to the MRSP server. If the MRSP is unsuccessful in its attempts to meet these requirements, all subsequent requests for meter exchanges will be postponed until the MRSP successfully demonstrates its operational ability.

8.16.4 Retention and Format for Meter Reading Data

8.16.4.1 All meter reading data for a Customer shall remain posted on the MRSP server for five (5) working days and will be recoverable for at least three (3) years.

8.16.4.2 Meter reading data posted to the MRSP server shall be stored in Company-compatible EDI format.

8.17 Company performing MSP and MRSP functions:

If Company is eligible to perform Direct Access related MSP and MRSP functions as defined in section 8.2, the following restriction applies:

The validated meter read will be posted in EDI format no later than 6 working days following the scheduled read date.

8.18 Non-Conforming Meters, Meter Errors and Meter Reading Errors

8.18.1 Whenever Company, the ESP or its agents becomes aware of any non-conforming meters, erroneous meter services and/or meter reading services that impact billing, it shall promptly notify the other parties and the affected Customer. Bills found to be in error due to non-conforming meters or errors in meter services or meter reading services will be corrected by the appropriate parties.

8.18.2 In cases of meter failure or non-compliance, the ESP or its agents shall have five (5) working days to correct the non-compliance. If the non-compliance is not remedied within five (5) working days, the following actions may apply:

8.18.2.1 A site meeting may be required when services are being performed. The non-compliant party may be charged an ACC-approved tariff for the meeting.

8.18.2.2 Company may repair the defect, and the other party shall be responsible for all related expenses.

8.18.2.3 Company shall adhere to the approved Performance Monitoring Standards and follow the steps outlined to address non-compliance by an MRSP.

8.18.3 Company may refuse to enter into a new ESP Service Acquisition Agreement, or cancel an existing ESP Service Acquisition Agreement pursuant to section 7.10.1.2, with any ESP or its agents that has a demonstrated pattern of uncorrected non-compliance as established above. This provision shall not apply if the alleged demonstrated pattern of non-compliance or correction thereof is disputed and is pending before any agency or entity with jurisdiction to resolve the dispute.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS	)	DOCKET NO. W-01445A-04-0650

DIRECT

TESTIMONY

OF

RONALD E. LUDDERS

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

APRIL 20, 2005

EXHIBIT
A-35
admitted
PENGAD-Bayonne, N.J.

Deferred Central Arizona Project Charges

Q. Has the Company requested special treatment of its deferred CAP M&I charges?

A. Yes it has. In 1986 the Company entered into a contract with the United States Bureau of Reclamation ("Bureau of Reclamation") and the Central Arizona Water Conservation District ("CAWCD") for annual allocations of CAP water. Since 1993, the Western Group has been deferring CAP Municipal and Industrial capital charges ("M&I charges") on its accounting records. Delivery charges will be expensed as CAP water deliveries are actually made. The Company wishes to include all of its deferred M&I charges in its rate base and to amortize these costs over a ten-year period even though no delivery date for water has been determined. As of the end of the test year, the M&I deferral balance was $3,525,803 for Casa Grande, $506,268 for White Tanks and $1,046,011 for Coolidge. The annual amortization of these amounts would result in an additional expense of $352,580, $50,627, and $104,601, respectively.

Q. Does the Company actually receive any of its Western Group CAP allocation?

A. The White Tanks and Coolidge systems receive none of their allocation and the Casa Grande system receives only a non-potable portion of their allocation for use by several golf courses and a near-by power plant. Under the NP-260 tariff, revenues collected have been used to reduce the associated M&I deferral charges and to recover the associated delivery charges. No potable water is being delivered to the Casa Grande system. The Company states that it is currently in the process of evaluating the feasibility of using a yet un-built Casa Grande treatment facility to treat CAP water for Coolidge.

At the end of the test year, the Western Group, deferred M&I account balance was over $5,000,000. Staff retains its belief that before rate payers are charged with an expense it must be in service and used and useful and therefore recommends the Company's request

for recovery be denied. On two separate occasions the Company requested recovery of its deferred CAP expenses (Decision Number 54392, March 4, 1985, and Decision Number 58120, December 23, 1992) and both were denied.

Staff is concerned with the increasing deferred balance of the CAP M&I costs. In 1993, when M&I charges started escalating significantly, this Commission required all water companies to submit plans for use of CAP water within a five-year window in order to maintain its allotment and the ability to defer M&I charges. Staff notes that the Commission never authorized any company to defer more than five years of accruals and certainly not more than 12 years. The Company has not prepared a comprehensive plan stating conclusively the dates the CAP water will be used and the cost of such application. Without such a plan, the Company will continue using groundwater, while deferring the CAP M&I expenses, leaving future customers with ever increasing CAP costs.

Q. **What does Staff propose that the Commission allow Arizona Water to treat its CAP M&I charges?**

A. Staff believes that having a CAP allocation and using CAP water is a benefit to the Company and its customers. In addition, using CAP water promotes the State's goal of using renewable water sources and relying less on groundwater. However, Staff believes that having a CAP allotment, but not using the actual water to serve customers benefits no one and does not advance the State's goal of using less groundwater. Therefore, Staff is recommending that the Commission order Arizona Water to submit a detailed plan explaining how it plans to actually use its CAP water to serve its customers and reduce its use of groundwater.

The plan should be filed in Docket Control by no later than December 31, 2006. The plan must demonstrate that by December 31, 2010, Arizona Water will be using a significant portion of its CAP allocation to serve its customers. If the plan is filed on time and demonstrates this significant use of CAP water, Staff recommends that Arizona Water be allowed to begin recovering it's prudently incurred deferred M&I charges as part of its next rate case for the Western Group. The method of cost recovery can be established in the next rate case. However, if the CAP water use plan submitted by Arizona Water does not comply with the above, Staff recommends that the Company not be allowed to recover its deferred CAP M&I charges and that the Company discontinue deferring such costs.

If the Company complies with the plan filing as described above and the Commission allows the Company to begin recovering its prudently incurred deferred M&I charges but the Company does not begin using a significant portion of its CAP water by December 31, 2010, then the Company should be ordered to discontinue recovering such costs on January 1, 2011, and at the same time also discontinue deferring such costs if it is still doing so.

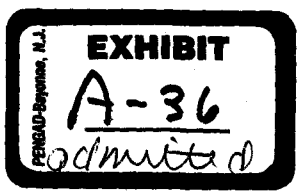
Property Tax

Q. How did Staff determine each system's Property Tax expense?

A. Staff used the Arizona Department of Revenue ("ADOR") Valuation Methodology for Water and Sewer Companies. The calculation is based upon Staff's recommended revenue requirement. It is also adjusted to properly reflect the tax treatment for licensed vehicles and construction work in process. Staff obtained the appropriate rates from ADOR.

Interim Report of the Arizona Corporation Commission's Water Task Force

October 28, 1999



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Appendix: Comments of individual members

I. INTRODUCTION

The Commission's Water Task Force was established by Commission vote on April 24, 1998 and held its first meeting on September 22, 1998. The Task Force's members include consumers, water company representatives, and representatives from the Arizona Department of Water Resources (ADWR), Arizona Department of Environmental Quality (ADEQ), and the Central Arizona Conservation District (CAWCD). The Task Force's meetings are open to the public and several individuals who are not official "members" of the Task Force have taken on active roles. The goal of the Task Force is to develop policies to address a wide variety of problems that private water companies and their customers face. The Task Force has divided into three subcommittees: the Regulatory Reform Subcommittee, the Water Supply Subcommittee, and the Conservation Subcommittee.

This report represents the accomplishments of the Task Force to date. The Task Force was able to agree on what the problems facing the water industry in Arizona are. The Task Force members proposed many possible solutions for these problems. Consensus was reached on some of these proposed solutions. However, the Task Force was divided on the appropriateness of many of the proposed solutions. The report that follows summarizes each of the proposed solutions. The positions of the Task Force members will be presented in a pros and cons format. The members whose views are presented in this report fall into four categories: the industry (consisting of representatives from Brooke Utilities, Inc., Arizona Water Company, Big Park Water Company, and Citizens), the Residential Utility Consumer Office (RUCO), the ADWR, and Commission Staff.

II. REGULATORY REFORM SUBCOMMITTEE

The Regulatory Reform Subcommittee reached the consensus that the following five goals would be their focus:

1.Reduce the number of small, non-viable water systems through new rules and procedures.

2. Strengthen the financial capacity of the water utility industry.

3. Provide greater emphasis on simplifying, shortening, and reducing the cost of the ratemaking process.

4. Improve Consumer Education.

5. Increase Interagency Coordination.

1. Reduce the number of small, non-viable water systems through new rules and procedures.

Many of Arizona's water companies are quite small; the majority of them have less than $250,000 in annual revenues. Although some small water companies are well run and provide quality service to their customers, many of these small companies are quite problematic. Most of the "problem" companies that the Commission must deal with are quite small. Because of their small base of customers, even quality managers of small companies may find it difficult to raise sufficient revenues to make needed capital investments. The Subcommittee decided that it was not necessary or desirable to establish criteria for identifying a non-viable company.

Also, because of economies of scale, larger companies are likely to be more efficient. A larger company can consolidate the administrative aspects of many smaller "systems" thereby significantly reducing the overall cost of service.

For these reasons the Task Force agrees that reducing the number of small non-viable water systems is a desirable goal. Two areas of Commission policy were discussed for addressing this goal: CC&N applications and consolidation.

CERTIFICATES OF CONVENIENCE & NECESSITY (CC&N)

The Task Force members reached consensus that the Commission must eliminate the establishment of additional non-viable water companies. Therefore, the requirements for establishing new water companies should be made more stringent.

Commission Staff recommended the following Commission policy changes concerning the establishment of new water companies:

1. The application for a new CC&N must show that an existing water company cannot or will not serve the area being applied for. This showing must be made by submitting service rejection letters from all the "A" size water companies in the state (there are 3) and at least five of the "B" size companies (there are 20). The application must also be accompanied by service rejection letters from all the existing water companies within five miles of the area being requested. In addition, the rejection letters must be accompanied by the corresponding request for service that was made to each of the existing water companies by the applicant.

2. The rates could be set such that the company should break even no later than its third year of operation and should achieve its required rate of return no later than its fifth year of operation. The calculations would be based on the company's estimates of customer growth.

3. Because Staff believes that it is not in the public interest, no new CC&N would be issued to any company that was in any way affiliated with any other company or person that was not in compliance with Commission and ADEQ requirements.

4. The rates and tariff establishment portion of the CC&N approval process could be simplified by changing Staff's entire approach to rate review for new CC&Ns. Staff recommends that instead of trying to determine if rates are too high for new CC&Ns, it should be examining if rates are too low. Staff recommends establishing a set of standard non-monthly charges. These standards could be set by looking at the average of the rates that are charged by other Commission regulated companies or possibly even include municipalities. These charges could include such things as late fees, establishment fees, NSF check fees, etc.

   For the monthly minimum and commodity charges, Staff should establish some standard that would be a minimum. For example, the standard for the monthly minimum for a 5/8-inch x 3/4-inch meter could be $25.00 with no gallonage. Therefore, all new CC&N applications for water companies would be reviewed to determine if the rate was at least that much.

   As for the commodity charge, the standard could be an inverted tier rate with three tiers. The first tier could be $1.50 per thousand for the first 3,000 gallons. The second tier could be $4.00 per thousand for the next 7,000 gallons. The third tier would be 2-times the second tier per thousand for all usage over 10,000 gallons. Although, the numbers used here are just examples, all new companies should have a three tier inverted rate. (See Section III on conservation for more on three tiered rates.)

With the type of standards as discussed above, the rate review portion of new CC&N applications could be done by the Commission's Consumer Services section by simply comparing the requested rates against the standard. If the requested monthly rates were below the standard, Staff would recommend that the Commission approve the standard rates. If the rates requested were above the standard, Staff would recommend that the Commission approve the company requested rates. This would provide much more time for the Accounting & Rates Staff to work on actual rate and financing cases.

Staff believes that the only segment of the population that may be against having Staff determine if rates are too low for new CC&Ns, are developers. Many of the troubled water companies that the Commission regulates today are a result of developer owned water systems that had their initial rates approved as low as possible, at the request of the owner. The reason for doing this was that it was a selling point for the developers. Although the Commission should be concerned for all segments of the Arizona population, including developers, the concern for developers should be second to that for the water company customers and the water companies themselves, especially with regard to the establishment and granting of new CC&Ns.

The Commission's Legal Staff has indicated that there are no significant legal barriers to placing the proposed limits and conditions on CC&N issuance. The Commission has wide latitude and sole jurisdiction in this area.

The industry members of the Task Force indicated that they support most of Staff's recommendations concerning CC&Ns. RUCO had significant objections to Staff's proposals, they will be summarized in the pros and cons section below.

PROS AND CONS

PROS

1. The Task Force agrees that Staff's proposals offer an effective method for limiting the number of small water companies.

CONS:

1. (Staff and RUCO) The initial rates may be set too high allowing the company to over earn.

Staff believes that this concern is mitigated by the following factors: First, the chance of any company over-earning in the first few years of existence is very small. Second, in all these new CC&N approvals, the Staff would recommend that the Commission require the company to file a full rate case within a specified timeframe. If in that first rate case Staff determines that the company is over-earning, Staff could recommend lower rates. Staff believes that it is much easier for the Commission to lower rates than it is to raise them. Third, there are no customers when these rates are set. Any person that becomes a customer does so with the full knowledge of what the rates are. That person becomes a customer by choice, instead of having high rates levied against him *after* becoming a customer.

RUCO believes that this proposal ignores the potential negative consequences of excessive initial rates. For example, customers may be driven away. Potential customers that would have preferred buying homes and beginning businesses in the service territory may select alternate locations. Taken to an extreme, a CC&N could be used to postpone growth in the service territory by charging excessive rates. A CC&N holder with the objective of limiting growth could prevent a developer from building in the service territory by charging grossly excessive rates that no reasonable customer would pay. Also, the cost of service varies significantly by location. No single standard rates will prevent all new water companies from charging inadequate rates. New companies can benefit by the input from Commission Staff, RUCO, and other intervenors in setting rates. Prospective customers will also benefit from the input of multiple parties in developing a probable on-going level for rates in a new water system.

RUCO also believes that establishing standard, minimum monthly customer charges and commodity rates does not ensure a proper balance of revenue from each. A company could choose the minimum monthly customer charges and select commodity rates far in

excess of the minimum resulting in an unstable revenue base. Without an analysis of a company's projected underlying costs, the appropriate balance for a given company is unknown. Also, if a company were to choose an inappropriate balance for its initial rates, an unnecessarily large change in the rate structure may be warranted in a future rate case. Avoidance of large changes in rate structure is one of the fundamental goals of rate design. In addition, the proposed minimum rates fail to address other issues including conservation objectives, the high cost of CAP water, and special customer demands, such as those of a prospective industrial user. The scrutiny provided by Staff, RUCO, developers, and hearing officers is valuable in forming appropriate initial rates and should not be discarded. Furthermore, providing water companies with full initial rate setting discretion is certain to be ill received by the public and public criticism could bring embarrassment to the Commission and RUCO even if real problems did not exist with the proposal.

2. (RUCO) The proposal creates a hierarchy of preferential treatment for various existing companies. An existing company will not necessarily make a more-fit public service provider than a new company. A small or newly formed water company is not necessarily non-viable or unfit to provide public utility service. Also, it is dubious that any pre-determined distance can be established that will represent the distance from which another water company can effectively service any new service territory

3. (RUCO) Large, existing water companies may not be interested in expansion. Company's that are not interested in new service territories may be reluctant to assert that disinterest in a rejection letter. Also, new applicants could seek rejection letters only from those "Class B" companies that always reject proposals for new service territories. This would circumvent the intent of requiring a new CC&N applicant to obtain rejection letters from at least five "Class B" water companies as one of the criteria for obtaining a CC&N.

4. (RUCO) This plan also suggests using only the water company's projected customer growth estimates in setting rates to achieve break-even operating results no later than the third year of operation and for earning the authorized rate of return in the fifth year of operation. RUCO believes that other parties (e.g., RUCO, Staff, Hearing Officers, Commissioners, developers, prospective customers, and others) may have valuable input into the growth projections.

5. (RUCO) The complete compliance with ADEQ requirement is a desirable goal. However, it may be preferable to establish a lesser standard that allows some latitude. For example, a water company in complete compliance could acquire a company in non-compliance resulting in a circumstance that the acquiring company is no longer in compliance and, accordingly, not eligible for the new CC&N. In this instance, the proposed condition provides an undesirable result. Also, a large company with many systems is statistically more likely to have a violation that a smaller company. The proposed condition, therefore, discriminates against large companies and is counter-productive in the effort to reduce the number of small, non-viable companies.

The industry and Staff recognize the validity of many of RUCO's concerns. However they believe that Staff's proposal is fundamentally sound and that RUCO's concerns can be addressed when a more detailed proposal is produced.

INCENTIVES FOR CONSOLIDATION

All of the Task Force members agree that the Commission should implement new policies that provide incentives for large financially sound water companies to purchase and rehabilitate water systems that are small or non-viable. The members could not come to agreement about what the incentives should be.

Also, the industry believes that incentives for consolidation should apply to all water companies since they believe that consumers benefit from the economies of scale realized by the combination of merged entities regardless of the individual sizes of acquiring companies. RUCO is opposed to any policies that are not limited to small systems since if an "A", "B" or "C" size company wants to merge with another such company, it should be strictly a business decision with no need for incentives. Commission Staff is in the middle on this issue. Staff believes that initially incentives for consolidation should be limited to small (D and E class) companies but could be expanded later if the incentives are deemed successful.

The most common (and contentious) incentive discussed has been the use of an acquisition adjustment. Staff and the industry recommend the development of a policy/rule delineating exactly what type of acquisition adjustment the Commission will allow.

Staff believes that conditions for approval of an acquisition adjustment should include, but not be limited to, situations where:

1. The acquisition is in the public interest.
2. The acquisition will not negatively affect the viability of the acquirer.
3. The acquired system's customers will receive improved service in a reasonable timeframe.
4. The purchase price is fair and reasonable (even though that price may be more than the original cost less depreciation book value) and conducted through an arms' length negotiation
5. The recovery period for the acquisition adjustment should be for a specific minimum time (e.g., twenty years).

The industry representatives on the Task Force advocated the adoption of the California Public Utilities Commission's (CPUC) policy on acquisition adjustments. The California Legislature enacted SB 1268 January 1, 1998, which calls for the rate base of an acquired water utility to be based on fair market value. If fair market value is at or below replacement cost new minus depreciation the CPUC will definitely use fair market value to determine the rate base of the acquired water company. If the fair market value

of an acquired utility is greater than replacement cost new minus depreciation the CPUC will base rate base on fair market value only if the following conditions are met: 1) The acquisition will improve the reliability of the water system. 2) The acquisition will improve the acquired company's ability to conform to health and safety regulations. 3) The acquisition will result in significant economies of scale. 4) The acquisitions effect on existing customers is fair and reasonable. If these conditions are not met, or if the CPUC determines that the acquisition is not in the public interest, the CPUC can deny the acquisition altogether. To date the CPUC has received only two applications for treatment under SB 1268, one for the merger of two A class utilities and one for the purchase of a B class. The CPUC has not issued a decision on either application as of September 27, 1999.

All members of the Task Force agreed that negative acquisition adjustments should never be imposed. An acquirer of a water company should not be penalized for the acquisition through application of a negative rate base acquisition adjustment. Instances where negative adjustments to rates due to negative acquisition adjustments are not common. However, there may be many opportunities for acquisition of small water systems that could be discouraged if the acquiring company believed that negative acquisition adjustments would affect current rates or return.

RUCO was opposed to any form of an acquisition adjustment. However, RUCO acknowledged that problems do exist with small non-viable water systems in the state and that acquisition by larger well-run utilities is potentially beneficial. RUCO advocated three policies to encourage the acquisition of small non-viable water companies by larger utilities: a surcharge for capital investment and a rate of return premium, and a deferral accounting order.

RUCO (and Staff) Option 1 - Allowance of an incremental premium on the Company's authorized rate of return. In light of the additional risks a purchasing utility takes on when acquiring a non-viable system, an additional rate of return would be authorized by the Commission. This option would create a monetary incentive for the acquisition of non-viable systems, yet unlike an acquisition adjustment, the authority to determine the appropriate level of the incentive would remain with the Commission. If a rate of return premium were approved, it could be limited to a specific length of time (perhaps five years or until the next rate case, whichever is shorter).

RUCO Option 2 - A surcharge mechanism that would allow the acquiring company to obtain up front ratepayer funding of the capital investment necessary to make the acquired system viable. Since there is a lag between a company's outlay of cash for capital investments and the recognition of the investment in rates, this creates disincentives for acquisition of non-viable companies. This disincentive can be removed by creating a regulatory mechanism that would allow the estimated cost of the necessary improvements to be included in a rate surcharge and funded up front by ratepayers. Once the improvements were completed, the cost estimated would be trued up to actual.

RUCO Option 3 - A deferral accounting order that would allow the acquiring utility to defer for future rate recovery extraordinary repair and maintenance costs necessary to improve the quality of service of the non-viable acquisition. The amount ultimately recoverable would be determined in the context of a rate case.

Commission Staff believes that a rate of return premium should be considered with the same conditions as acquisition adjustments above. Staff does not recommend approving both a rate of return premium and recovery of an acquisition adjustment for the same company for the same purpose. Staff recommends that one or the other be chosen in each case that is applicable.

PROS AND CONS: ACQUISITION ADJUSTMENTS

PROS: Acquisition adjustments are an effective incentive for consolidation.

CONS: RUCO provides the following reasons for opposing acquisition adjustments:

1) An acquisition adjustment would allow buyers and sellers of utility property to dictate the magnitude of the incentive through the buying and selling price. The higher the selling price, the greater the windfall profits to both buyer and seller, with captive ratepayers footing the bill.

2) Staff has developed a proposed set of criteria a utility would have to meet to qualify for an acquisition premium. While this criteria may ultimately be effective in preventing some of the dangers of allowing acquisition premiums, from a practical stand point it would entail additional regulatory oversight, analysis, and create further demands on utilities as well as regulatory agencies. This is in conflict with the task force's stated goal of shorting and streamlining the regulatory process. This is an important point to keep in mind in examining any of the regulatory reforms proposed by the various parties to the task force. It is important that the vehicles and mechanisms we consider in our goal of regulatory reform don't further complicate and encumber an already burdensome process.

The industry counters RUCO's first claim: The water industry is facing unprecedented capital demands to deal with growth, water supply and water quality. The shortage is *capital to invest* not *projects to invest in*. What rational buyer would pay even $1.00 more than necessary to purchase a water company? The buyer would have no difficulty investing the amount of RUCO's inflated purchase price in actual water facilities that would provide hard assets and solve actual problems. RUCO's claims that a buyer would benefit and presumably realize "windfall profits" by inflating rate base are without merit. Limiting the California fair market value approach to only non-affiliated buyers and sellers would eliminate any incentive for collusion.

PROS AND CONS: RATE OF RETURN PREMIUMS

PROS: Would create a monetary incentive for the acquisition of non-viable systems.
CONS: None identified.

PROS AND CONS: SURCHARGE MECHANISM

PROS: Eliminates the lag between a company's outlay of cash for capital investments and the recognition of the investment in rates, which creates disincentives for acquisition of non-viable companies.
CONS: None Identified.

PROS AND CONS: DEFERRAL ACCOUNTING ORDER

PROS: Allow the acquiring utility to defer for future rate recovery extraordinary repair and maintenance costs necessary to improve the quality of service of the non-viable acquisition.
CONS: None identified (this issue was not addressed by any of the Task Force members other than RUCO.

2. Strengthen the financial capacity of the water utility industry.

PROPERTY TAX

One of the most contentious issues in many rate cases is that of the appropriate allowance for property taxes. Staff has two recommendations with regard to this issue:
1. Work with and/or lobby the legislature (and if necessary the Counties) to eliminate property taxes for water companies. If this could not be accomplished, then,
2. Staff should develop a policy/rule that would allow for a "Property Tax Adjustment Mechanism". This would work in the same fashion as a fuel adjuster mechanism.

The industry recommends that the existing manner of determining and paying water utility property taxes be replaced with a percentage of revenue tax that would be paid monthly to the Department of Revenue (DOR). Revenue is already a key variable in the formula used by the DOR to determine each water utility company's full cash value. The replacement tax would be an add-on to the customers' water utility bills. The tax collected could be reported and paid to DOR as part of the sales tax return. Industry is willing to help develop detailed recommendations and an implementation plan.

PROS AND CONS: PROPERTY TAX CHANGES
PROS: Changes in the current property tax policies could significantly enhance the industries financial capacity.
CONS: The legislature and/or counties may not be receptive to our ideas.

The industry pointed out other problems associated with property taxes and ratemaking and recommends that the Commission's current policy on these issues be reevaluated.

The industry believes that problems result because in Arizona, property taxes are based on beginning-of-the-calendar-year balances of plant accounts, with the resulting payment made in two equal installments—one in November and the other in May of the

following year. To the extent a utility has filed a rate case using a calendar 1998 test year and December 31, 1998 rate base, and the case is being heard during May of 1999, the most recent tax bill that would have been received is that which reflects plant balances one year earlier than the end of the test year. No property taxes associated with 1998 plant additions would be provided for in new service rates. In that situation, the utility's actual property taxes prospectively will likely exceed those recovered in rates.

The industry believes that another factor leading to potential under-recovery of property tax expense under current Commission ratemaking practices is the fact that water utilities' property valuations include an element reflecting operating revenues during the tax year. Any adjustments to test year revenues (i.e., annualization to end-of period customer levels) and any authorized rate increase will ultimately cause property taxes to increase. In computing the gross revenue conversion factors necessary to convert earnings deficiencies into increases in annual revenues, it is just as important to consider the effect of additional revenues on property taxes as has traditionally been done with respect to revenue taxes, income taxes and unbilled revenues. The propriety of such inclusion was recently recognized by the Arizona Court of Appeals who recently remanded to the Commission a rate order for Turner Ranches Water Company that failed to consider the effect of revenues in the determination of property tax valuations.

AUTOMATIC RATE CHANGES

Commission Staff proposes that all "C", "D" and "E" size water companies should be allowed to automatically (without filing a rate case with the Commission) increase the commodity portion of their rates each year by five percent (5%) or the amount of the increase of the Consumer Price Index (CPI) or perhaps the Producer Price Index (PPI) in Arizona, whichever is *less*. This increase would take effect May 1 of each year. However, in order to qualify to do this, a company must meet all of the following requirements:

1. Submit a request for such an increase by February 15 of the year in which the increase is to take effect.
2. Notice all its customers of the request no later than the date the request is filed with the Commission (a standard notice should be developed by Staff).
3. The request must be accompanied by a letter from the Arizona Department of Environmental Quality (ADEQ) stating, "ABC Water Company is delivering water that has no maximum contaminant level violations and meets the quality standards of the Safe Drinking Water Act."
4. The request must be accompanied by a letter from the Arizona Department of Revenue stating, "ABC Water Company is current on its sales tax obligations."
5. The request must be accompanied by a letter from the appropriate county stating, "ABC Water Company is current on its property tax obligations."
6. The request must be accompanied by a fully completed Water Use Data Sheet.
7. For the first time such an increase is requested, the company's present rates must have been approved in a full rate case that used a test year that is no more than three years prior to the year the automatic increase is to take effect.

8. Once such an increase is implemented, the company must file a full rate case at least every five years or five years from its last rate case, whichever is sooner.

9. The company must have had no formal complaints filed against it in which the Commission ruled against the company within the three years prior to the year in which the automatic increase is to take effect.

Staff believes that it is desirable to require companies using this program to file rate cases at least every five years for two reasons. First, it will insure that the automatic rate changes do not allow the company to consistently over-earn. Second, many small companies wait excessive amounts of time between rate cases, some as long as twenty years. This can be very problematic when rate cases are filed.

The Commission Staff would prepare a recommended order for Commission decision no later than April 30 of each year. The order would either deny or approve the increase. The order could contain conditions such as, but not limited to:

1. File a full rate case in less than five years,
2. Install certain plant within a given timeframe,

If a request were filed and not ruled on by the Commission by April 30, the increase would take effect as an interim/refundable rate. If the Commission later denied the increase, the rates would be decreased. The decrease would reduce the rates by twice as much as the increase and would be in effect for as long as the increase was in effect. After this time the rates would return to their original amount. Example:

- the original rate was $3.00 per thousand
- the increase made the rate $3.15 per thousand
- the company had the $3.15 rate for May, June and July before the Commission issued an order stating that the rate increase was inappropriate and should be refunded
- The rate would be decreased to $2.85 per thousand for the months of August, September and October
- In November the rates would return to $3.00 per thousand

The industry supports Staffs proposal indicating it is a worthwhile concept. However the industry believes that the exclusion of "A" and "B" companies, the qualifying requirements and the annual two and one half-month timetable are arbitrary and likely to be unworkable. The industry is willing to help develop more detailed recommendations and an implementation plan.

RUCO believes that Staff's proposal to allow Class C, D & E utilities to raise their rates based on a CPI inflation factor is highly biased against ratepayers and will result in annual rate increases without a finding of fair value. Staff's proposal would assume generic across-the-board expense increases, and would ignore the very real fact that costs also decrease. It would also allow utilities to raise rates without examining the mitigating offsets such as customer growth, consumption growth, and depreciation of the rate base.

PROS AND CONS: AUTOMATIC RATE CHANGES

PROS: Provides a mechanism for small water utilities to deal with increases in their costs. Would provide an incentive for small utilities to file rate cases in a more timely manner.

CONS: Would allow utilities to raise rates without examining the mitigating offsets such as customer growth, consumption growth, and depreciation of the rate base.

FUTURE TEST YEAR

Currently, rate base for Arizona's water companies is calculated using an "historic test year." A recent 12 month period is chosen to be the "test year" and the expenses and capital in place during that year are used as the basis for setting rates. The industry favors a "future test year" policy. Under such a policy rate applications can include specific, highly scrutinized planning for capital expenditures and operating expenses that can be predicted with a high degree of certainty in both cost and timing. A rate adjustment applicant can provide a capital expenditure that details the degree of investment and the timing of it over future months and years. Rate adjustments can be granted from the perspective of a contract being entered into between the applicant and the Commission. Prospective rate adjustments can be conditioned on the amount of investment and the actual occurrence of expenditure. In the event capital expenditures for improvements to water systems are not made pursuant to the capital expenditure program filed as part of a rate application, the previously granted rates would not become effective. The completion milestones of accomplished capital projects are sufficiently easy to measure to ensure delivery of actual benefit to the customer. The industry is not opposed to the adoption of prospective test years for rate applications with reasonable qualifications and conditions including punitive operational and economic consequences if a utility fails to make projected investments that were included in its forecasted test year rate base (without mitigating circumstances) for rate applicants that did not achieve the scheduled results.

According to the National Association of Regulatory Utility Commissioners ("NARUC"), the Commissions of approximately thirty (30) states permit the use of prospective test years for rate applications[1].

RUCO is opposed to adopting a future test year policy. They feel that there are numerous problems with its use. These include the setting of rates based on estimates that are not known and measurable, inclusion of plant in rates that is not used and useful, and violations of the matching concept when certain rate elements are projected or estimated and others are not. An historical test year inherently matches revenues, expenses, and investment, and contains known and measurable data. RUCO believes that the numerous problems and biases that result from the use of projected data far outweigh any potential benefit that could be derived from abandoning a historical test year.

Commission Staff is in the middle on this issue. Staff believes the Commission is currently using a very reasonable combination of historical and future test years.

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1 17th Annual Western Utility Rate School, April 1997, San Diego, California.

However, Staff recommends developing a policy/rule for allowing pro forma adjustments for future plant additions that met very specific requirements, such as, but not limited to:

1. Revenue-neutral plant, i.e., will serve existing customers and not future growth.
2. The plant will be installed within a specific time frame, preferably within one year.
3. The plant is necessary to provide proper and adequate service to existing customers.

NOTE: Although the above suggestions are highly likely to save time, effort and money for the water companies and their rate payers, most will require additional Commission Staff to process, analyze and monitor (particularly monitor to insure adherence with all the required conditions) in a timely manner.

PROS AND CONS: FUTURE TEST YEAR

PROS: A future test year policy may encourage necessary capital expenditure by Arizona's water companies. This is because such a policy would result in a reduction of the "regulatory lag" often associated with recovery of such expenses.

CONS: Rate setting will involve estimates of future costs that are unauditable at the time rates are set. Will place additional burdens on Commission Staff resources.

GENERIC HOOK-UP FEES

Commission Staff has recommended and the Commission has approved Off-site Facilities Hook-up Fees for a handful of water companies in the past. The process that was used required both water companies and Staff to expend a substantial amount of time and effort. Staff recommends developing a generic hook-up fee policy/rule that would allow water companies to collect from new customers a portion of the cost of new wells and storage tanks that will have to be installed in the future. As in the past, any plant that was installed using hook-up fees would be considered contributed plant.

The reason for having the hook-up fee pay for only part of the new plant is to insure that the company retains a balance between contributed plant and its own investment.

The industry supports Staff's proposal while recognizing that many details need to be worked out. The industry emphasizes that generic approaches should not be mandatory in all cases, case specific facts and circumstances should always be considered. The industry is willing to help develop detail recommendations and an implementation plan.

RUCO agrees that working toward a recognized methodology for the use of hook-up fees is a desirable objective. However, comments from the water task force members on this issue were limited and more discussion on this topic is needed.

PROS AND CONS: GENERIC HOOK UP FEES

PROS: 1) Will free up time and resources currently expended on individual hook-up fee applications

2) Will establish a consistent rule or policy for all water utilities

CONS: The details of this plan need to be worked out, care must be used to ensure that the specific details of the generic hook-up fees do not create any undesirable or unanticipated impacts.

PLANT REPLACEMENT FUND

One of the most significant problems facing the Water Industry today is the required re-building of the existing infrastructure as it approaches the end of its useful service life. Based on a recent survey by the Environmental Protection Agency, it is presently forecasted that such investment needs nationwide during the next twenty years approaches $140 billion, of which nearly $80 billion relates to transmission and distribution system replacement. While substantial federal and state funding is available, it is clear that such amounts represent only a portion of the overall financing needs. Utilities and the customers served thereby will be called upon to provide the remainder.

The industry indicates that under current regulatory policies and practices, utilities must first obtain or provide the necessary amounts to fund construction projects and see them to completion before seeking rate recovery. This is consistent with the traditional "used and useful" ratemaking standard which prohibits charging current customers for the costs of capital assets not yet devoted to the provision of service. Once the assets are deemed to be used and useful, there begins a period for rate setting which generally delays the commencement of capital cost recovery. The problem is exacerbated due to the fact that so many of the projects are ongoing and short in duration. The industry feels that this subjects many utilities to a game of constant catch-up. Given the tremendous projected capital requirements for future infrastructure replacement, the industry (and Staff) believes that the need for a new regulatory tool is clear.

Staff recommends that a policy/rule be developed whereby water companies would be allowed to collect in rates money that would be placed in a separate interest bearing account that could be used only to replace aging infrastructure or major plant that experienced a catastrophic failure. The fund would be established during a rate case and contributions to the fund would be in excess of the revenue necessary for the company to earn its approved rate of return.

All water systems will eventually need to have equipment replaced. Staff believes that establishing a fund for such replacement would assist in insuring that the customers receive quality service and that the company is not caught by surprise in having to replace major portions of plant. This fund should not be allowed to be used for normal annual expenses that should be taken care of in ordinary rates, but should only be used for extraordinary expenditures for replacement of infrastructure due either to age or emergency. Staff believes that another customer protection that should be instituted for

the plant replacement fund is that any plant installed with these monies could be considered a contribution. Staff recognizes that the tax implications of a plant replacement fund need to be carefully considered when or if the details of this policy are worked out.

In addition, Staff believes that if a company does receive approval for a plant replacement fund, consideration should be given to reducing the rate of return the company is allowed to earn. The reason for this is that Staff believes that such a fund should substantially reduce the risk a company is incurring. The industry does not agree with Staff on this issue.

The industry advocates adoption of a similar policy: the Pennsylvania Public Utility Commission's (PPUC) Distribution Service Investment Charge (DSIC). The DSIC is a surcharge that allows Pennsylvania water utilities to recover the costs of specific types of revenue-neutral capital investments. A key expected benefit of the DSIC is that it will enable utilities to accelerate infrastructure replacements, since such projects will be more affordable for both the utilities and their ratepayers. Other potential benefits include greater rate stability and lower rate case filing expenses.

Under the DSIC program, at the end of each quarter utilities identify the original cost of eligible distribution system improvements placed in service during that period, net of accrued depreciation. These amounts are then used to compute a surcharge reflecting the associated depreciation expense and a return on investment. The return on investment is based on actual capital structure and debt, preferred equity costs as of the end of the calculation period, and the cost of equity approved in the company's last general rate case. Such information must be filed with the PPUC Staff and Pennsylvania's Consumer Advocate at least ten days prior to the effective date of the surcharge.

Only the following investments are covered by the DSIC:

- Services, meters, and hydrants installed as in-kind replacements.
- Mains and valves installed as replacements for worn out facilities or as upgrades to meet PPUC requirements.
- Main extensions installed to eliminate dead ends and to implement solutions to regional water supply and/or health problems.
- Main cleaning and relining.
- Funds needed to relocate facilities necessitated by highway construction.

The PPUC's DSIC policy includes the following provisions to ensure that ratepayers are protected:

- The DSIC surcharge is limited to 5% of the customer's total bill.
- Utilities using the DSIC surcharge are audited annually. Over collections resulting from the surcharge are refunded with interest and under collections are billed in future rates without interest recovery.
- The surcharge is set to zero when new base rates are calculated.
- The surcharge is set to zero if it is determined that the company is over earning.

- Investments covered by the surcharge reflect used and useful plant placed into service during the three-month period prior to the surcharge's effective date.
- Customers must be notified about any changes in the surcharge.

Currently five Pennsylvania water companies are using the DSIC surcharge. These five companies serve over 50% of Pennsylvania's private water customers. The staff of the PPUC regards the DSIC system as a success. A number of other states have since begun considering the introduction of such a mechanism. Most recently, the Illinois legislature passed a bill designed to give the Illinois Commerce Commission the requisite authority to introduce such a mechanism in that State. Arizona Commission Staff is not opposed to a policy similar to Pennsylvania's DSIC.

RUCO agrees that such a mechanism, if properly designed, has the potential to promote the upgrading of deteriorating water systems, without harmful or biased rate impacts on customers.

Commission Staff is not opposed to implementing a policy similar to Pennsylvania's DSIC. However, Staff is concerned that such a policy may overwhelm the Commission's resources if several companies apply at one time. If this is deemed to be a real problem, Staff believes that the DSIC policy should be modified to mitigate this potential problem.

PROS AND CONS: PLANT REPLACEMENT FUND

PROS: Would help facilitate the upgrading of aging water systems and if designed after the Pennsylvania mechanism, would not allow utilities to recover investment prior to their being used and useful.
CONS: 1) The DSIC policy may strain Commission Staff resources.
2) (RUCO) Would allow the utility to mitigate regulatory lag that is unfavorable to the utility, but would not mitigate regulatory lag that is unfavorable to ratepayers. Potential matching/bias problem *if not properly designed.*

DEPRECIATION

In the mid 80's the Commission attempted to increase water companies cash flow to a level that would cover their established cash expenses and debt service requirements. Depreciation rates were doubled for small water utilities, increasing from approximately 2.5% to 5%. This increased cash flow but created other long term problems. Specifically, funds received through the artificially high book depreciation rates were not available to be reinvested in plant; they were required to meet cash expenses and debt service. Also, the high book depreciation rates resulted in net utility plant being exhausted (zero rate base value) at a time when the physical facilities had 20 to 30 years of additional life. (Most water plant has a 40 to 50 year life, under the 5% depreciation rate its economic value is gone at 20 years.)

The effects of the Commission's past depreciation policy will extend over the next 20 to 30 years. Once utility plant is fully depreciated, providing adequate earnings and cash flow becomes very challenging. Since rate base is zero or perhaps even negative the traditional ratemaking formula doesn't produce any authorized net operating income and allowances for depreciation expense are no longer available. Without net operating income or a depreciation allowance there is no source of funds for plant investment.

Today's Staff recognizes the error of a 5% depreciation rate and is recommending changing to a more realistic rate during general rate proceedings, however the industry believes that additional changes are necessary to address the problem over the remainder of this utility plant cycle. Such changes could include increases in allowed rates of return to compensate for the early exhaustion of net utility plant; pro forma staff rate case adjustments to net utility plant: (1) to eliminate depreciation allowances that were not recovered through the rates; (2) to add back an increment of utility plant in rate base computations as if it had been depreciated over its economic life on a straight line basis (recognizing that the Company should have earned a fair return *on* its investment over the life of the plant; an additional depreciation allowance would not necessarily be provided because the company has already recovered a return *of* its investment); (3) as the depreciation rate is reduced from 5% to 2 % or 2.5% during a rate proceeding replace the lost cash flow with a rate of return adjustment, i.e. a 3% or 2.5% return increment respectively on gross utility plant; (4) authorize an Operating and Maintenance Reserve that would be funded by an annual charge equal to 1% to 5% of utility plant. The charge would be deposited in a restricted interest bearing account that could only be used for operations or maintenance expense items not included in the authorized rates, for example major pump repair, tank painting, etc.

Commission Staff and RUCO are opposed to the industry's proposals. Both Staff and RUCO believe that the industry's proposals constitute retroactive ratemaking and would result in double payment by consumers.

Staff recognizes the problems that the industry points out but Staff believes these problems can be solved through a much simpler policy. Since when rate base is zero or negligible the traditional ratemaking formula doesn't produce any authorized net operating income, Staff believes that the traditional ratemaking formula should be abandoned for companies with near zero rate bases. Rates for such companies could be set on an operating margin basis. Plant replacements could then be handled with a mechanism similar to the Pennsylvania DSIC or plant replacement fund discussed above.

Setting rates on an operating margin basis involves determining the companies operating costs and setting rates that cover those costs plus a percentage, or "margin," that can be used for reinvesting in plant or other purposes.

PROS AND CONS: INDUSTRY RECOMMENDATION FOR CORRECTING PAST EXCESSIVE DEPRECIATION RATES.

PROS: Would provide small water companies with needed capital.

CONS: Would result in retroactive ratemaking and double recovery.

PROS AND CONS: COMMISSION STAFF RECOMMENDATION FOR CORRECTING PAST EXCESSIVE DEPRECIATION RATES.

PROS: Would provide small water companies with needed capital. Would not be complicated.
CONS: May not be appropriate for all utilities.

3. Provide greater emphasis on simplifying, shortening, and reducing the cost of the ratemaking process.

PASS THROUGH MECHANISM (SB1252)

In 1997, the Arizona Legislature passed Senate Bill 1252. This bill was enacted to create the statutory basis for the Arizona Corporation Commission to implement a mechanism under which regulated water utilities may be afforded an opportunity to reflect in rates the effects of changes in specific costs without the necessity and expense of filing a general rate case. The operating costs that may be considered in this procedure are limited to specific, readily identifiable costs that are subject to the control of another person, including the cost of purchasing electricity or gas, the cost of purchasing water from another utility or municipality, and the payment of proper taxes or similar taxes and assessments that may be levied on the utility.

Thus far only one utility has applied to the Commission for authority to adjust rates under the provisions on this mechanism. There are a number of reasons that have been cited for the lack of utilization, including ambiguities in the language of the statute and concerns about the symmetry that would exist between rate increases and rate decreases. However, according to the industry, the common understanding is that the Staff's proposed surcharge rules presented to the Water Utilities Association at their annual meeting were unreasonable. Staff proposed that a company that filed for and received a postage surcharge, for example, would have to file sur-refunds not limited to decreases in postage cost but including decreases in ANY of the other cost elements eligible for surcharge treatment. This would be required even though the Company had not been passing on increases in these other cost elements.

Current policy lacks the support of a prior decision, policy statement, rule or any official position of the Commission. The industry believes that clarity of the intent and application of S.B. 1252 is needed before its usage will achieve the objectives of its promoters and supporters. The industry recommends that the Commission clarify their policy on surcharge applications and limit increases or decreases to the specific operating cost included in each companies approved surcharge(s). This matter might also be explored to determine what changes (i.e., legislative, procedural, etc.) might be made that would foster expanded use of the mechanism.

RUCO is opposed to the industry's proposal. They feel that the proposal is extremely biased against consumers since, with the industry proposal, cost increases will be past on to consumers but cost decreases will be ignored.

PROS AND CONS: INDUSTRY PROPOSAL FOR SB 1252
PROS: Would allow companies to recover increases in costs that were outside of their control.
CONS: Will allow utilities to raise rates outside of a rate case for those costs that have increased yet would not recognize cost decreases. Biased against ratepayers.

RATE OF RETURN

Many members of the Task Force suggested that one way of shortening the rate case process was to develop a generic rate of return that would apply to all water companies. Staff does not believe that this would be workable in many cases that come before this Commission because so many of the companies have very little rate base with which to work. However, Staff would recommend developing a policy/rule that would allow a water company to choose which method it preferred for Staff to compute its revenue requirement. The three choices could be:

1. Generic rate of return. The Cost of Capital Group within the Accounting & Rates Section could develop a rate of return appropriate for Arizona water companies on an annual, semi-annual or other appropriate timeframe. This rate of return would then be applied to each individual company's rate base.

2. Operating Margin. This would apply to those companies not having a large enough rate base to allow for a meaningful rate of return.

3. Individual Rate of Return. This would allow a company to go through the typical rate of return case and not use the generic rate of return if the company believed the generic return did not apply to it.

The Industry supports Staff's proposal and is willing to help develop a more detailed plan.

RUCO supports Staff's proposal with one caveat: they feel that a generic rate of return would be inappropriate for large (class A and B) utilities since the rate of return for larger utilities is a highly material item and is dependant on more than the current economic and financial environment. The individual characteristics of a utility effect rate of return (i.e. capital structure).

PROS AND CONS: STAFF PROPOSAL ON RATE OF RETURN SIMPLIFICATION
PROS: Rate of return is typically a resource intensive portion of a rate case, and predetermining the rate would certainly simplify and shorten this portion of a rate case.

CONS: May not be appropriate for all utilities.

ELECTRONIC FILING

The industry and Staff recommend developing an electronic filing procedure that could be used by any water company with a computer (this would be for all filings with the Commission, i.e., rate cases, financing cases, annual reports, etc.). The current filing process could be significantly enhanced by creating a library of standard reporting forms on computer disks that could be copied for use by affected companies. This process should include exact copies of the electronic spreadsheets used by Staff in the assessment and analysis of rate applicants' filings. Many major regulatory agencies such as the Federal Energy Regulatory Commission, Federal Communications Commission, and the Securities and Exchange Commission, already allow companies subject to their jurisdiction to file annual reports via electronic means. The Commission has talked about just such a thing in the past. The largest impediment in accomplishing this goal has been resources – both in manpower and funds. Once the resources are available, Staff recommends proceeding with this item as a high priority.

RUCO supports the Staff and industry position.

PROS AND CONS: ELECTRONIC FILING.
PROS: Would simplify and reduce the cost of rate filings.
CONS: Implementation would require significant resources.

The industry is concerned about the volume and extent of informational and other filing requirements imposed by the Commission. Some of the requirements originated many years ago when circumstances were quite different from today, and prior to the introduction of sophisticated computer tools that are now at our disposal. Therefore, the industry recommends that a determination be made with respect to the continuing need for and value of the quantity and variety of information presently required to be filed with the Commission. This would encompass an assessment of the current rate case filing requirements, required annual report contents, and the level of detail that water utilities are obligated to include in other types of filings.

Staff believes that such an assessment should be made at the time the Commission implements an electronic filing plan.

MAIN EXTENSION AGREEMENTS (MXAS)

Commission Staff, the industry, and RUCO agree that a new Main Extension Agreement (MXA) rule would be beneficial. The industry and RUCO support the proposal from the Commission Staff that recommends establishing a new MXA rule that requires that each water company submit an MXA tariff detailing exactly the company's MXA procedure. Once the Commission approved that tariff the company would simply have to adhere to that tariff and thus not require Staff to review and approve each and every single MXA. In order for the MXA tariff to remain in effect, the company would have to submit, by each February 1, a letter from (ADEQ) stating, "ABC Water Company

is delivering water that has no maximum contaminant level violations and meets the quality standards of the Safe Drinking Water Act."

In addition, Staff recommends changing the present refund mechanism to allow water companies to enter into MXAs that would refund portions of the actual monies collected (the amount actually paid for the plant) and not just a portion of the revenue collected. This would allow water companies to collect a fair share of main extension costs from all customers connecting to a main and not just from the first connection, i.e., customers connecting after should not be allowed to have a "free ride".

PROS AND CONS: TARIFFED MAIN EXTENSION AGREEMENTS
PROS: Will eliminate the redundancy of approval of each individual agreement a utility enters into with developers and customers.

CONS: As with other regulatory reform proposals, care will need to be taken to ensure that the final rule on MXAs will not create any new regulatory problems or have any unanticipated adverse impacts on customers.

4. Improve Consumer Education.

Both industry and consumer members of the Task Force acknowledge the need for greater consumer education. Many consumers are unfamiliar with the basics of the regulatory process and therefore are reluctant to intervene in cases that directly effect them. Industry and consumer members of the Task Force recommend that RUCO be encouraged to produce a publication (or publications) explaining basic issues in the water utility industry such as:

1. How the rate case process works.
2. What rate base is and how it is calculated.
3. How to read a balance sheet and income statement.
4. How to form a water users association.
5. How to intervene in Commission proceedings.
6. Basic negotiation skills.

These publications should be placed on the Commission's web site, or a separate web site, in order to facilitate maximum public exposure.

RUCO also suggested that public meetings be held throughout the state. The purpose of these meetings would be to educate consumers regarding the different state agencies that deal with utilities and each agency's specific role. The meeting would also present information regarding the various options open to consumers when they have complaints/ concerns regarding their utility company. Meetings would be announced via advertising in local newspapers.

The only impediment to implementing the above policies is the availability of funds. Both the Commission and RUCO would likely require additional appropriations for these projects.

The Task Force members also recognize that operators of many small water companies may lack the necessary regulatory knowledge to file effective rate cases. Industry members of the Task Force felt that workshops conducted by the Commission Staff were very effective in educating water company operators in rural areas. The Task Force strongly encourages Staff to continue these workshops. Staff has indicated that these workshops are currently underway.

Industry members of the Task Force also recommend that the COMMISSION encourage, on a voluntary basis, water companies to distribute educational publications to their customers. These publications could include company newsletters, Customer Service Reference Guides, and/or publications from organizations such as the American Water Works Association.

Many small water companies do not have the resources to produce quality educational publications. Staff recommends that large water companies that are currently producing high quality educational publications make those publications available to smaller water companies to use as models.

PROS AND CONS: CUSTOMER/INDUSTRY EDUCATION
PROS: Would be of direct benefit to both customers and the industry.
CONS: The proposals would require additional appropriations for the Commission and for RUCO.

5. Other Issues

PHASE IN OF RATES

Commission Staff recommends the adoption of a rate phase-in policy. Under such a policy rate increases that were considered to be "large" could be phased in over time. This could avoid "rate shock" and thus allow water companies to come in for rate cases on a less frequent basis, thereby saving the company and its customers rate case expense and the Staff time and effort. Staff believes that under such a policy rates could still be set that allowed the company full recovery of its authorized rate of return.

Staff recommends developing a policy/rule that would define what a large rate increase is, based not only on a percentage increase, but also on the actual rates. For example, an increase from a $5.00 minimum and $0.50 per thousand gallons to a $10.00 minimum and $1.00 per thousand would be a 100% increase. The question is whether this is a large enough rate increase to require a phasing in of the new rates or were the original rates so low that a 100% increase in this case would not be unfair to the customers, but anything less would be unfair to the company.

Staff sees rate phase-ins as a means to deal with special circumstances, not as a general policy for all rate cases. Staff believes that phase-in rates can be very helpful in dealing with (for example) situations where small water systems are making very large investments in their infrastructure. This was the case in Decision Number 61275 (docketed in December of 1998) where the Commission approved a rate phase-in plan for Alpine Water System, Inc.

The industry opposes this idea. They feel that such a policy could result in the deferral of the full amount of the revenue requirement until a later date. If so, phase-in of rates could damage the financial capacity of the industry.

PROS AND CONS: PHASE-IN OF RATES
PROS: Could alleviate "rate shock."
CONS: Could result in under-recovery for water companies.

RATES TIED TO CONDITIONS

Commission Staff proposes that all rate increases should be conditioned on the company providing acceptable quality service, installation of plant, repair of plant, water quality, etc. Therefore, Staff recommends that a policy/rule be developed to outline what the conditions would be and what the consequences are if the water company does not meet those conditions. The industry and RUCO did not comment on this proposal.

PROS AND CONS: RATES TIED TO CONDITIONS
PROS: Would make necessary rate increases more acceptable to consumers, while holding companies responsible.
CONS: May result in additional work for Staff and companies.

III. CONSERVATION SUBCOMMITTEE

The Conservation Subcommittee of the Commission's Water Task Force mainly focused on coordination between the Commission and the Arizona Department of Water Resources (ADWR.)

BACKGROUND ON ADWR POLICY:

In order to insure adequate conservation of ground water, the ADWR *requires* large private water companies within active management areas (AMAs) to meet certain gallons per capita per day (GPCD) requirements. The GPCD requirements vary across companies based on the geographic location of the company and other factors. The ADWR evaluates companies based solely on whether they meet their GPCD requirements. Companies are free to use whatever conservation measures they deem appropriate to meet the GPCD requirements. Generally, the ADWR does not force companies to use any specific conservation measures, although the ADWR assumes that water providers will implement one or more conservation measures in order to comply with the GPCD requirement. Only *after* a company consistently fails to meet its GPCD requirement will the ADWR issue a Consent Decree that forces the company to adopt a specified conservation program. It should be stressed that complying with the ADWR's GPCD requirement is not discretionary by private water companies (within AMAs); although the choice of which conservation measure to implement is up to the private water company.

PERCEIVED PROBLEM

Industry, consumer, and ADWR representatives on the Task Force indicated that a problem exists because a company that expends funds on conservation programs in order to meet the ADWR's GPCD requirement may not be able to recover fully those expenditures through rates. This is because conservation expenditures may not meet the Commission's "used and useful" standard. The Commission may disallow the conservation expenditures because they were not specifically mandated by the ADWR. However, Commission Staff indicates that this has never happened in practice. Due to this uncertainty and the uncertainty that compliance can be achieved by the implementation of the conservation measures, companies may be reluctant to invest in conservation programs.

The industry recognizes another problem that was not openly discussed as part of the Task Force That problem is the regulation of private water companies by two state agencies, namely ADWR and the ACC. The regulations from both agencies are sometimes in conflict, as can be seen concerning water conservation – ADWR requires conservation and the ACC requires that the private water company furnish water on demand to all customers, even if it would cause a private water company to exceed its GPCD limit.

PROPOSED SOLUTION:

The Conservation Subcommittee of the Commission's Water Task Force recommends a program whereby companies can voluntarily seek approval of their conservation programs from the ADWR prior to their application to the Commission for the recovery of conservation costs. Under the program the company will present its conservation program to the ADWR. The ADWR will examine the conservation program and will determine the following: 1) is a conservation program necessary in order for the company to meet its GPCD requirement? 2) Will the company's conservation program allow the company to meet its GPCD requirement? 3) Is the conservation plan reasonably efficient? That is, is there no other potential conservation plan that would allow the company to meet its GPCD requirement at a significantly lower cost?

If the ADWR determines that the answers to all three of the above questions are yes, the company can file a written statement of that determination with its rate application to the Commission. Commission Staff proposes that the Commission should strongly consider the ADWR's determinations concerning the conservation plan when processing the companies rate application.

The industry and ADWR believe that the Commission should do more than strongly consider the ADWR's determination. They recommend that if the ADWR has made such a determination than the Commission should automatically allow for the recovery of conservation costs. They believe that Staff's proposal does not mitigate the uncertainty associated with conservation expenditures. Industry believes that if the ADWR can determine the effectiveness of the conservation measures and the ACC determines the cost-effectiveness of the conservation measure, the ACC should allow full cost recovery.

Staff is opposed to the industry/ADWR proposal because Staff believes that the Commission should have final say on cost and rate determinations. The Staff believes that companies may "gold plate" their conservation programs and then attempt to pass on unreasonable costs to their customers, although this has generally not been the case with private water companies. During meetings of the conservation subcommittee the ADWR indicated that they were not prepared to make determinations on the reasonableness of company costs, since auditing is not their specialty.

This process could be used by a water company that is applying for rates through a traditional rate case or, potentially, through ARS 40-370. Although some members of the conservation subcommittee are of the opinion that ARS-370, which allows for the pass through of costs outside of a water companies control, should apply to costs associated with meeting the ADWR's GPCD requirements, Staff does not concur.

PROS AND CONS: STAFF'S CONSERVATION COST PROPOSAL

PROS: Would (in Staff's opinion) mitigate some of the uncertainty involved in recovery of conservation cost.

CONS: Would (in industry/ADWR's opinion) not mitigate any of the uncertainty involved in recovery of conservation cost nor (in industry's opinion) would it guarantee compliance with the ADWR's GPCD requirement.

PROS AND CONS: INDUSTRY/ADWR'S CONSERVATION COST PROPOSAL
PROS: Would mitigate some of the uncertainty involved in recovery of conservation cost, although (in industry's opinion) it would not guarantee compliance with the ADWR's GPCD requirement.
CONS: Would put final say over the appropriateness of costs with the ADWR, which has little expertise with auditing.

RATE DESIGN

Commission Staff believes that, in order to promote conservation, the rate design for all water companies should incorporate at least a three-tiered inverted rate structure. Staff believes that inverted rates will promote some conservation. All parties agree that, regardless of where a company is located in this State, the Commission should be encouraging conservation. Staff believes that the primary mechanism that the Commission has for such promotion is rate design. In addition, with providing a three-tiered rate design, those people that truly conserve, will save money. Customers that use very little water each month will have a very small water bill. Staff believes that it is desirable that customers should be rewarded for conserving.

Staff's proposal is as follows: At the time of a rate case, two gallonage per month limits (lower and upper) and three rate tiers should be established (bottom, middle, and high.) Customers whose consumption is below the lower gallonage limit will be charged the bottom tier rate, those with consumption between the two limits will be charged the middle tier rate, and customers with consumption above the upper limit will be charged the highest tier rate.

The bottom tier would be less than break-even, the middle tier would provide the desired rate of return, and the highest tier would provide more than the approved rate of return. By setting rates in this manner the Commission would likely be providing the company with revenues in excess of those necessary to generate its approved rate of return. To remedy this over-earning (a company should not be allowed to over-earn, without some very hard, strong and definite strings attached), the company could be required to put 75% of all monies generated by the third tier rates, or 90% of all over-earnings, into a separate interest bearing account. Why only put a percentage of the third tier rates or a percentage of all over-earnings into the separate account? The two primary reasons are:

a. There is some cost for producing this water. The company should be allowed to recover this cost.
b. There is the possibility that with such a rate design there could be a significant amount of conservation. If this is the case, there is a possibility that the company could be prevented from earning its allowed rate of return.

The money from this account could be used:

1. To pay penalties to the Arizona Department of Water Resources for not meeting conservation goals,

2. To pay for conservation programs,
3. To pay for CAP water (if used and useful),
4. To pay for the installation of new water production facilities (wells or surface water treatment plants) and/or storage tanks that would be considered as contributed plant,
5. To build up a plant replacement fund, with plant paid for by these monies considered as contributed plant,
6. Any other Staff recommended expenditure.

The above expenditures could not be made without Commission approval and would be audited on a regular basis. The monies collected from the third tier or over-earnings that were set aside in the interest bearing account could not be used for normal everyday expenses, nor operation and maintenance expenses, nor salaries and wages of any type, etc. In addition, the company would be required to file a full rate case at least once every five years.

Staff believes that it is unlikely that the above policy will result in under-earnings for the company. However, if under-earnings do occur, Staff believes that the company should have recourse to recover the "lost" revenues. Also, Staff stresses that this is not a "cookie cutter" approach to rate design. The rate tiers and gallonage limits would be determined on a company by company basis while taking the particular circumstances of the company into account.

The industry is strongly opposed to Staff's three tiered rate proposal. They believe that the proposal could result in significant under-earnings.

RUCO is also strongly opposed to Staff's three tiered rate proposal. They believe that the proposal, "fail(s) to capture the essence, purpose, importance, and complexity of rate design; (is) unsound and (un)supportable; and generate(s) a plethora of inequities, new problems, and unanswered questions." They are concerned that the proposal could result in significant over-earnings and they point out that there is no guarantee that the proposal will actually result in increased conservation.

PROS AND CONS: STAFF'S THREE TIERED RATE STRUCTURE

PROS: Could provide the Commission with a mechanism to promote conservation.
CONS: May result in over/under-earnings. There is no guarantee that the proposal will actually promote conservation. Would add another layer of complexity to water utility reporting and accounting. Would not guarantee compliance with the ADWR's GPCD limitation. Could penalize large families who are using water in compliance with GPCD limitations. May provide disincentives for commercial/industrial development in those areas with tiered pricing. May not adequately consider the facts specific to any one water provider and would arbitrarily impose three-tiered pricing on the private water company.

IV. WATER SUPPLY SUBCOMMITTEE

The Water Supply Subcommittee's (WSS) primary focus was the planning for long term water supplies, such as those provided by the Central Arizona Project (CAP), and how to recover their costs in such a way that is fair and equitable to both the water companies and their customers. The recovery of CAP costs was the single biggest problem that the WSS identified. CAP cost recovery is problematic because companies with CAP allocations must pay for their CAP water whether they use it or not. Such companies are reluctant to give up their allocations because, even though they are not used currently, they may be needed in the future. There were many differing views expressed in the WSS, such as, allowing the recovery of CAP costs just because they are incurred to not allowing them at all until there is actually CAP water flowing through the pipes of a company. Staff proposes that the Commission adopt a combination or compromise position.

Commission Staff proposes that CAP costs should be recoverable on an interim basis once a company has submitted to the Commission, and the Commission has approved, a plan to actually use CAP water. The company must commit to using the CAP water within five years of the approval of the plan, with no time extensions allowed. The recovery would be on an interim basis because if the company did not implement the plan within the five-year time frame, it would be required to refund the monies collected back to its customers.

The recovery of CAP costs would be part of permanent rates and could be set up as an adjuster once the CAP water is actually used by the company. The reason for setting up these costs as an adjuster is because history has shown that these costs are anything but stable. The prices being paid by water companies today for CAP water are much higher than ever projected in the 1980s. Staff believes that these recommendations on handling CAP costs will further promote the use of CAP water. The industry believes that this method of handling costs may force the water industry to use more CAP water than is necessary before it is fully needed or in the event that certain factors prevent the full use of a water provider's CAP allocation, the loss of CAP water supplies could result.

Many members of the WSS believed that a standardized application for approval of cost recovery plans should be developed. The standardized application would include the technical information necessary for the Commission to make an informed decision. A standardized application would remove some uncertainty for companies and customers. The WSS members have started the development of such a standardized application.

Many times the water industry has stated that the Commission and its policies were at direct odds to the groundwater conservation policies of Arizona. Staff disagrees with any such assertion. Staff believes that the Commission has been one of the few, if not the only State agency that has promoted the *actual use* of CAP water. Simply holding on to and paying for a CAP allocation does nothing to conserve groundwater. However, Committee Members agree that the loss of CAP water, such as when a private water company can no longer afford to pay the holding costs of CAP, would be

detrimental to the private water company's customers. The only way to conserve and/or preserve groundwater is to use less of it or replace it (e.g., through the recharge of CAP water). Using CAP water is one of the primary ways to use less groundwater. The Commission has always had a policy of allowing the recovery of CAP costs once CAP water was used. Staff believes that continuing this policy with the modification suggested above will further encourage the *use* of CAP water and not just simply the holding of it.

The WSS agreed that cost recovery for long term water supplies could be accomplished outside of a rate case in most instances. However, if the company is small enough or the costs associated with long term water supply are large enough to significantly change the companies entire cost structure, the Staff believes that a rate case is necessary.

The ADWR and the Industry believes that Staff's proposal is a positive step. However, they feel that the proposal does not go far enough towards ensuring the recovery of CAP costs. The ADWR believes that Staff's proposal should guarantee the recovery of the cost of the companies entire CAP allocation regardless of how much of the allocation is used within the first five years. They also point out that while the ADWR would clearly prefer to see the use of CAP water replace mined groundwater as early as possible, this may not always be practical within the five year period. Also, the capital charge component of the CAP water, while significant, is minor in comparison to infrastructure costs associated with full CAP utilization.

As an alternative to Staff's proposal, the ADWR proposes that capital charges for the entire allocation be recoverable immediately if the company develops a plan which demonstrates that: 1) demand projections for the next 20 years equal or exceed the CAP allocation; 2) a portion of the allocation, determined on a case by case basis between ADWR, the Commission and the company, will be used within the first five years either through direct delivery or by recharging the water in a location which contributes to groundwater availability in the area of the provider's wells; and 3) the use of CAP will increase over a period of time (to be determined in each case) up to the extent of the allocation.

The ADWR also proposes that once a provider has exhausted its CAP supplies (i.e. they are being fully utilized), groundwater use that is replenished by the Central Arizona Ground Water Replenishing District (CAGRD) should be handled similarly. For example, to the extent that a regulatory structure is established for member lands which provides for replenishment in an area where the provider's wells will pump the water, CAGRD assessments should be fully recoverable. Such a structure was established for member service areas in last year's legislative session at the urging of Scottsdale and other providers. A similar proposal for member lands may be considered in this next session. The Industry believes that the ADWR's proposal for CAGRD membership and associated assessments may be necessary for some private water companies, especially where physical availability has been identified as a problem. Cost recovery in these

instances should be allowed by the ACC. Membership in the CAGRD may also provide a mechanism for new growth to occur or to resolve conservation requirements.

RUCO is opposed to both Staff's and the ADWR's proposals. RUCO believes that the recovery of the cost of CAP allocations should not be allowed until the allocation is actually being used. They contend that it is speculative and hypothetical to project what a company *may* do with CAP water over the next 5 years. RUCO has stressed the idea that the used and useful principle of ratemaking rules out proposals such as Staff's and the ADWR's. According to RUCO, the used and useful principle cost recovery can only be allowed for water that is actually being used at the time the company applies for recovery.

RUCO stresses that companies do not need to be actually delivering CAP water to their customers in order for the CAP allocation to be considered used and useful. Alternative usage arrangements such as groundwater replenishment, water exchange agreements, etc. are acceptable to RUCO. RUCO has recently supported CAP cost recovery for three companies with such alternative usage plans: Paradise Valley Water Company rate case (Decision No. 61831), Citizens Utilities' Sun City Water Company, and the Sun City West Utilities Company. RUCO proposes that companies seeking recovery of costs associated with unused CAP allocations should be encouraged to actively seek such alternative usage arrangements.

The industry opposes RUCO's water supply recommendations. They believe that RUCO's comments reflect a single-minded focus on rate minimization rather than open-minded consideration of various alternatives and do not reflect support for long range planning. Long range planning must extend well beyond a 5-year planning horizon. Each AMA has a slightly different goal and each water provider has unique water needs.

PROS AND CONS: STAFF PROPOSAL ON CAP COST RECOVERY
PROS: Would allow recovery of costs while encouraging companies to actually use their allocations.
CONS: Cost recovery would be based on projections of future activity over five years. The Industry believes that the proposal could force water providers to use more CAP water than is needed within five years and in the event that a water provider could not put CAP water to use within 5 years could force the water provider to relinquish its CAP allocation.

PROS AND CONS: ADWR PROPOSAL ON CAP COST RECOVERY
PROS: Would allow recovery of costs while providing some encouragement for companies to actually use their allocations. Allows for longer-range water planning than either the Staff or RUCO's proposals.

CONS: Cost recovery would be based on projections of future activity over twenty years.

PROS AND CONS: RUCO PROPOSAL ON CAP COST RECOVERY
PROS: Would encourage the actual use of CAP water.

CONS: May not allow for cost recovery for companies that are making a good faith effort to put their CAP allocation to use in the near future.

Appendix: Comments of individual members

COMMENTS FROM THE INDUSTRY REPRESENTATIVES OF THE WATER TASK FORCE

Submitted August 17, 1999

I. REGULATORY REFORM GOAL:

STRENGTHEN THE FINANCIAL CAPABILITY OF THE WATER UTILITY INDUSTRY

1. Distribution infrastructure replacement cost recovery mechanism.

One of the most significant problems facing the Water Industry today is the required re-building of the existing infrastructure as is approaches the end of its useful service life. Based on a recent survey by the Environmental Protection Agency, it is presently forecasted that such investment needs nationwide during the next twenty years approaches $140 billion, of which nearly $80 billion relates to transmission and distribution system replacement. While substantial federal and state funding is available, it is clear that such amounts represent only a portion of the overall financing needs. Utilities and the customers served thereby will be called upon the provide the remainder.

Under regulatory policies and practices existing in most states, utilities must first obtain or provide the necessary amounts to fund construction projects and see them to completion before seeking rate recovery. This is consistent with traditional "used and useful" ratemaking standard which prohibits charging current customers for the costs of capital assets not yet devoted to the provision of service. Once the assets are deemed to be used and useful, there begins a period for rate setting which generally delays the commencement of capital cost recovery for months or even years after the assets begin to serve customers. The problem is exacerbated due to fact that so many of the projects are ongoing and short in duration. For many utilities this is a game of constant catch-up. Given the tremendous projected capital requirements for future infrastructure replacement, the need for a new regulatory tool is clear.

One state facing extensive infrastructure replacement has introduced an innovative approach to cost recovery that eliminates to time and expense associated with the traditional approach to ratemaking. In 1996, the Pennsylvania legislature provided statutory authority for the Public Utility Commission to establish a tariffed automatic adjustment clause mechanism designed to give utilities the ability to periodically adjust rates via the introduction of a surcharge intended to recover the costs associated with infrastructure replacement programs, thereby significantly reducing the traditional regulatory lag. Given the title Distribution System Improvement Charge ("DSIC"), this mechanism considers the costs being incurred in connection with specific types of revenue-neutral projects designed to enhance water quality, fire protection reliability, and long-term system viability. These include: main and valve replacement, main cleaning and relining, fire hydrant replacement, and main extensions to eliminate dead ends. A key expected benefit of the DSIC is that it will enable utilities to accelerate infrastructure remediation, thereby making the projects more affordable for both the utilities and their ratepayers. Other potential benefits include greater rate stability and lower rate case filing expenses.

Under the DSIC program, at the end of each calendar quarter utilities identify the original cost of eligible distribution system improvements place in service during that period, net of accrued depreciation. Such amounts are the used to compute a surcharge reflecting the associated depreciation expense and a return on investment based on actual capital structure and debt and preferred equity costs as of the end of the calculation period, and cost of equity approved in the respective company's last general rate case. Such information must be filed with the PUC Staff and Consumer Advocate at least ten days prior to the effective date of the surcharge with is typically the first day following the end of the calendar quarter succeeding the measurement period. For example, the surcharge intended to begin recovering the cost of eligible additions during the first calendar quarter in a give year would typically begin on July 1st.

The DSIC mechanism in Pennsylvania is not without significant ratepayer protections built in. They limit the surcharge to 5% of the total customer bill, and provide for annual

reconciliation audits, with over-collections refunded with interest. The surcharge is reset to zero at the time of new base rates or at any time that it is determined the utility is over-earning.

The effect of the DSIC thus far has been overwhelming. A number of other states have since begun considering the introduction of such a mechanism. Most recently, the Illinois legislature passed a bill designed to give the Illinois Commerce Commission the requisite authority to introduce such a mechanism in that State.

The Regulatory Reform Committee of the Water Task Force respectfully requests that the Commission assess the anticipated infrastructure replacement requirements currently facing the water utilities in Arizona in light of existing ratemaking policies and practices, and strongly consider the merits of moving toward the establishment of a mechanism comparable to the Pennsylvania DSIC.

2. Expanded utilization of existing pass-through mechanism.

In 1997, the Arizona Legislature passed Senate Bill 1252. This bill was enacted to create the statutory basis for the Arizona Corporation Commission to implement a mechanism under which regulated water utilities may be afforded an opportunity to reflect in rates the effects of changes in specific costs without the necessity and expense of filing a general rate case. The operating costs that may be considered in this procedure are limited to specific, readily identifiable costs that are subject to the control of another person, including the cost of purchasing electricity or gas, the cost of purchasing water from another utility or municipality, and the payment of proper taxes or similar taxes and assessments that may be levied on the utility.

Although the initial reaction to the passage of this legislation was positive, the anticipated widespread utilization has never materialized. Thus far only one utility has applied to the Commission for authority to adjust rates under the provisions on this mechanism. There are a number of reasons that have been cited for the lack of utilization, including

ambiguities in the language of the statute and concerns about the symmetry that would exist between rate increases and rate decreases. However the common understanding is that the Staff's proposed surcharge rules presented to the Water Utilities Association at their annual meeting were unreasonable. The opposition of a former Commissioner led to Staff implementation proposals that would have required a Company that filled for and received a postage surcharge, for example, to file sur-refunds not limited to decreases in postage cost but including decreases in ANY of the other cost elements eligible for surcharge treatment. This would be required even though the Company had not been passing on increases in these other cost elements. Continuing the postage example, if that same company experienced a decrease in power, purchased water or taxes they would be required to file for a sur-refund.

Generally, the water utility industry believes that Staff has developed implementation guidelines for the approval of applications under a S.B. 1252 filing that do not match the intent or the language of the Bill. Potential applicants become easily discouraged when investigating the usage and possible parameters of S.B. 1252 with Staff. Staff's guidelines lack the support of a prior decision, policy statement, rule or any official position of the Commission. Clarity of the intent and application of S.B. 1252 is sorely needed before its usage will achieve the objectives of its promoters and supporters.

For whatever reasons the surcharge authority of SB 1252 is not being fully utilized. The legislation creating this pass-through mechanism was intended to address uncontrollable cost increases being experienced by water utilities in Arizona and to help strengthen their financial capability. It is recommended that the Commission clarify their policy on surcharge applications and limit increases or decreases to the specific operating cost included in each companies approved surcharge(s) This matter might also be explored to determine what changes (i.e., legislative, procedural, etc.) might be made that would foster expanded use of the mechanism.

3. <u>The damage from existing and previous depreciation practices needs to be recognized when establishing rates for the smaller water companies</u>.

In the mid 80's the Staff attempted to "help" water companies by increasing their cash flow to a level that would at least cover their established cash expenses and debt service requirements even if they were denied a reasonably sufficient operating income. Depreciation rates were doubled for small water utilities, increasing from approximately 2.5% to 5%. This increased cash flow but aggravated the industry's problems.

Funds received through the artificially high book depreciation rates were not available to be reinvested in plant; they were required to meet cash expenses and debt service. The high book depreciation rates would result in net utility plant being exhausted (no rate base value) at a time when the physical facilities had 20 to 30 years of additional life. Most water plant has a 40 to 50 year life, under the 5% depreciation rate its economic value is gone at 20 years. Although today's Staff recognizes the error of a 5% depreciation rate and is recommending changing to a more realistic rate during general rate proceedings, no one has yet addressed the problem over the remainder of this utility plant cycle.

The effects of this policy will extend over the next 20 to 30 years. Once utility plant is fully depreciated, providing adequate earnings and cash flow becomes very challenging. Since rate base is zero or perhaps even negative the traditional ratemaking formula doesn't produce any authorized net operating income. Allowances for depreciation expense are no longer available. Without net operating income or depreciation allowance there is no source of funds for plant investment.

Some water utilities were further penalized because they were unable to earn their authorized rates and operated at a loss over a number of years. During the loss years the companies did not actually recover their 5% depreciation allowance. Nevertheless at rate case time Staff would blindly deduct the entire depreciation allowance whether recovered through the rates or not. Rate setting principles provide that a utility company is entitled to a both a return *on* its investment while it is devoted to serving the public and a return *of* its investment as it is used up. The return *of* investment is a source of funds that is

assumed to be reinvested in utility plant. Unfortunately small water company regulation has not worked this way in Arizona.

How can effect of these misguided depreciation practices be remedied by the current Commission? There is no best single solution. It is encouraging that changes are already taking place to correct the excessive 5% rate, but remedies to address the long term effects are also required. Such remedies could include increases in allowed rates of return to compensate for the early exhaustion of net utility plant; pro forma staff rate case adjustments to net utility plant: (1) to eliminate depreciation allowances that were not recovered through the rates; (2) to add back an increment of utility plant in rate base computations as if it had been depreciated over its economic life on a straight line basis (recognizing that the Company should have earned a fair return *on* its investment over the life of the plant; an additional depreciation allowance would not necessarily be provided because the company has already recovered a return *of* its investment); (3) as the depreciation rate is reduced from 5% to 2 % or 2.5% during a rate proceeding replace the lost cash flow with a rate of return adjustment, i.e. a 3% or 2.5% return increment respectively on gross utility plant; (4) authorize an Operating and Maintenance Reserve that would be funded by an annual charge equal to 1% to 5% of utility plant. The charge would be deposited in a restricted interest bearing account that could only be used for operations or maintenance expense items not included in the authorized rates, for example major pump repair, tank painting, etc.

REDUCE THE NUMBER OF SMALL, NON-VIABLE WATER SYSTEMS THROUGH NEW RULES AND PROCEDURES

1. Limit the formation of start-up water utility companies by developers and inexperienced organizers. Do not issue CCN's to newly established start-up water companies until all options to have service provided by an existing viable company have been exhausted. Provide notice to existing companies of the need to serve newly developing areas and solicit statements of interest.

2. Encourage industry consolidation to develop larger and stronger companies with greater managerial, technical and financial capability.

Any consideration of consolidation of the water utility industry in Arizona should not be limited to smaller Class "D" and "E" companies. Larger companies should not be excluded from the benefits of industry consolidation. It is likely that consumers benefit from the economies of scale realized by the combination of merged entities regardless of the individual sizes of acquiring companies.

The California Public Water System Investment and Consolidation Act of 1997 (the "Act") specifically states that "scaled economies are achievable in the operation of public water systems". Further, the Act states that "providing water corporations with an incentive to achieve these scaled economies will provide benefits to ratepayers". The California Act does limit its interpretation or application to the size or viability of water systems. The California legislators and Commission have realized that water sources are finite and fewer numbers of distributors of the product accrues to the benefit of the ratepayer.

For purposes of acquisition adjustments, the California Act generally provides that acquisitions of water companies utilize the fair market value (FMV) approach when considering the value of the water system infrastructure assets. However, the Act further provides that the Commission may also include the difference between FMV and reproduction cost when the value differences are considered "fair and reasonable". The California Commission uses a four level evaluation criteria to determine allowable differences between FMV and reproduction cost as follows: (1) the affect on water system reliability, (2) improvements in compliance of health and safety regulations, (3) the ability to achieve economies of scale that would otherwise not be available but for acquisition, and (4) the fair and equitable affect on current customers. The representatives of the Arizona water utility industry members of the Water Task Force unanimously support the California Act and encourage the Commissioner's consideration of same.

In addition to those provisions of the California Act, the representatives of the water industry on the Water Task Force believe that any policy developed by the Commission which considers incentives to encourage industry consolidation should ensure that an acquirer of a water company should not be penalized for the acquisition through application of a negative rate base acquisition adjustment. Instances where negative adjustments to rates due to negative acquisition adjustments are not as common. However, there any undoubtedly many opportunities for acquisition of smaller water systems by larger, more resourceful companies that could be discouraged if the acquiring company believed that negative acquisition adjustments would affect current rates or return of, or on, investment.

3. Provide special incentives to encourage the takeover of non-viable companies of any size or any Class D or Class E water utility on the presumption that merely because of their size they cannot provide the managerial, technical and financial resources need to comply with the SDWA.

4. Permit Use of Prospective Test Years in Rate Applications:

According to the National Association of Regulatory Utility Commissioners ("NARUC"), the Commissions of approximately thirty (30) states permit the use of prospective test years for rate applications[1]. Staff argues that utilization of historical test years in rate applications makes sufficient provisions for the effect of future water system investment through consideration of "known and measurable" expenses. The critical difference in Staff's viewpoint with that of the water industry is a matter of perspective.

Water industry representatives of the Water Task Force believe, as is conducted in many other states without difficulty, that rate applications can include specific, highly scrutinized planning for capital expenditures and operating expenses that can be predicted with a high degree of certainty in both cost and timing. A rate adjustment applicant can provide a capital expenditure that details the degree of investment and the timing of same

[1] 17th Annual Western Utility Rate School, April 1997, San Diego, California.

over future months and years. Rate adjustments can be granted from the perspective of a contract being entered into between the applicant and the Commission. Prospective rate adjustments can be conditioned on the amount of investment and the actual occurrence of expenditure. In the event capital expenditures for improvements to water systems are not made pursuant to the capital expenditure program filed as part of a rate application, the previously granted rates would not become effective. The completion milestones of accomplished capital projects are sufficiently easy to measure to ensure delivery of actual benefit to the customer.

The "business as usual" perspective of Staff requires expenditure of the capital amounts first and recovery, subject to the usual regulatory delays, thereafter. This policy is discouraging to water system owners and operators in the consideration of needed improvements to the water systems. Water system operators generally know, or can readily determine, what improvements are required in their water systems. The cost associated with such improvements is as easily determinable. The rate adjustment application process is sufficiently resourceful to determine a realistic implementation schedule of water system improvements. The water industry representatives of the Water Task Force believe adoption of a policy of prospective test years would encourage water systems improvements at a rate much more rapid than those presently occurring. The water industry representatives of the Water Task Force would not be opposed to adoption of prospective test years for rate applications with reasonable qualifications and conditions including punitive operational and economic consequences for rate applicants that did not achieve the scheduled results.

PROVIDE GREATER EMPHASIS OF SIMPLIFYING, SHORTENING AND REDUCING THE COST OF RATEMAKING AND REGULATORY COMPLIANCE

1. Eliminate unnecessary and/or redundant filing requirements and forms, and introduce computerization into the filing process.

Many of the water utilities in Arizona, particularly the smaller ones, are concerned about the volume and extent of informational and other filing requirements imposed by the ACC. Some of the requirements originated many years ago when circumstances were quite different from today, and prior to the introduction of sophisticated computer tools that are now at our disposal. In connection therewith, the Regulatory Reform Committee of the Water Task force recommends that a determination be made with respect to the continuing need for and value of the quantity and variety of information presently required to be filed with the Commission. This would encompass an assessment of the current rate case filing requirements, required annual report contents, and the level of detail that water utilities are obligated to include in other types of filings.

In addition to an evaluation of current filing requirements, it is also recommended that consideration be given to automation of the filing process. In today's business world, even the smallest of companies have access to a personal computer. The current filing process could be significantly enhanced by creating a library of standard reporting forms on computer disks that could be copied for use by affected companies. This process should include exact copies of the electronic spreadsheets used by Staff in the assessment and analysis of rate applicant's filings. This improvement has the potential to significantly reduce the time and cost associated with routine filings with the Commission. In connection therewith, the Commission should also explore the possibility of introducing the option of electronic filing. Many major regulatory agencies such as the Federal Energy Regulatory Commission, Federal Communications Commission, and the Securities and Exchange Commission, already allow companies subject to their jurisdiction to file annual reports via electronic means. The ACC should strongly consider the potential benefits associated with automation of the filing process.

2. Reduction in Regulatory Lag Associated with Rate Decisions:

The water industry representatives of the Water Task Force strongly encourage the Commission and Staff to search for ways in which the affect of regulatory lag may be reduced. At present, many months stretching to more than a year may be required to

determine the appropriateness of rate adjustments. The affect of regulatory is, by itself, a discouragement to water system owners to file rate applications at all. No rule, regulation, or policy should be adopted or passed which does not consider how regulatory lag may be reduced.

II. IMPROVEMENTS IN CONSUMER EDUCATION GOAL:

The water industry representatives of the Water Task Force would like to propose a three-prong approach whereby the Arizona Corporation Commission; the water utility industry and RUCO would take the lead in educating our customers. All three of these groups have the knowledge; experience and manpower to present and communicate with the consumers on many issues which are facing our industry. The following are some of the tasks, which each group can contribute to better educate our customers.

(i) Arizona Corporation Commission (ACC)

(a) Web site – Although ACC already has a Web Site (http://www.cc.state.az.us) in existence, I believe this Web site should be further promoted to the public at large in order for them to learn more about what's happening at the ACC.

(b) Continue publishing "Water News" on a quarterly basis.

(c) Continue making visits to each county on an annual basis to discuss issues related to consumers, water utility industry and the local governmental officials.

(d) Form a Task Force at the county level, which will be in charge to educate and coordinate the issues in the water industry. The Task Force should consist of two representatives from each of the following: ACC, water utility industry, consumer group, and county officials.

(ii) Water Utility Companies

(a) ADEQ requires that as of October 1, 1999 each water utility company publish a "Consumer Confidence Report" for the previous year. This report will be published on an annual basis and will cover a variety of issues directly related to the operation of that particular water utility company.

(b) On a volunteer basis, the ACC should encourage water utility companies to publish a company newsletter, a "Customer Service Reference Guide" (see enclosed) or provide the customers with a publication from the American Water Works Association or a similar organization dealing with issues such as conservation, quality of water, quantity of water, etc.

(c) Encourage water utility companies on a volunteer basis to publish in their local newspaper or to discuss on a local radio/television station local issues related to the water industry.

(iii) RUCO – Encourage RUCO to prepare a publication explaining basic issues in the water utility industry such as:

1. How to read a balance sheet and income statement.
2. Explain what is a rate base.
3. Explain how the rate case is developed.
4. Explain how to form a water user association.
5. Explain how to intervene in an ACC proceeding.

This kind of publication can greatly assist the consumer to understand some very complex issues facing the utility industry.

The water industry believes that better informed customers should expect safe and drinkable water to flow from his household tap. We, in the water utility industry, must insure our customers to receive the highest value to which they are entitled. A well informed customer can help us serve him better.

CONCLUSION

The representatives of the water industry appreciate the opportunity to participate in the ACC's Water Task Force. It is clear that many important issues require attention and resolution. The representatives believe that with proper economic incentives, motivation and opportunity that the natural capabilities of the market place can resolve most or all of these issues. Conversely, decreased and efficient regulation provides a similar benefit that can achieve levels of prosperity and compliance in an industry that is sorely deficient.

WATER TASK FORCE
COMMENTS OF THE RESIDENTIAL UTILITY CONSUMER OFFICE
AUGUST 16, 1999

REGULATORY REFORM SUBCOMMITTEE

ISSUE NO. 1 - REDUCE THE NUMBER OF SMALL, NON-VIABLE WATER SYSTEMS THROUGH NEW RULES AND PROCEDURES

A large number of the state's water utilities are small in size, quite often uneconomical, and experience operational problems that they are often unequipped to handle. A potential solution to some of the small non-viable utility problems is the acquisition by larger, better-run utilities. However, it is apparent that acquisition of small, uneconomical, non-viable water systems will not occur absent some sort of regulatory incentive. Most, if not all, of the Task Force members were in agreement on the need for regulatory reform in this area. Agreement, however, was not reached regarding the appropriate incentives and circumstances under which such incentives would be available.

It is RUCO's position that regulatory incentives for acquisition should be available only in those instances where absent the incentive, the acquisition would not take place. For example, acquisitions of larger well-run utilities by other similar type companies are common place and currently occur without the need for incentives. In such situations incentives are unnecessary and would simply constitute regulatory gifts. Incentives should be available only for small utilities (in general Class D & E) that are determined to be non-viable. The Commission in the context of the acquisition proceeding would determine viability. The acquiring company would bear the burden of demonstrating the non-viability of the acquired company.

RUCO strongly opposes the use of acquisition adjustments as a regulatory incentive to acquisition. We believe a policy that would allow rate recovery of acquisition adjustments (the excess purchase price over net book value) would ultimately allow regulated companies to set their own rates in a monopoly environment. Further, the Commission would have no control over the level of regulatory incentive because the buyer and the seller would be able to set the level of the incentive through the asking and purchasing price. A situation would result where the rate bases of utilities could be inflated by the mere buying and selling of property. Both buyer and seller would realize windfall profits through the inflated purchase price with captive ratepayers funding such windfalls. The Commission has options other than acquisitions adjustments to create incentives for larger utilities to acquire small non-viable systems.

Option 1 - Allowance of an incremental premium on the Company's authorized rate of return. In light of the additional risks a purchasing utility takes on when acquiring a non-viable system, an additional rate of return would be authorized by the Commission. This option would create a monetary incentive for the acquisition of non-viable systems, yet unlike an acquisition adjustment, the authority to determine the appropriate level of the incentive would remain with the Commission.

Option 2 - A surcharge mechanism that would allow the acquiring company to obtain upfront ratepayer funding of the capital investment necessary to make the acquired system viable. Since there is a lag between a company's outlay of cash for capital investments and the recognition of the investment in rates, this creates disincentives for acquisition of non-viable companies. This disincentive can be removed by creating a regulatory mechanism that would allow the estimated cost of the necessary improvements to be included in a rate surcharge and funded upfront by ratepayers. Once the improvements were completed, the cost estimated would be trued up to actual.

Option 3 - A deferral accounting order that would allow the acquiring utility to defer for future rate recovery extraordinary repair and maintenance costs necessary to improve the quality of service of the non-viable acquisition. The amount ultimately recoverable would be determined in the context of a rate case.

ISSUE NO. 2 - STRENGTHEN THE FINANCIAL CAPABILITY OF THE WATER UTILITY INDUSTRY

Although the Task Force did agree this was an issue, it was never discussed in depth. RUCO believes the issue of financial capacity is closely related to the small non-viable water company issue discussed above. The acquisition of these types of systems by larger better-run utilities would, for the most part, address this issue. In addition, RUCO suggests the following:

1) Increase the number of small water company workshops conducted by ACC Staff. Expand the scope of the workshops to include information on utility accounting, effective financial planning, capitalization alternatives (i.e. CIAC vs. Equity, AIAC vs. Debt), etc.

2) Change AAC Staff policy of using 5% depreciation rates for small utilities. This policy has resulted in negative rate bases for numerous small to medium water companies.

3) Encourage water companies to file rate cases in a timely manner. Provide ACC assistance to those small companies that do not have the technical expertise to complete their own rate applications.

ISSUE NO. 3 - SIMPLIFYING, SHORTENING, AND REDUCING THE COST OF THE RATEMAKING PROCESS

The Task Force members all agreed this was an area that could benefit from regulatory reform. Members had differing opinions on how this should be accomplished. RUCO suggests the following:

1) Develop a comprehensive set of minimum filing requirements (MFRs) to be required with all rate applications. The MFRs would be designed to supply Staff and RUCO with certain generic accounting data that is necessary in all cases to perform a regulatory review. The MFRs would include such items as the general ledger, year-end closing journal entries, test year billing determinants, monthly operating reports, schedules of plant retirements and additions, etc. This would cut down on the number of initial data requests and also remove the 10 day time constraint the utilities currently operate under.

2) Improve communications and cooperation among utilities, Staff, and RUCO during the rate review process. Conversations between the utility and the respective analyst can cut down on discovery by clarifying information needs and constraints. An initial meeting between the utility and the analyst to explain the salient points of the application and to answer questions informally would help narrow the scope of the analyst's review.

3) Negotiation and settlement discussions can reduce the number of litigation issues, reduce rate case expense, and result in fair and reasonable results.

4) Stricter application of ACC sufficiency requirements. Quite often extensive discovery and audit work is required simply because of calculation errors, data omissions, incorrect billing determinants, etc. included in a utility's application. Quite often these problems are not resolved at the discovery stage and then require additional resources to litigate. These types of problems should be resolved before the rate application is found sufficient.

ISSUE NO. 5 - IMPROVE CUSTOMER EDUCATION

Although there was very little discussion by the Task Force on customer education, all agreed it was an issue. From phone calls that RUCO receives from the utility customers it is apparent that the average customer is uninformed as to the state agencies that deal with utilities, the regulatory process, and their individual participation options in the process. RUCO suggests the following:

1) Schedule public meetings at various locations throughout the state. The purpose of these meetings would be to educate consumers regarding the different state agencies that deal with utilities and each agency's specific role. The meeting would also present information regarding the various options open to consumers when they have complaints/ concerns regarding their utility company. Meetings would be announced via advertising in local newspapers.

2) Develop and distribute statewide a newsletter that contains the information identified in item no. 1 above.

3) Develop a web site that includes the above information. Place advertisements statewide regarding location of web site.

While RUCO supports all of the above suggestions we recognize that all will require expending additional resources beyond what is currently included in state regulatory agencies' budgets. Additional appropriations would probably be required.

ISSUE NO. 5 - INCREASE INTERAGENCY COORDINATION

While most of the utility Task Force members agreed that this was a significant issue, RUCO, and to some extent Staff, did not perceive the same problems. Staff argued that many of the specific coordination efforts the utilities indicated they would like to see were already in effect. From a practical standpoint RUCO recognizes that the objectives, mandates, and goals of the individual state agencies that deal with utilities are different and therefore complete coordination is not realistic. RUCO also pointed out that while the ACC can change its way of doing business, it has no control over, for example, ADEQ, DWR, or RUCO. While the goal of interagency coordination is desirable, RUCO believes the other four issues identified by the Task Force are within the control of the ACC and therefore are more obtainable.

WATER SUPPLY SUBCOMMITTEE

The Residential Utility Consumer Office ("RUCO") offers its comments regarding Central Arizona Project ("CAP") cost recovery for water utilities.

RUCO acknowledges and supports the State of Arizona's water policy goals, namely to protect Arizona's groundwater supplies. RUCO believes that this policy is important and should be considered when determining whether water utilities under the jurisdiction of the Arizona Corporation Commission should receive cost recovery for CAP water.

However, each utility is unique and its request for recovery of CAP expenses must be based on its individual history. RUCO's position is that prior to cost recovery being considered, each utility must be using the CAP water (the used and useful ratemaking principle). Although comments were requested on a five year plan, RUCO's position is that it is speculative and hypothetical to project what a company may do with CAP water over the next 5 years. Many intervening events may occur and ratepayers may be paying for water that the utility has never used and ratepayers have never received. Before ratepayers should be asked to pay for CAP water, actual CAP water should be flowing through the companies' pipes and used by their customers or some other CAP usage alternative such as groundwater replenishment, water exchange agreements, etc. should be in place and effective.

Additionally, RUCO offers this comment in regard to the February 10, 1999, letter which sets forth a consensus agreement regarding CAP long term planning expenses. RUCO did not agree that expenses from CAP long term planning should be specifically noted as an expense for which a water utility should seek cost recovery. However, RUCO did not oppose that water utilities may apply to the Commission for cost recovery of CAP expenses outside of a rate case.

ARIZONA DEPARTMENT OF WATER RESOURCES
Office of Assured and Adequate Water Supply
500 North Third Street, Phoenix, Arizona 85004-3921
Telephone (602) 417-2460
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JANE DEE HULL
Governor

RITA P. PEARSON
Director

MEMORANDUM

To: Matthew Rowell
Arizona Corporation Commission

From: Steve Rossi
Department of Water Resources

Date: August 12, 1999

Re: Comments on Draft Report

At the last Water Task Force Meeting, the group agreed to another round of comments on the draft report prepared by commission staff. The following are the Department's comments regarding the water supply portion of that report.

The proposal by ACC staff is to allow recovery of costs today if the CAP allocation is to be used within five years. The provider must refund the fees if the water is not used. In general, the concept of setting some guidelines that providers must follow in exchange for greater certainty regarding the recovery of CAP costs is a positive step. However, as I pointed out in prior comments, there is a need for additional depth and some changes to these guidelines before they can be considered workable.

There is a presumption (though it is unclear in the report) that a provider is eligible for recovery of only that which is used in the five year period. Thus, if a provider is able to use only half of the allocation in this period (whether the demand exists for the full amount or not), only half of the costs are recoverable. The problem with this approach is that it fails to place any value to current and future customers on that portion of the CAP allocation not used within the five year period. To deny recovery of the costs because the water may not be needed for five or more years is counterproductive to sound long-term water supply planning principles.

While the Department would clearly prefer to see the use of CAP replace mined groundwater supplies as early as possible, we recognize that in this may not always be practical within the five year period. The capitals charge component of the CAP water, while significant, is minor in comparison to infrastructure costs associated with full CAP utilization.

As an alternative, we propose that capital charges for the entire allocation be recoverable immediately if the provider develops a plan which demonstrates that: 1) demand projections for the next 20 years equal or exceed the CAP allocation; 2) a portion of the allocation, determined on a case by case basis between ADWR, ACC and the provider, will be used within the first five years either through direct delivery or by recharging the water in a location which contributes to

groundwater availability in the area of the provider's wells; and 3) the use of CAP will increase over a period of time (to be determined in each case) up to the extent of the allocation.

In addition, once a provider has exhausted its CAP supplies (i.e. they are being fully utilized), groundwater use, which is replenished by the CAGRD, should be handled similarly. For example, to the extent that a regulatory structure is established for member lands which provides for replenishment in an area where the provider's wells will pump the water, CAGRD assessments should be fully recoverable. Such a structure was established for member service areas in last year's legislative session at the urging of Scottsdale and other providers. A similar proposal for member lands may be considered in this next session.

Please contact me if you would like to discuss these comments further prior to our next meeting.

AWC's Industry Rebuttal Response To Recommendations Submitted To The WUTF
Submitted September 20, 1999

On August 25, 1999 a Special Open Meeting of the Arizona Corporation Commission was scheduled to discuss comments submitted for the Task Force's report and to set a due date for rebuttal comments. September 17, 1999 was the date set for submission of rebuttal comments to Matthew Rowell, the Commission's Task Force Chairman.

Comments were presented at the Special Open Meeting from:

- Department of Water Resources (DWR)
- R. W. Trimble
- Residential Utility Consumer Office (RUCO)
- Industry Representatives (Industry)
- Arizona Corporation Commission Staff (Staff)

Arizona Water Company is providing the following industry rebuttal comments to the commentary and recommendations of DWR and RUCU. It reiterates the Industry's June 29, 1999 comments on the Staff' Report recommendations as part of this response.

DEPARTMENT OF WATER RESOURCES
Industry supports the DWR recommendations

Recovery of Cap Costs - DWR disagreed with the Staff recommendation and stated that to deny recovery of CAP costs because the water may not be needed for five or more years is counterproductive to sound long-term water supply planning principles.

Industry supports DWR's recommendation that capital charges for the entire allocation be recoverable immediately if the provider develops a plan which demonstrates that: 1) demand projections for the next 20 years equal or exceed the Cap allocation; 2) a portion of the allocation, determined on a case by case basis between DWR, ACC and the provider, will be used within the first five years either through direct delivery or by recharging the water in a location which contributes to ground water availability in the area of the provider's wells; and 3) the use of CAP will increase over a period of time (to be determined in each case) up to the extent of the allocation.

Industry also agrees that CAGRD assessments should be fully recoverable.

Recovery Of Conservation Costs – Industry agrees that the Staff recommendations do not address the need for greater certainty regarding the recovery of conservation costs; i.e. a safe harbor for recovery of conservation costs. DWR correctly points out that the Staff's recommendation results in a "business as usual" approach. It provides a several new layers of bureaucratic approval and tests but no greater certainty. As DWR said: "This situation is not acceptable". The Commissioners need to endorse the concept of

regulatory safe harbors for cost recovery and direct the Staff to develop policies in that framework.

RESIDENTIAL UTILITY CONSUMER OFFICE

1. Reduce The Number Of Small, Non-Viable Water Systems Through New Rules And Procedures.

RUCO recognizes the problem: *"A large number of the state's water utilities are small in size, quite often uneconomical, and experience operational problems that they are often unequipped to handle."* However, RUCO's short-term focus on rate minimization for residential customers confines the scope of its analysis and recommendations to a limited, sub-optimal change in Commission policy. .

RUCO is unable to acknowledge even the potential benefit of water industry consolidation in Arizona. Instead they argue that if a variant of the California fair market value approach to encouraging consolidation throughout the water utility industry was adopted in Arizona:

> **"...the rate bases of utilities could be inflated by the mere buying and selling of property. Both buyer and seller would realize windfall profits through the inflated purchase price."**

Although this was a legitimate concern earlier this century when giant holding companies were able to manipulate their portfolios, it is ludicrous in Arizona today. The water industry is facing unprecedented capital demands to deal with growth, water supply and water quality. The shortage is *capital to invest* not *projects to invest in*. What rational buyer would pay even $1.00 more than necessary to purchase a water company? The buyer would have no difficulty investing the amount of RUCO's inflated purchase price in actual water facilities that would provide hard assets and solve actual problems. RUCO's claims that a buyer would benefit and presumably realize "windfall profits" by inflating rate base are without merit. Limiting the California fair market value approach to only non-affiliated buyers and sellers would eliminate any incentive for collusion.

The California Public Water System Investment and Consolidation Act of 1997 (the "Act") specifically states that "scaled economies are achievable in the operation of public water systems". Further, the Act states that "providing water corporations with an incentive to achieve these scaled economies will provide benefits to ratepayers". The California Act does *not* limit its interpretation or application to the size or viability of water systems. The California legislators and Commission have realized that water sources are finite and fewer numbers of distributors of the product accrues to the benefit of the ratepayer.

Consolidation of the industry based on fair market values would encourage larger and stronger companies with greater managerial, technical and financial capability.

2. Strengthen The Financial Capability Of The Water Utility Industry

"RUCO believes the issue of financial capacity is closely related to the small non-viable water company issue discussed above. The acquisition of these types of systems by larger better-run utilities would, for the most part address this issue." Doesn't this support the goal of broad industry consolidation?

RUCO's three recommendations are acceptable but are unlikely to have the desired impact. They are very limited and conservative. A broader range of initiatives should be employed to deal with this problem; e.g.

- Distribution infrastructure replacement cost recovery mechanism.
- Expanded utilization of existing pass-through mechanism.

1. Provide Greater Emphasis Of Simplifying, Shortening And Reducing The Cost Of Ratemaking And Regulatory Compliance

The first and last of RUCO's four recommendations would complicate, lengthen and increase the cost of ratemaking for the water industry, they should be rejected outright.

- RUCO's first recommendation would significantly expand the content of the existing Standard Filing Requirements to include extensive supporting and backup data such as: 1) The company's entire general ledger
  2) Year-end closing journal entries
  3) Test year billing determinants
  4) Monthly operating reports
  5) Schedules of plant retirements and additions
  6) Et cetera
- RUCO's fourth recommendation advocates stricter application of the Commission's sufficiency requirements so that Staff would be required to dissect each application looking for calculation errors, data omissions, incorrect billing determinants, etc. This recommendation shifts a portion of RUCO's work to the Staff and is directly at odds with the goal it purports to support.

RUCO's water supply recommendations are off point. The reject the Staff's 5 year time period and are at odds with the second consensus goal of strengthening the financial capability of the water utility industry. They reflect a single-minded focus on rate minimization rather than open-minded consideration of various alternatives.

ARIZONA CORPORATION COMMISSION STAFF
Industry Supports Many Of the Staff Recommendations In Principle

Staff reorganized its earlier recommendations under the five consensus goals adopted by the Regulatory Reform Subcommittee, Water Supply and Conservation. Industry generally supports the thrust of this recommendation but not all of the details as explained in the earlier Industry Response to the Staff Report which is reproduced below. This commentary refers to pages in the earlier Staff report.

1. **Rate of Return** (page 3)
   - Minimal discussion of this topic
   - Supports Goal # 3.
   - Industry agrees with concept and willing to help develop implementation plan in a manner to also support Goal # 2

2. **Phase in Rates** (pages 3-4)
   - Not discussed. Unclear what Staff is recommending.
   - Undermines Goals # 2 and # 3 - Appears that a "large" rate increase might trigger only a limited or partial rate increase at the time the Decision was issued and result in the deferral of the full amount of the revenue requirement until a later date. If this is what the Staff is recommending it could further damage the financial capacity of the water utility industry, while lengthening and complicating the rate making process.
   - Industry opposes this concept and any recommendations that further weakens the financial capacity of the industry or lengthens the ratemaking process.

3. **Property Tax** (page 4)
   - Minimal discussion.
   - Supports Goals #2 and # 3
   - Industry favors a change. Although not previously discussed, the industry recommends that the existing manner of determining and paying water utility property taxes be replaced with a percentage of revenue tax that would be paid monthly to the Department of Revenue (DOR). Revenue is already a key variable in the formula used by the DOR to determine each water utility company's full cash value. The replacement tax would be an add-on to the customers' water utility bills. The tax collected could be reported and paid to DOR as part of the sales tax return. Industry is willing to help develop detail recommendations and implementation plan.

4. **Electronic Filing** (page 4)

- Minimal but adequate discussion.
- Supports Goal # 3
- Industry supports a voluntary electronic filing program and recommends that the Commission develop electronic templates and instructions that would be available from the ACC web site.

5. **4Rate Design** (pages 4-5)

- Never discussed.
- Undermines Goals # 2 and # 3
- Industry strongly disagrees with a mandatory three-tier rate structure and the confiscation of utility revenue.

6. **Automatic Rate Increases** (pages 6-7)

- Never discussed.
- Supports Goal # 2 and # 3
- Worthwhile concept but exclusion of "A" and "B" companies, qualifying requirements and annual two and one half month timetable are arbitrary and likely unworkable. Industry willing to help develop detail recommendations and implementation plan.

7. **Rates Tied to Conditions** (page 7)

- Never discussed.
- Not aimed at any of the RRS goals.

8. **Future Test Year** (page 7)

- Minimal discussion of industry recommendation. Staff's opinion is: "...that the present test year method is adequate, workable and accurate." The remaining question is: Does the present test year method produce desired results? Changing the existing method would be one way to improve the financial capability of the industry.
- Supports Goal # 2
- Industry willing to help develop detail recommendations and implementation plan.

9. **Generic Hook-Up Fees** (page 8)

- Minimal discussion
- Supports Goal # 2
- Industry willing to help develop detail recommendations and implementation plan.

10. **Certificates Of Convenience & Necessity – CC&N** (pages 8-11)

- Extensive discussion
- Supports Goal #1
- Industry supports most of Staff's recommendations and is willing to help develop detail recommendations and implementation plan.

11. **Main Extension Agreements** (page 11)

- Adequate discussion
- Supports Goal # 3
- Industry supports most of Staff's recommendations and willing to help develop detail recommendations and implementation plan.

12. **Incentives For Consolidation** (pages 11-13)

- Most thoroughly discussed recommendation.
- Supports Goal #1 and can support # 2
- Staff is unable to accept the idea that there are economic benefits to industry consolidation and that it should be encouraged. Staff takes a narrow view, that consolidation incentives should be limited to acquisitions of the "D" and "E" class water companies for now. The industry strongly believes that encouraging consolidation of all classes of water companies would provide economies of scale, strengthen the financial capability of the consolidated companies and reduce the regulatory burden on the Commission.
- The California Legislature and the California Public Utility Commission are encouraging industry consolidation under Senate Bill 1268 The California Public Water System Investment and Consolidation Act of 1997. That legislation states:
  - "Scale economies are achievable in the operation of public water systems."
  - "Providing water corporations with an incentive to achieve these scale economies will provide benefits to ratepayers."

13. **Plant Replacement Fund** (pages 13-15)

- Limited discussion
- Supports Goal # 2
- Industry agrees with Pennsylvania approach but Staff recommendations to treat plant as a contribution nullifies the concept. Lowering the rate of return for a company with a PRF could cost the company more than it gained.
- Industry is willing to help develop detail recommendations and implementation plan along lines of Pennsylvania program.

14. **Education** (pages 15-16)

- Discussion of subcommittee work limited by time.
- Supports Goal # 4
- Industry supports.

WATER TASK FORCE
REBUTTAL COMMENTS OF THE RESIDENTIAL UTILITY CONSUMER OFFICE
September 16, 1999

REGULATORY REFORM SUBCOMMITTEE

On August 16, 1999 the Water Industry, Commission Staff, and RUCO submitted individual reports to the Task Force setting forth their respective positions on the five issues previously agreed upon by the all members of the Task Force. The purpose of this document is to respond to the various parties' positions.

ISSUE NO. 1 - REDUCE THE NUMBER OF SMALL, NON-VIABLE WATER SYSTEMS THROUGH NEW RULES AND PROCEDURES

Industry and Staff proposal -

Limit the number of new water companies by refusing to grant CC&Ns to new start-up water companies

RUCO position on the concept -

Task force members have suggested establishing more stringent standards for the issuance of a CC&N as one method for achieving the agreed upon goal of reducing the number of non-viable water systems. RUCO believes establishing new criteria for issuance of a CC&N is one feasible and likely method for reducing the number of non-viable water systems. However, before going forward with a recommendation to establish new CC&N standards, the task force should identify at least one new general or specific area where establishing a new standard will provide an overall benefit. Members of the task force have provided some thought provoking suggestions for improvement. However, in RUCO's view, these suggestions have generated more questions than answers and will not necessarily result in an overall benefit.

PRO - 1) Would prevent an increase in the number of water companies

CON - 1) One proposed plan requires a new water company applying for a CC&N to show that no existing water company will serve the requested service territory as a condition for obtaining a CC&N. Under this plan a new CC&N applicant must show rejection letters from all three "Class A" companies, at least five "Class B" companies, and all existing water companies within five miles of the service territory requested as one condition for obtaining a CC&N. This proposal creates a hierarchy of preferential treatment for

various existing companies. An existing company will not necessarily make a more-fit public service provider than a new company. A small or newly formed water company is not necessarily non-viable or unfit to provide public utility service. Not all small or newly formed water companies have been shown to be unfit. Many large water companies began as smaller entities. It is dubious that any pre-determined distance can be established that will represent the distance from which another water company can effectively service any new service territory. Providing preferential treatment in the CC&N issuance process may be unlawful or present other legal problems.

2) This plan is unworkable. Large, existing water companies may not be interested in expansion. Company's that are not interested in new service territories may be reluctant to assert that disinterest in a rejection letter. Also, new applicants could seek rejection letters only from those "Class B" companies that always reject proposals for new service territories. This would circumvent the intent of requiring a new CC&N applicant to obtain rejection letters from at least five "Class B" water companies as one of the criteria for obtaining a CC&N.

3) This plan also suggests using only the water company's projected customer growth estimates in setting rates to achieve break-even operating results no later than the third year of operation and for earning the authorized rate of return in the fifth year of operation. RUCO believes that other parties (e.g., RUCO, Staff, Hearing Officers, Commissioners, developers, prospective customers, and others) may have valuable input into the growth projections. RUCO does not support this condition because it has the affect of forfeiting RUCO's statutory rights and shirking RUCO's obligation to residential ratepayers to intervene in proceedings that affect rates. Adoption of this condition would lessen the leverage of other parties to encourage proper sizing and economic design of backbone plant and fails to take into consideration other relevant factors such as the number of potential customers. Also, implementing this condition would neither ensure nor even necessarily improve the likelihood that the target third and fifth year operating results would be achieved.

4) Another suggested condition for issuance of a CC&N is that the recipient be in complete compliance with Arizona Department of Environmental Quality (ADEQ) requirements. Complete compliance with ADEQ requirement is a desirable goal. However, it may be preferable to establish a lesser standard that allows some latitude. For example, a water company in complete compliance

could acquire a company in non-compliance resulting in a circumstance that the acquiring company is no longer in compliance and, accordingly, not eligible for the new CC&N. In this instance, the proposed condition provides an undesirable result. Also, a large company with many systems is statistically more likely to have a violation that a smaller company. The proposed condition, therefore, discriminates against large companies and is counter-productive in the effort to reduce the number of small, non-viable companies. RUCO is also concerned that this condition would place ADEQ in an unduly powerful position whereby ADEQ would have a greater influence than the Commission in selecting the companies that operate in new service territories. A more constructive method/model for classifying non-compliance items and eliminating unfit water companies from consideration as new CC&N applicants is needed.

5) Staff has suggested that standard fees be established for service charges (e.g., establishment, late payment, non-sufficient funds check, reconnection, re-establishment, etc.). Although the costs to provide customer services will vary by location, RUCO sees no significant impediment to establishing a standard methodology for establishing initial service charges in CC&N proceedings provided that RUCO is included in the process to establish the initial charges and any subsequent changes to those charges.

6) The Staff proposes the implementation of extensive rules pertaining to revenues and rates. The proposal is to establish standard, minimum monthly customer charges and commodity rates. The Commission Staff would recommend approval of the higher of the standard or company proposed rates. Under this proposal there would be no consideration as to whether rates were excessive. This plan justifies dismissing the possibility that rates may be excessive for three reasons. First, the probability of the company over-earning is small. Second, Staff would recommend an unspecified time-frame for the company to file a rate case. Third, there are no customers when the rates are established.

7) This proposal ignores the potential negative consequences of excessive initial rates. For example, customers may be driven away. Potential customers that would have preferred buying homes and beginning businesses in the service territory may select alternate locations. Taken to an extreme, a CC&N could be used to postpone growth in the service territory by charging excessive rates. A CC&N holder with the objective of limiting growth could prevent a developer from building in the service territory by

charging grossly excessive rates that no reasonable customer would pay. Also, the cost of service varies significantly by location. No single standard rates will prevent all new water companies from charging inadequate rates. New company's can benefit by the input from Commission Staff, RUCO, and other intervenors in setting rates. Prospective customers will also benefit from the input of multiple parties in developing a probable on-going level for rates in a new water system.

8) Establishing standard, minimum monthly customer charges and commodity rates does not ensure a proper balance of revenue from each. A company could choose the minimum monthly customer charges and select commodity rates far in excess of the minimum resulting in an unstable revenue base. Without an analysis of a company's projected underlying costs, the appropriate balance for a given company is unknown. Also, if a company were to choose an inappropriate balance for its initial rates, an unnecessarily large change in the rate structure may be warranted in a future rate case. Avoidance of large changes in rate structure is one of the fundamental goals of rate design. Thus, it is important that initial rates be set appropriately. In addition, the proposed minimum rates fail to address other issues including conservation objectives, the high cost of CAP water, and special customer demands, such as those of a prospective industrial user. The scrutiny provided by Staff, RUCO, developers, and hearing officers is valuable in forming appropriate initial rates and should not be discarded. Furthermore, providing water companies with full initial rate setting discretion is certain to be ill received by the public and public criticism would bring embarrassment to the Commission and RUCO even if real problems did not exist with is proposal.

RUCO, Staff & Industry proposal -

Encourage and create incentives for the consolidation for existing water companies

RUCO position on the concept -

RUCO believes consolidation of small water systems by larger well run companies would be in the public interest. RUCO is also aware that absent regulatory incentives, larger companies will not purchase smaller troubled water companies. It is important, however, that the incentives offered are appropriate, i.e. are not open to abuse, and are not offered in those situations were they are unnecessary to encourage the transaction. In other words, any incentive offered must be limited to transactions that would not occur except for the incentive. This effectively means incentives

should be limited too small (Class D & E) non-viable water companies.

PRO-

1) Encouraging the purchase of small non-viable water companies through regulatory incentives will provide the customers of those small systems with more reliable and better quality service. It will also ease the regulatory burden associated with numerous small systems.

2) If properly designed, incentives can remain in the control of the Commission while at the same time facilitating acquisitions and upgrading of small problem systems that would not otherwise occur, absent the incentive.

CON -

1) It is important that any incentive offered remains within the Commission's control. This objective would preclude the use of an acquisition premium (rate recovery of the purchase price in excess of book value) as a potential regulatory incentive. An acquisition adjustment would allow buyers and sellers of utility property to dictate the magnitude of the incentive through the buying and selling price. The higher the selling price, the greater the windfall profit to both buyer and seller, with captive ratepayers footing the bill.

2) Staff has developed a proposed set of criteria a utility would have to meet to qualify for an acquisition premium. While this criteria may ultimately be effective in preventing some of the dangers of allowing acquisition premiums, from a practical stand point would entail additional regulatory oversight, analysis, and create further demands on utilities as well as regulatory agencies. This is in conflict with the task force's stated goal of shorting and streamlining the regulatory process. This is an important point to keep in mind in examining any of the regulatory reforms proposed by the various parties to the task force. It is important that the vehicles and mechanisms we consider in our goal of regulatory reform don't further complicate and encumber an already burdensome process.

ISSUE NO. 2 - STRENGTHEN THE FINANCIAL CAPABILITY OF THE WATER INDUSTRY

Industry and Staff Proposal -

Distribution infrastructure replacement cost recovery mechanism

RUCO position on concept -

Such a mechanism, if properly designed, has the potential to promote the upgrading of deteriorating water systems, without harmful or biased rate impacts on customers.

PRO - 1) Would help facilitate the upgrading of aging water systems.
2) If designed after the Pennsylvania mechanism, would not allow utilities to recover investment prior to its used and usefulness.

CON-

1) Would allow the utility to circumvent regulatory lag that is unfavorable to the utility, but would not mitigate regulatory lag that is unfavorable to ratepayers. Potential matching/bias problem if not properly designed.
2) As proposed by Staff, this mechanism would pre-fund unidentified improvements, that were not known and measurable, nor used and useful, by creating a generic fund. This proposal is subject to too many unknowns and has a potential for numerous problems that are harmful to ratepayers. A mechanism as proposed by the industry that would mitigate the regulatory lag by recognizing certain plant improvements in rates, yet still require the improvements to be completed and in service prior to rate recognition would provide much more protection to ratepayers.

Industry proposal -

Expand utilization of pass through mechanism (Senate Bill 1252)

RUCO position on the concept -

Under the Industry proposal, utilities would be encouraged to avail themselves of the automatic pass-through provisions of Senate Bill 1252, by ensuring that the Commission only look at cost increases and not cost decreases. This is unacceptable and extremely biased against ratepayers.

PRO -

1) *none*

CON -

1) Will allow utilities to raise rates outside of a rate case for those costs that have increased yet would not recognize cost decreases. Highly biased against ratepayers.

Industry proposal -

Lower depreciation rates for small utilities and correct prior damage of too high depreciation rates

RUCO position concept -

RUCO agrees that depreciation rates that reflect the actual life of utility plant should be used instead of the generic 5% historically used by Staff for small utilities. We disagree however, that the rate bases of utilities that were subject to the 5% rate in the past should be retroactively restated to reflect actual lives.

PRO - 1) none

CON -

1) Under the Industry proposal, utilities that had already recovered their plant investment over 20 years through the 5% depreciation rate, would be allowed to reinstate a portion of the plant that had already been paid for by ratepayers and to collect it again from ratepayers. Regulation must provide for the opportunity to recover utility investment, but must not provide for double recoveries.

2) The Industry takes the position that if in any prior year a utility did not recover its depreciation expense (i.e. experienced an operating loss) then it should not be required to reflect the depreciation of its plant in its reserve account. This is contrary to ratemaking principles that allow an opportunity to earn a rate of return but not a guarantee. Further, there are a myriad of reasons why a utility experiences an operating loss. In order to implement a policy such as suggested by the Industry, ACC Staff would have to engage in post-mortem audits on utilities with operating losses to determine if retroactive recovery of expenses were appropriate. Such post-mortem rate reviews not only would further encumber the regulatory process, but also would result in a retroactive ratemaking system. Retroactive ratemaking is inconsistent with regulatory principles that offer an opportunity to earn a fair rate of return - not a guarantee.

Staff proposal -

Automatic rate changes

RUCO position on the concept -

RUCO believes automatic rate changes tied to the Consumer Price Index (CPI) is biased against ratepayers, and is not a concept that should be pursued.

PRO -

1) none

CON - 1) Staff's proposal to allow Class C, D & E utilities to carte blanche raise their rates based on a CPI inflation factor is highly biased against ratepayers and will result in annual rate increases without a finding of fair value. Staff's proposal would assume generic across-the-board expense increases, and would ignore the very real fact that costs also decrease. It would also allow utilities to raise rates without examining the mitigating offsets such as customer growth, consumption growth, and depreciation of the rate base.

Industry proposal -

Use of future or prospective test years

RUCO position on the concept -

RUCO strongly opposes the use of future (projected or prospective) test years. There are numerous problems with use of such test years. These include the setting of rates based on estimates that are not known and measurable, inclusion of plant in rates that is not used and useful, and violations of the matching concept when certain rate elements are projected or estimated and others are not. An historical test year inherently matches revenues, expenses, and investment, contains known and measurable data. The numerous problems and biases that result from the use of projected data far outweigh any potential benefit that could be derived from abandoning a historical test year.

PRO -

1) none

CON -

1) Projections and estimates forming the basis of permanent rates.
2) Mismatch of rate elements.
3) Inclusion of non-used and useful plant in rate base
4) Revenues, expenses, and investment are unauditable because these items are nothing more than estimates or projections.

Staff proposal -

Generic Hook-up fees

RUCO position on the concept -

RUCO agrees that working toward a recognized methodology for the use of hook-up fees is a desirable objective. Comments from

the water task force members on this issue were limited and more discussion on this topic is needed before proceeding with a recommendation to the Commission to initiate rule-making procedures.

PRO -

1) Free up time and resources currently expended on individual hook-up fee applications

2) Establish a consist rule or policy for all water utilities

CON -

1) Care must be used to ensure that the specific details of the generic hook-up fees do not create any undesirable or unanticipated impacts.

ISSUE NO. 3 - SIMPLIFYING, SHORTENING, AND REDUCING THE COST OF THE RATEMAKING PROCESS

Industry and Staff proposal -

Electronic filing of applications with ACC

RUCO position on the concept -

RUCO agrees with the concept of electronic filing

PRO -

1) Simplify and reduce the cost of rate filings

CON -

1) Feasibility dependant on ACC current technology and resources

Staff proposal -

Generic rate of return for all Arizona water companies

RUCO position on the concept -

The concept has merit and would simplify one aspect of a rate case - rate of return

PRO - 1) Rate of return is typically a resource intensive portion of a rate case, and predetermining the rate would certainly simplify and shorten this portion of a rate case.

CON - 1) Rate of return for larger utilities is a highly material item. Further, rate of return, particularly cost of equity, is dependant on more than the current economic and financial environment. The individual characteristics of a utility effect rate of return (i.e. capital structure). For these reasons a "one-size-fits-all rate of return"

would most likely not be appropriate for larger utilities. RUCO believes generic rates of return should be used only for Class C or smaller utilities.

ISSUE # 4 - IMPROVE CUSTOMER EDUCATION

Industry and RUCO proposal -

ACC Web site, ACC water seminars across the state, continue publishing water news

RUCO position on the concept -

RUCO believes all of these proposals would be in the public interest

PRO -

1) Promote customer awareness, and deliver the information necessary for resolving problems.

CON -

1) The ACC, as a state agency with a finite appropriation, may not have resources available for these items. May require additional appropriation.

Industry proposal -

Utility newsletters, utility "Customer Service Reference Guide"

RUCO position on the concept -

RUCO supports the Industry's proposal to participate in the customer education process.

PRO -

1) Create customer awareness, and promote good relations with community in which the utility operates.

CON -

1) Is subject to the availability of spare utility resources, which for small utilities in particular may not be possible.

Industry and Staff proposal -

RUCO publication that explains the basics of ratemaking and informs customers of their various options in participating in the ratemaking process.

RUCO position concept -

Such a publication would be in the public interest

PRO -

1) Promote ratepayer awareness
2) Free up time currently expended in individually responding to customer inquiries regarding the ratemaking process and customer rights.

CON - 1) RUCO's current appropriation does not contain funding for such a project. Additional appropriation would be necessary.

Staff proposal -

Company specific Main Extension Agreements (MXA)

RUCO position on the concept -

RUCO believes the proposal to set up MXAs in the form of a tariff for each water company has merit.

PRO -

1) Will eliminate the redundancy of approval of each individual agreement a utility enters into with developers and customers.

CON - 1) As with other regulatory reform proposals, care will need to be taken to ensure that the final rule on MXA's will not create any new regulatory problems or have any unanticipated adverse impacts on customers.

ISSUE # 5 - INCREASE INTERAGENCY COORDINATION

Industry and Staff position -

Neither Staff nor the Industry took a position on this issue in their original comments. Consequently RUCO has no reply.

OTHER ISSUES

The Staff in its filed comments has set forth some issues, which were not identified by the task force as goals for regulatory reform. Nevertheless our response is discussed below:

Staff proposal -

Generic rate design

RUCO position concept -

In RUCO's opinion, the water task force has failed to identify any suggestions pertaining to rate design that are worthy of additional rule-making consideration. Comments regarding rate design made by members of the task force to this point fail to capture the essence, purpose, importance, and complexity of rate design; are unsound and supportable; and generate a plethora of inequities, new problems, and unanswered questions.

PRO -

none

CON -

1) There is no credible study that demonstrates that inverted tier rate designs inherently promote conservation. For regulated utilities, where there is a target revenue requirement, the notion that an inverted tier rate structure automatically encourages a reduction in consumption is contrary to economic theory. There is no study that supports the underlying assumption that the elasticity of water is greater for large users than smaller users. Even if the consumption characteristics of some water company could be shown to be consistent with the assumption that elasticity is directly proportional to usage, it is not a universal truth that should be applied to all water systems.

2) The widely recognized primary purpose of rate design is to align rates with the cost of service. Even where conservation is a major consideration, the relationship between price and cost of service generally remains the primary purpose of rates. Education and water audits are generally recognized as significant factors of conservation programs. There is no basis for using rate design as the primary conservation mechanism.

3) The recommendation to use revenue from the "highest tier" to provide more than the approved rate of return is wrought with problems and ambiguities. How is "over-earning" defined? Who would assess the amount of the over-earnings? How would the over-earnings be treated, e.g., as a contribution? How would the over-earning be treated for tax treatment? Does this over-earnings essentially guarantee the authorized rate of return? If so, should the reduced risk be reflected as by a lower rate of return? Would failure to over-earn be given special treatment? Is the cost and effort for Staff, RUCO, and utilities to have audits conducted of the highest tier revenues justified by any benefits gained from this methodology? Is the suggestion to require utilities to file rate cases at least once every five years really necessary?

4) Rate design is one of the most important aspects of setting rates for public service corporations. A customer whose rates are excessive due to improper rate design is no less harmed than when a utility is allowed an excessive rate of return. The only rate design proposal presented by members of the task force would, apparently, allow both of these transgressions. This would be incompetent and derelict, and it is simply unacceptable. Ratepayers deserve properly designed rates. Due to the complex nature of rate design and the many varying circumstances of water system - it is unlikely that any scripted methodology for designing rates would be appropriate.

WATER SUPPLY SUBCOMMITTEE

The Water Supply Subcommittee was charged with discussing issues of long-term water supply for water utilities under the jurisdiction of the Arizona Corporation Commission ("Commission"). The Subcommittee quickly narrowed the issue to the potential recovery of Central Arizona Project ("CAP") costs by water utilities.

ISSUE:

Under what circumstances should CAP expenses be recovered by water utilities?

Staff proposal:
CAP costs should be recovered on an interim basis once a company has a plan approved by the Commission to use CAP water within five years of the approval of the plan.

Arizona Department of Water Resources:
DWR takes Staff's suggestion noted above and suggests that capital charges for the entire allocation should be recoverable immediately if the provider develops a plan that demonstrates certain criteria.

RUCO Proposal:
As RUCO adheres to the used and useful ratemaking principle, each utility must be using CAP water before such costs may be recovered. "Using" CAP water is not limited to the water flowing through the utilities' pipes, but by the use of groundwater replenishment, water exchange agreements, etc. RUCO's position in the recent Paradise Valley Water Company ("Paradise Valley") rate case (Decision No. 61831) recommended approval of Paradise Valley's use of a water exchange agreement with Salt River Project.

RUCO also recently filed testimony in the application of Citizens Utilities' Sun City Water Company and the Sun City West Utilities Company for approval of a CAP

utilization plan and for an accounting order on deferred charges and the annual ongoing costs of CAP water. RUCO recommends approval of the companies' interim plan to deliver its entire CAP allocation to the Maricopa Water District groundwater saving project ("MWD"). For every acre foot of groundwater not pumped by the farmers in the MWD, Sun City and Sun City West will be able to draw water from wells to meet existing demand in their respective service territories. RUCO also recommends the recovery of the deferred CAP charges and the annual ongoing costs of the CAP water.

Other water companies should look to such utilities to determine whether a similar mechanism may be appropriate in order to "use" their CAP allocations. Until a water company has a CAP water usage plan implemented with CAP water "used", the costs of CAP water should be borne by the utility and not by ratepayers.

PRO:
Ideally, water utilities should already have been planning how to use their CAP allocations. Such plans should facilitate the use of CAP water so that ratepayers see a concrete benefit and the groundwater policies of Arizona are furthered. Perhaps utilities that have not begun planning how to use their CAP allocations will begin to do so.

CON:
The CAP water is not benefiting ratepayers when the CAP water is not being used, whether by actual use by the utility, by a water exchange agreement or by groundwater replenishment. Utilities should have been planning how to use their CAP allocations as a part of their business plans. A utility should not recover costs based on an idea about how to potentially use their CAP allocation in the future. As many intervening events may occur before a utility actually begins to "use" its allocation, it is too speculative and hypothetical to burden ratepayers with a CAP charge when they will not receive benefits for a number of years, if ever. There are a few recent examples where water utilities have implemented the "use" of their CAP allocations through exchanges and ground water saving projects. Other water utilities should look to those companies to determine what the best options are to "use" their CAP allocations.

Ralph Kennedy

From: Mary Ippolito [MAI@util.cc.state.az.us]
Sent: Friday, June 08, 2001 7:10 AM
To: slrossi@adwr.state.az.us; joefalbo@aol.com; rslynchaty@aol.com; mcortez@azruco.com; rkennedy@azwater.com; rth@brookeutilities.com; caneal@cap-az.com; Devinti Williams; mike@communitywater.com; klamson@czn.com; rayjones@czn.com; jthomson@qwest.net; kvolpe@qwest.net; wmcjohn@qwest.net; Gordon Fox; Steven Olea; Sonn Ahlbrecht
Subject: Fwd: CAP POLICY

Categories: Mail With Attachment

CAP POLICY

CAP Working Group,

Attached is my first cut at what I believe we agreed to at the last meeting. Please review what I have written and e-mail me any comments, suggestions, revisions, etc. I apologize for taking so long, but things have been a little crazy. Thank you for all your help and ideas.

Steve Olea

Mary Ippolito
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EXHIBIT
A-37
admitted

PROPOSED ARIZONA CORPORATION COMMISSION POLICY
FOR DEALING WITH
CENTRAL ARIZONA PROJECT (CAP) COSTS
Developed by the CAP Working Group

The consensus of the CAP Working Group is that the Arizona Corporation Commission (Commission) should encourage water companies to retain their Central Arizona Project (CAP) water allocation. The purpose is to allow water companies to accomplish long term planning of their water resource needs for the benefit of their customers. The consensus of the group was that the Commission should accomplish this encouragement as follows:

1. A water company would be allowed to recover CAP costs if it could demonstrate that it needed the CAP allocation to properly serve its customers.

2. The water company must demonstrate that the need would occur by the year 2025.

3. The water company must demonstrate that it will actually be using a reasonable amount of its CAP allocation by 2025.

4. The water company must demonstrate that it will be using all of its CAP allocation by 2034.

5. "Use" will be those methods of using CAP water that are defined as "use" by the Arizona Department of Water Resources.

6. In order to obtain cost recovery, a water company must file a rate case and provide evidence demonstrating items 1 though 4 above.

7. At the time that cost recovery is approved for a water company, cost recovery will depend on how much of company's CAP allocation is actually being used –
   a. If none of the CAP allocation is actually being used, the company will be allowed to recover dollar for dollar its CAP expenses, i.e., no rate of return. The cost recovery will be split between a charge in the commodity portion of the rate and a CAP Hook-up Fee. The charge in the commodity will be that amount needed to pay the M&I portion of the expense for that amount of CAP water equal to the amount of groundwater actually being used by the current customers. The CAP Hook-up Fee will be calculated as that portion need to pay the remainder of the M&I charges. This is similar to the method used in the Vail Water Company rate case (Decision No. 62450). If the CAP Hook-up Fee is determined by the Commission to have to be excessive in order to recover all the CAP costs, the remainder should be deferred and collected later

as the company grows and adds additional customers and/or the rate of growth increases to allow the collection of additional CAP Hook-up Fees.

b. If only a portion of the CAP allotment is being used, cost recovery will be split. For that portion of the CAP allotment not being used, cost recovery will be allowed as explained above (#7a). For that portion of the CAP allotment actually being used, cost recovery will be as with any other used and useful item in a rate case, i.e., the plant needed will be included in rate base and earn a rate of return, while the M&I and OM&R expenses for that portion of the CAP allotment will be recovered as any other expense.

c. When all the CAP allotment is being used, cost recovery will be as described in the second half above (#7b), i.e., just like any other plant and expense item that is used and useful.

d. For those water companies that have not obtained a specific accounting order from the Commission that details how CAP costs incurred up to this time would be treated and meet items 1 through 4 above, those incurred costs should be allowed to be recovered by some method determined in a rate case, as long as such an allowance is not somehow improper (e.g., retroactive rate making, contrary to some mandatory accounting principle, etc.).

8. Within 5 years of obtaining approval for cost recovery of the CAP costs, the water company must submit a detailed engineering plan outlining how the water will be put to use.

9. If by 2034 a water company that has obtained cost recovery from the Commission is not using its total CAP allotment, that portion not being used will be sold and monies refunded back to the ratepayers in a manner to be determined by the Commission at that time.

ARIZONA WATER COMPANY

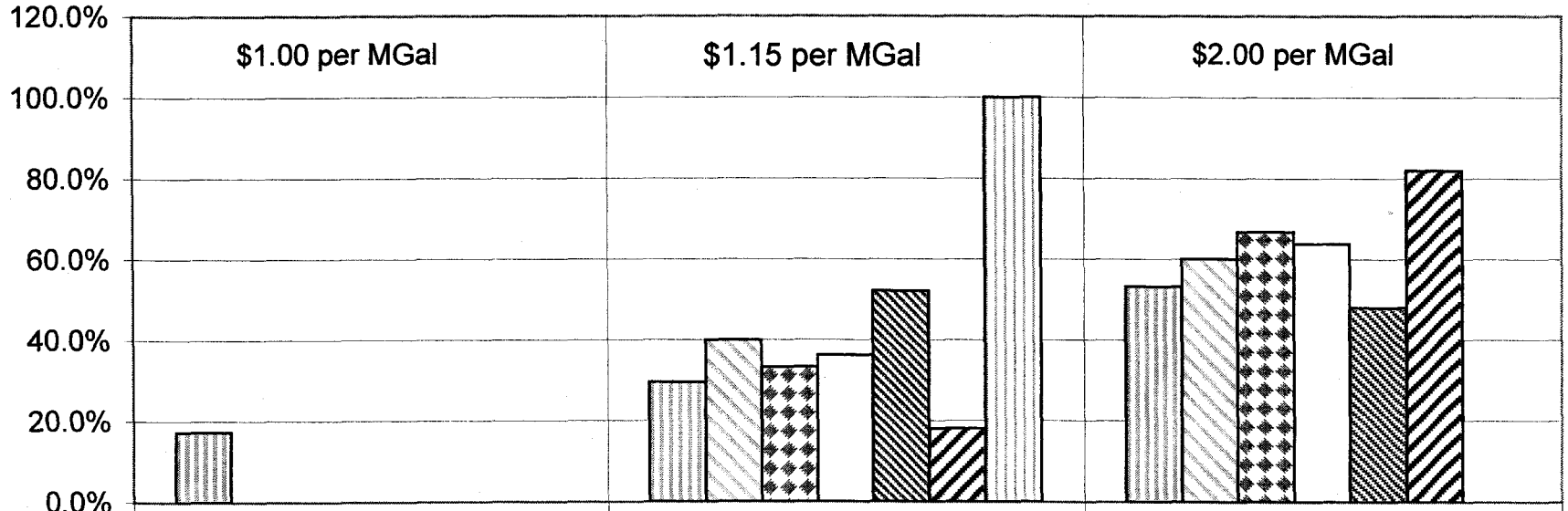
Comparison of Staff Meter Rates

	5/8" x 3/4"	1"	2"	3"	4"	6"	8"	10"
Casa Grande	10.50	25.00	70.00	125.00	240.00	375.00	600.00	837.19
Stanfield	15.00	43.00	133.00	220.51	286.45	335.79	625.36	837.19
White Tank	17.50	36.00	90.00	200.00	286.45	335.70	625.36	837.19
Ajo	21.00	52.00	170.00	220.51	286.45	335.79	625.36	837.19
Coolidge	10.00	21.00	79.00	140.00	220.00	600.00	625.36	837.19

PENGAD-Bayonne, N.J.
EXHIBIT
A-38
admitted

start.xls:RJK 6/22/2005

Percent of Revenue In Each Tier By Meter Size
Casa Grande



	1st Block	2nd Block	3rd Block
5/8" x 3/4"	17.2%	29.6%	53.2%
1"	0.0%	39.9%	60.1%
2"	0.0%	33.2%	66.8%
3"	0.0%	36.2%	63.8%
4"	0.0%	52.1%	47.9%
6"	0.0%	18.0%	82.0%
8"	0.0%	100.0%	0.0%

EXHIBIT
A-39
admitted
PENGAD-Bayonne, N.J.

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman
JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
MIKE GLEASON
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR WATER UTILITY SERVICE	)	DOCKET NO. W-01445A-02-0619

DIRECT

TESTIMONY

OF

JOHN S. THORNTON, JR.

CHIEF, FINANCIAL & REGULATORY ANALYSIS SECTION

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

JULY 8, 2003

EXHIBIT
A-40
admitted

tier is derived for each system depending on the system revenue requirement and rate design considerations. Mr. Ludders addresses revenue requirements and rates for the systems.

THE FIRST TIER – THE LIFELINE RATE

Q. What principle does Staff recommend for developing the first tier for the Eastern Group?

A. Staff recommends a lifeline rate; a rate that has a lower rate than the system's average commodity cost and that covers a minimum amount of gallons. The lifeline rate concept is appropriate for water pricing because it is the only utility commodity that is necessary for life and is actually ingested by consumers. The lifeline rate can provide affordable and available minimum amounts of water to a consumer. Staff recommends that the lifeline rate be set at an approximate twenty (20) percent discount to the second tier rate. Staff recommends that the first tier apply to the first three thousand gallons of consumption per customer.

Q. How did Staff choose the three thousand gallon break for the first tier?

A. Staff considered a number of factors, including the Arizona Department of Environmental Quality engineering standard for the minimum level of consumption: one hundred gallons per day per consumer. The three-thousand gallon break provides a minimum amount of water for one consumer per month given an average of about thirty days in any given month.

MARGINAL COST PRICING, REGULATION, AND ECONOMIC EFFICIENCY

Q. Has marginal cost pricing been used in setting utility rates in the United States?

Summary of AWC's Legal Bills Submitted in Response to RUCO Data Request No. REL 6-7, 1st Supplement and Additional Bills Provided June 17, 2005

EXHIBIT
CCG-1
admitted

Legal Matter	Law Firm File Number	1999 Fees	2000 Fees	2001 Fees	2002 Fees	2003 Fees	2004 Fees	Total Fees
Condemnation State Court Proceeding: CV99046814	110700	$195,951.13	$97,016.07	$21,885.92	-$500.00	$0.00	$0.00	**$314,353.12**
Effluent Federal Court Proceeding: CIV-00354-PHX-PGR	116051	$0.00	$83,243.61	$58,858.99	$12,958.32	$0.00	$0.00	$155,060.92
Effluent ACC Proceeding: W 01445A-00-0391	117987	$0.00	$22,909.09	$11,080.68	$310.80	$0.00	$0.00	$34,300.57
Effluent State Court Proceeding: CV-2000-022448	121957	$0.00	$0.00	$105,497.91	$106,017.56	$55,221.85	$0.00	$266,737.32
						Total Effluent Legal Fees:		**$456,098.81**
Date	**Other Charges**		**Amount**					
6/13/2001	Groundwater Model		$1,335.00		Amount ~~Fees~~ Claimed:	$824,324.00		
7/17/2001	Groundwater Model		$13,490.00					
7/16/2001	Landiscor, Inc		$470.00					
7/10/2001	Landiscor, Inc		$506.45					
8/30/2001	Depar. Water Resources		$1,000.00					
8/31/2001	Color Copies		$25.81					
9/13/2001	Groundwater Model		$14,177.58					
12/13/2001	Northern Group Rate Case		$8,113.33					
3/22/2002	File 115587		$1,287.60					
5/1/2002	Groundwater Model		$2,342.53					
	Franchise/CCN Issue		$13,183.20					
	TOTAL:		**$55,931.50**					

Summary of AWC's Legal Bills to File Number 110700
(Source: AWC's Response to RUCO Data Request No. REL 6-7, 1st Supplement and additional legal bills provided June 17, 2005)

Date	Fees
1/25/2000	9028.68
2/23/2000	14526.05
3/22/2000	880.6
4/28/2000	11227.54
5/24/2000	25304.23
6/27/2000	6480.86
7/28/2000	6809.33
8/21/2000	4010.69
9/28/2000	663.45
10/27/2000	8932.26
11/27/2000	1203.05
12/20/2000	7949.33
1/29/2001	8037.41
2/26/2001	5366.72
3/29/2001	6767.91
4/27/2001	914.75
5/29/2001	799.13
7/8/1999	34249.52
7/28/1999	32102.01
8/24/1999	31344.91
9/21/1999	31853.13
10/22/1999	29791.9
11/24/1999	15669.43
12/29/1999	20940.23

Summary of AWC's Legal Bills to File Number 116051
(Source: AWC's Responsee to RUCO Data Request No. REL 6-7, 1st Supplement)

Date	Fees
3/22/2000	24646.25
4/28/2000	24737.8
5/24/2000	15440.46
5/9/2000	1298.15
6/27/2000	7152.87
7/28/2000	224.53
9/28/2000	1219.8
10/27/2000	350
11/27/2000	7364.75
12/20/2000	809
1/29/2001	11035.17
2/26/2001	10320.61
3/29/2001	359.4
4/27/2001	809.6
5/29/2001	4600.74
6/22/2001	10330.72
7/23/2001	3205.61
8/23/2001	15616.18
9/26/2001	2580.96
4/29/2002	12115.34
5/31/2002	842.98

Summary of AWC's Legal Bills to File Number 117987
(Source: AWC's Response to RUCO Data Request No. REL 6-7, 1st Supplement)

Date	Fees
7/28/2000	7627.2
8/21/2000	3508.59
9/28/2000	8105.62
10/27/2000	553
11/27/2000	2019.27
12/20/2000	1095.41
1/29/2001	943.5
3/29/2001	744.7
4/27/2001	767.87
5/29/2001	1370.5
6/22/2001	3797.61
7/23/2001	192.5
9/26/2001	3126.5
11/30/2001	137.5
6/29/2002	310.8

Summary of AWC's Legal Bills to File Number 121957
(Source: AWC's Response to RUCO Data Request No. REL 6-7, 1st Supplement)

Date	Fees
1/29/2001	8296
2/26/2001	928.1
3/29/2001	2974
4/27/2001	3012.2
5/29/2001	9942.85
6/22/2001	3290.79
7/23/2001	5438.26
8/23/2001	8471.68
9/26/2001	5531.9
10/26/2001	4146.45
11/30/2001	8564.94
12/28/2001	44900.74
1/22/2002	15107.19
2/28/2002	15675.98
3/22/2002	20766.44
4/29/2002	225.2
5/31/2002	8347.13
6/29/2002	1176.73
7/31/2002	14420.31
8/30/2002	5351.4
9/30/2002	11075.4
10/30/2002	4389
11/26/2002	1248.54
12/30/2002	8234.24
1/27/2003	6698.83
3/31/2003	536.76
4/28/2003	15153.73
5/15/2003	5732.9
6/26/2003	345.6
7/31/2003	5003
8/29/2003	278
10/28/2003	17956.15
11/26/2003	3516.88

Summary of AWC's Legal Bills to File Number 129441
(Source: AWC's Response to RUCO Data Request No. REL 6-7, 1st Supplement)

Date	Fees
3/31/2003	12045
4/28/2003	186
12/20/2003	518.2
1/31/2004	434

BEFORE THE ARIZONA CORPORATION COMMISSION

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

EXHIBIT
CCG-2
admitted

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS	)	DOCKET NO. W-01445A-04-0650

SURREBUTTAL TESTIMONY

OF

EDWARD F. HARVEY

ON BEHALF

OF

THE CITY OF CASA GRANDE

MAY 25, 2005

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I. INTRODUCTION AND PURPOSE OF TESTIMONY

Q. PLEASE STATE YOUR NAME AND ADDRESS

A. My name is Edward F. Harvey. My business address is 600 South Cherry Street, Suite 220, Denver, Colorado 80246.

Q. ARE YOU THE SAME EDWARD F. HARVEY THAT PREVIOUSLY PROVIDED DIRECT TESTIMONY IN THIS MATTER?

A. Yes I am.

Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY AND THE REBUTTAL TESTIMONY FILED BY THE OTHER PARTIES TO THIS PROCEEDING?

A. I have reviewed the direct testimony of the Arizona Corporation Commission (Commission or Staff) and Residential Utility Consumer Office (RUCO) witnesses. I have also reviewed the rebuttal testimony of the Arizona Water Company (Company) witnesses.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to certain issues raised in the rebuttal testimony of the Company, and the direct testimony offered by Staff and the RUCO witnesses.

II. CENTRAL ARIZONA PROJECT M&I DEFERRED CAPITAL PAYMENTS

Q. DO YOU AGREE WITH THE COMPANY REBUTTAL TESTIMONY REGARDING THE COST RECOVERY OF DEFERRED CAPITAL PAYMENTS OF CENTRAL ARIZONA PROJECT (CAP) M & I WATER?

A. No, I do not. Because Casa Grande's unused allocation of CAP water has not been used by current customers, deferred CAP M&I costs associated with that allocation should not be paid by current customers. The City of Casa Grande recommends that the Commission reject the Company's proposed 10-year amortization of the deferred CAP charges and its request for rate base treatment of those expenses. Further, until the Company has prepared a water resource plan and coordinated with

the City of Casa Grande in preparing and implementing that plan, any request by the Company for recovery of deferred CAP M&I water expenses should be denied.

Q. THE COMPANY HAS TESTIFIED THAT IT MEETS THE CAP COST RECOVERY CRITERIA AS ARTICULATED IN A PRIOR DECISION BY THE COMMISSION. DO YOU AGREE?

A. In its rebuttal testimony, the Company states that it has complied with the four criteria for CAP M&I expenses related to a previous Commission order (although not directly ordered by the Commission itself):

1. The CAP allocation is needed to properly serve its customers.
2. Such need would occur by the year 2025.
3. Use of a reasonable amount of its allocation must occur by 2025.
4. All of the allocation must be used by 2034.

Regardless of whether or not the above four criteria represent Commission policy, the Company has not met these criteria. We have no proof that CAP is really needed, by what date and by whom. The Company has only offered representations that it needs the water and by when. Further, no justification or detailed explanation of its engineering plans has been offered.

The Company has not prepared and submitted a complete water resource plan and a complete water master plan justifying its infrastructure development plans. The water resource plan is a study commonly employed by municipal water providers that provides an objective evaluation of the present and future water resource alternatives and compares those with carefully developed water demand projections. This comparison, along with costs, leads to a plan for water resource deployment. The water master plan spells out the costs for developing the infrastructure to support the water resource plan. These studies are reviewed in an open forum so that the ratepayers and affected communities can scrutinize the assumptions to build support for the plan they will eventually fund. This type of planning effort is typical for municipal water providers and should be considered essential when they are faced with major capital outlays and considerable future growth, precisely the circumstances found in Casa Grande in 2005.

The prospect of a regional CAP treatment plant to serve Casa Grande and multiple communities, raised by a Company's witness in rebuttal, is an example of how not to accomplish such planning. Affected parties should have already been brought into the planning process so that assumptions are clear and those who will be served are not left guessing how this will work and why this is the best path. In fact, the arguments put forth by Staff and RUCO for denying CAP capital cost recovery stem from the inadequate, non-inclusive planning process which the Company has followed.

Without such studies, the Company cannot establish that it has met any of the four criteria that it has articulated as necessary preconditions to CAP cost recovery. As part of the discovery process in this case, the Company responded to the City of Casa Grande that it had not performed these studies. Without this planning effort, the Company should not receive any CAP M&I cost recovery for the unused portion of the CAP allocation.

Q. DO YOU AGREE WITH THE COMPANY THAT WATER RESOURCE PLANNING SHOULD NOT BE CONSIDERED IN THIS HEARING PROCESS?

A. I do not agree. The costs of arsenic treatment, according to scenarios prepared by the Company and offered during discovery, could raise Casa Grande rates by as much as 47%. Based upon exhibits offered by the Company in rebuttal, the CAP cost recovery plan proposed by the Company might raise rates by almost 8% *before* operation and maintenance costs and the new $20 million treatment plant are paid for. These two prospects alone will create major impacts on Casa Grande, but the City's only opportunity to raise questions, much less be involved in the planning process is through this rate proceeding. The Company now says that it lacks sufficient time to do such planning. The Company's refusal to plan in advance of this rate case proceeding cannot release the Company from its important obligation to prepare a thorough water resource plan. Indeed, this rate case may be the Commission's only opportunity to leverage compliance with a directive to complete a water resource plan.

Q. WHY DON'T YOU AGREE WITH THE COMPANY THAT THE UNUSED PORTION OF CASA GRANDE'S ALLOCATION OF CAP WATER BENEFITS EXISTING CUSTOMERS?

A. The existing Casa Grande customers are not required to stop using groundwater. As the Company witnesses state in their rebuttal testimony, the Pinal AMA does not mandate safe yield, nor does it require existing groundwater users to convert to surface water. Moreover, the deployment of CAP water will very likely be a financial disadvantage to existing Casa Grande customers. Groundwater is relatively less expensive than CAP water due to the difference in capital and operating costs as well as the higher treatment costs associated with CAP water.

The Company suggests that existing customers benefit because new subdivisions can claim a 100 year assured water supply, but this benefit accrues almost entirely to land developers and new customers within those developments. The past deployment of CAP water for non-potable users did not benefit existing customers who had alternatives; it allowed for eventual groundwater use by future customers. Clearly, the deployment of CAP in Casa Grande is intended to meet the *incremental* water needs of future customers.

The blending of CAP water is not a benefit to existing customers who must soon ante up substantial monies for arsenic treatment costs. The Company indicates in its rebuttal testimony that substituting CAP resources to relieve this problem is impractical.

Q. WHAT SIGNIFICANCE DOES THAT FACT HAVE IN THIS CASE?

A. The existing Casa Grande customers would be subsidizing the future water users if they paid any deferred CAP capital costs. Like many cities today, the City of Casa Grande has a policy that growth must pay its own way.

Q. CAN YOU SUMMARIZE YOUR OPINION AND RECOMMENDATIONS REGARDING CAP WATER AND RELATED CHARGES?

A. My opinion is that the unused CAP water does not meet the used and useful test as described by Staff and RUCO in their direct testimony. Further, the Company needs to initiate a proper, inclusive water planning process in Casa Grande which

culminates in a deployment plan for CAP and other water resources. Following acceptance of that plan, the Company should propose a capital cost recovery plan focusing on new users in the form of a hook-up or water resource fee. These monies should be gathered and used to pay-off deferred CAP capital costs on a pass-through basis without Company enrichment.

Q. DO YOU SUPPORT STAFF RECOMMENDATIONS REGARDING THE REVISIONS TO THE NP-260 RATE SCHEDULE?

A. Yes, I do.

III. ARSENIC COST RECOVERY

Q. ARE YOU SATISFIED THAT THE COMPANY HAS DONE ENOUGH TO SEEK FINANCIAL ASSISTANCE WITH THE ARSENIC RECOVERY EFFORT CONTEMPLATED FOR CASA GRANDE?

A. No, I am not. According to the Company's rebuttal testimony, they had one meeting with the Water Infrastructure Finance Authority (WIFA) and performed an internet search. This one meeting and modest search project likely amounted to less than a day's effort versus a looming $12 million expenditure facing Casa Grande. The Company has no incentive to help reduce these costs, and its effort demonstrates that.

Q. CAN YOU CITE A SPECIFIC INSTANCE WHERE THE COMPANY'S APPROACH TO OBTAINING FINANCIAL SUPPORT IS LACKING?

A. The difficulty expressed by the Company in meeting the WIFA requirements is a good example. The Company says that WIFA is not designed for a multiple system utility, and that it could not comply with the requirements. If asked by the Company, the City of Casa Grande could take the lead role here and could attempt to secure support for the project in a public-private partnership. The Company's insular approach will result in unnecessarily higher costs to Casa Grande ratepayers; a more cooperative effort is in the best interest of Casa Grande water users.

IV. RISKS FACING ARIZONA WATER COMPANY

Q. THE COMPANY CONTINUES TO MAINTAIN THAT IT FACES SPECIAL RISKS WHICH WARRANT AN UPWARD ADUSTMENT IN ITS RATE OF RETURN. DO YOU AGREE?

A. No, I do not. First, the inverted rate block structure cannot be viewed as undue risk since so many water utilities rely on this approach. About one third of the utilities listed in the WIFA database employ inverted block rate structures. Second, the contention that comparable utilities do not face the same risks is misleading; comparable utilities likely have their own special risks. Comparability in this instance is weak given the differences between water companies, and any comparison is difficult to establish with a privately held company. Third, there is no basis for presuming that the magnitude of the risks cited by the Company rise to the attention of the investment community. Based on discovery, no investment analyst or financial institution has examined the Company since 1993. No major buyer or seller of company stock has stepped forward in that period, either.

V. PURCHASED POWER/WATER ADJUSTMENTS

Q. THE COMPANY MAINTAINS THAT IT IS ENTITLED TO A PURCHASED POWER AND PURCHASED WATER ADJUSTMENT BECAUSE THOSE ITEMS ARE OUT OF ITS CONTROL. DO YOU AGREE?

A. No, I do not. For a cost to be out of the Company's control, that would suggest that there are no alternatives, that there is one and only one supplier or resource and the potential for great price fluctuation. The Company has not proven that this is the case. For example, if water can be obtained from several sources, the price paid by the Company is not completely out of its control.

Q. DO YOU AGREE WITH STAFF'S POSITION ON THIS MATTER?

A. Yes.

VI. RATE DESIGN

Q. ARE THE COMPANY'S ARGUMENTS CONCERNING INVERTED BLOCK RATE STRUCTURES INCONSISTENT?

A. Yes, they are. The Company maintains in its direct and rebuttal testimony that there is insufficient evidence that inverted rate structures conserve water. At the same time, the Company says that the price elasticity of water will result in an unstable revenue structure. Belief in price elasticity is contrary to a belief that inverted rate structures do not result in conservation.

Q. WHAT DOES IT TELL YOU ABOUT THE COMPANY'S POSITION ON RATE DESIGN WHEN THERE IS NO COST OF SERVICE STUDY?

A. The Company's complaints about Staff and RUCO proposals should carry no weight. First, the Company proposed a rate design with essentially no basis, deaf to conservation incentives, and fraught with inequity. Now in rebuttal, it accuses Staff and RUCO of a failure to fully support their alternative rate designs. The Company has no foundation to weigh-in further on this issue.

Q. WHAT ARE THE IMPLICATIONS OF THE ABSENCE OF A COST OF SERVICE STUDY?

A. I share the Company's newfound concern about a lack of a cost of service study. The implications of this are that an overall cost of capital might be determined in this case, but without a proper basis for implementing it by customer type, by meter size and by rate block, the rate increase should not be implemented, regardless of need.

Q. WHAT IS YOUR OPINION ABOUT THE COMPANY'S CALCULATION OF ELASTICITY FOR THE EASTERN GROUP?

A. I believe the Company's calculation is flawed. A year to year comparison must reflect adjustments for all factors which influence demand, not the least of which is weather, to isolate the rate structure effect. A one year comparison is also insufficient. Because the Company's calculation does not identify and control multiple factors over a term of years, it is not useful in this instance.

Q. HAVE YOU REVIEWED THE COMPANY'S EXHIBIT WITH RESPECT TO THE ELASTICITY ASSUMPTION?

A. Yes, I have. Price elasticity is much more complicated that simply assigning a number, *a priori*, to a real world circumstance. Past studies, including the one cited by the Company, point to a wide range of elasticity results. This reflects the fact that the exact circumstances surrounding the price change by a water utility determines demand response. For example, how big is the price change? How high is the base price? What are the socioeconomic conditions of the ratepayers? The Company's position on this issue is speculative.

VII. REIMBURSEMENT OF LEGAL EXPENSES

Q. WERE YOU SURPRISED BY THE COMPANY'S POSITION AND ATTITUDE REGARDING ITS EFFORT TO OBTAIN REIMBURSEMENT FOR PAST LEGAL MATTERS PERTAINING TO THE CITY OF CASA GRANDE?

A. Yes, I was quite surprised by the characterization, or rather the damnation, of the City of Casa Grande in the language employed by the Company in its rebuttal testimony. The disparaging picture of the City is disrespectful to the City, its citizens and this rate process. Beyond the descriptive language, the Company suggests that it was the protector of the Casa Grande water customers in the face of efforts by the City that were contrary to the interests of its own citizens. Of course, there are two sides to this story, neither of which is relevant for purposes of evaluating the Company's rate application.

Q. WHAT IS THE MERIT OF THE COMPANY'S CLAIM FOR REIMBURSEMENT OF ITS LEGAL EXPENSES IN THE TWO CASA GRANDE CASES?

A. None. The Company was merely protecting its assets and business interests, as would any firm facing an outside threat. The legal expenditures were solely to benefit shareholders. The ratepayers received no clear benefit from these Company expenditures; it is at least arguable that the reverse is true. The theory the Company is applying here has a vindictive, punitive nature. Casa Grande must pay for questioning Arizona Water Company actions.

1 **Q. DO YOU AGREE WITH STAFF AND RUCO POSITIONS ON THIS MATTER?**
2 A. Yes, I do.
3
4 **Q. IS THIS THE PROPER FORUM FOR THE COMPANY TO PURSUE SUCH A**
5 **CLAIM?**
6 A. No, it is not.
7
8 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**
9 A. Yes, it does, although my silence on other matters does not indicate my agreement
10 with them, and I reiterate and reassert my direct testimony.
11

EXHIBIT
CCG-3
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS	)	DOCKET NO. W-01445A-04-0650

DIRECT TESTIMONY

OF

EDWARD F. HARVEY

ON BEHALF

OF

THE CITY OF CASA GRANDE

APRIL 20, 2005

Table of Contents

I. INTRODUCTION AND QUALIFICATIONS.....1
II. PURPOSE AND SCOPE OF TESTIMONY 2
III. CRITIQUE OF THE COMPANY'S RATE FILING 2

I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND ADDRESS

A. My name is Edward F. Harvey. My business address is 600 South Cherry Street, Suite 220, Denver, Colorado 80246.

Q. WHAT IS YOUR OCCUPATION AND WITH WHOM ARE YOU EMPLOYED?

A. I am an economist and the principal of Harvey Economics, a Denver-based economic research and consulting firm.

Q. WHAT IS YOUR PROFESSIONAL BACKGROUND AND TRAINING?

A. I have been an applied resource economist for thirty-two years. I was employed at BBC Research and Consulting from 1973 through 2001, where I established the natural resource economics practice and served as the firm's Managing Director from 1989 onward. I received a Bachelor or Arts in economics from the University of Denver and a Master of Science in business administration with an emphasis in economics from that same institution in 1973.

Q. WHAT SORT OF WORK DO YOU DO?

A. I perform economic, demographic, financial and market analyses related to water and other natural resources. Our clients, most of whom are in the western United States, are usually resource providers, state agencies and private developers. Typical assignments would include rate studies, valuation of resources, financial feasibility studies, conservation and other resource planning and economic impact analyses.

Q. WHAT OTHER QUALIFICATIONS DO YOU OFFER SPECIFIC TO THIS CASE?

A. I have performed consulting services for the Salt River Project, the City of Tucson, the Town of Carefree, Central Arizona Groundwater Replenishment District, the Town of Show Low and the Upper San Pedro Partnership. For the City of Casa Grande, I helped establish a value for a small water system purchase and I have consulted with the City on various water related financial matters since 2001.

Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION OR ANY OTHER ADMINISTRATIVE OR JUDICIAL BODY?

A. I have not testified before the Arizona Corporation Commission. I have testified before state trial courts in Arizona, Colorado, Wyoming and Montana, and the United States District Court for the District of Wyoming. I have also testified before administrative bodies, including the Kentucky Public Service Commission Siting Board, the Wyoming Water Development Commission, the Wyoming Industrial Siting Board, the Colorado Water Conservation Board, the Nebraska Water Resources Board and other state and local organizations. I have testified as an expert witness on water related economic and financial matters.

II. PURPOSE AND SCOPE OF TESTIMONY

Q. CAN YOU DESCRIBE THE SCOPE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. I have been retained by the City of Casa Grande to review and comment upon the Arizona Water Company (the "Company") filing for a water rate increase for its Western Group as set forth in its September 8, 2004 submittal under Docket No. W-01445A-04-0650. In my direct testimony, I will comment upon or critique different elements of the Company's rate filing, focusing upon assumptions and rate making procedures that the Company has put forward in its direct case.

III. CRITIQUE OF THE COMPANY'S RATE FILING

Q. WHAT NEW PERSPECTIVE CAN YOU AS A WITNESS FOR THE CITY OF CASA GRANDE BRING TO THIS RATE PROCEEDING?

A. Certainly, the Company has produced extensive testimony and information in support of its application for a rate increase. The ACC staff and RUCO will presumably scrutinize the Company's application and provide their own alternative analyses for the Commission and others to consider. However, it is the cities and the citizens themselves who will ultimately have to live with the water rate increases, the water resource management, and operating philosophies of the Company. As of the test year 2003, the residents and businesses located within the City of Casa Grande accounted for almost two-thirds of the Western Group customers, three-quarters of

the original cost rate base, and almost 81 percent of the adjusted operating revenue of the Western Group. About $2.3 million of the $3.1 million in additional water system revenues sought by the Company, and which are the subject of this proceeding, would be paid by City of Casa Grande residents and businesses.

Q. CAN YOU SITE A SPECIFIC INSTANCE WHERE THE INTERESTS OF CITY OF CASA GRANDE CUSTOMERS ARE NOT ADEQUATELY ADDRESSED IN THIS RATE PROCEEDING?

A. The first and simplest instance relates to the cost recovery plan for Central Arizona Project (CAP) M&I deferred capital payments. Based upon the presumption that CAP water is primarily intended to serve future customers, the incremental costs of CAP deferred M&I capital charges should be paid by those future customers. It is not fair that existing customers should subsidize future customers by paying for water costs that are not properly attributed to them.

There are several means of accomplishing this cost recovery in the context of this rate proceeding. The first alternative would be the cost recovery of CAP deferred capital costs through a surcharge to new customers' bills as those customers are added to the Casa Grande system, following the 2003 test year. Should this alternative be adopted, as it was in the Eastern Group rate case, the deferral amount might need to be amortized over a longer period than the ten years adopted in the Eastern Group case, perhaps 20 years. Should a 20 year period be used, the appropriate basis for amortizing the deferred M&I costs would be the projected number of Casa Grande customers through the year 2025, after Casa Grande's CAP allocation is consumed.

Another means for recovering CAP deferred capital costs would be to establish a water resource fee as a one-time, up-front capital cost to all new customers. I understand that this approach might be outside the purview of the ACC in this proceeding, but it is an approach the Company might consider taking.
Either approach would help protect existing customers, since payment of CAP capital costs by existing customers would violate the principal that growth should pay its own way in Casa Grande. The City of Casa Grande imposes impact fees, for

example, on new developments within the City. Treatment of new customers should be consistent.

Q. ARE THERE OTHER EXAMPLES WHERE YOU BELIEVE THE INTERESTS OF CASA GRANDE CUSTOMERS ARE BEING IGNORED?

A. Yes. I believe the Company should be committed to providing the City of Casa Grande and other customers in this case, the lowest cost, high quality water over the long term for the customers in its service area. This commitment should be demonstrated in this rate proceeding as an indispensable foundation to the charges the customers will face in the future. For example, the deployment of CAP water versus groundwater over time, the tactical plan and technical approach for removing arsenic, and the Company's decision to lease or purchase the arsenic treatment facilities are all essential precursors, in my mind, which lead to the rate increase proposals that are the subject of this proceeding. How the Company approaches each of those issues in the test year, today, and in the future will go a long way toward establishing the cost of water which the citizens of Casa Grande and others in the Western Group face.

Q. SPECIFICALLY, WHAT ARE YOU SUGGESTING?

A. At least for the City of Casa Grande, the Company should explain the strategy for using CAP water in the future and demonstrate why it is the lowest cost long-term strategy. Can CAP water, for example, be deployed in Casa Grande more quickly, avoiding a $12 million cost for arsenic abatement? A water resource plan is an essential foundation for the establishment of water rates because it establishes key assumptions leading to costs. I believe that a water resource plan demonstrating the lowest cost, long-term approach merits consideration in this proceeding.

Q. HAVE YOU REVIEWED THE ARSENIC COST RECOVERY MECHANISM DECISION IN THE NORTHERN GROUP CASE, AND DO YOU HAVE ANY OPINIONS ABOUT ITS APPLICABILITY TO THE CITY OF CASA GRANDE OR OTHER WESTERN GROUP CUSTOMERS?

A. Yes, I have reviewed the opinion and order regarding the arsenic cost recovery mechanism ("ACRM") in the earlier case. Unlike CAP water, which was obtained to serve future customers, the arsenic removal requirement benefits existing as well as

new customers, and, therefore, it is appropriate that an arsenic cost recovery mechanism be devised for all customers.

I have several concerns about the pursuit of grants and low interest loans or other public support for the arsenic treatment facilities. If the Company is able to reap any savings from grants, low interest loans, or a reduced cost repurchase of a demonstration facility in Sedona for instance, all of the customers served by the Company should participate in those savings. If the Company, for example, happens to pursue arsenic treatment for the Northern Group before the Western Group, it might get assistance there that would not be further extended to other Arizona Water Company systems. It is only fair to all of the Company customers that any savings be shared among those facing arsenic treatment costs.

Secondly, it is disappointing that a loan from the Water Infrastructure Finance Authority ("WIFA") could not be obtained. Is it possible that such low interest financing could be obtained if municipalities played a larger role?

I believe a much greater effort should be made to obtain low interest loans or grants and that any savings should be shared among the water systems which fall under the ACRM on a percent of total investment basis. The capital expenditure for arsenic treatment for the City of Casa Grande is a very substantial number, on the order of $12 million, and the City should have much more involvement in how this need is met on a cost effective basis, with the tactical plan sanctioned by this Commission.

Q. DOES IT CONCERN YOU THAT THE COMPANY DOES NOT KNOW YET WHETHER IT INTENDS TO LEASE OR OWN THE ARSENIC TREATMENT PLANTS?

A. Yes, it does. The ACRM, and therefore the position of the customers, remains in flux somewhat until the lease-versus-own decision is made. At a minimum, I believe the Company should be required to demonstrate that the decision of leasing versus owning the arsenic treatment plants will be made in the best long-term interest or lowest long-term cost for the customer.

Q. NOW LET US TURN TO THE RATE OF RETURN PROPOSED BY THE COMPANY. FIRST OF ALL, DID YOU DEVELOP YOUR OWN FINANCIAL MODELS FOR THIS CASE, SUCH AS DISCOUNTED CASH FLOW, AND IF YOU DID NOT, WHY NOT?

A. No, I did not prepare my own models for this direct testimony. I confined my direct testimony to an evaluation of the Company's proposed rate of return and its underlying and supporting information. I did not prepare my own models because I did not have sufficient data, nor any data in electronic form, in which to produce such a model. Further, I believe ACC Staff and RUCO will prepare such alternative models for me to review, so the effort to prepare yet another set of models might be unnecessary.

Q. WHAT IS YOUR OPINION ABOUT THE COMPANY'S CAPITALIZATION STRUCTURE AS PRESENTED FOR THE TEST YEAR?

A. I believe the Company needs to make a showing of why this capitalization structure is the most advantageous from the standpoint of the customer as well as for the Company. Short-term debt, a relatively low-cost source of funds, was $1.25 million in 2002 for the Western Group, but is not evident for the 2003 test year, which is the subject of this proceeding. On the other hand, common equity, the highest cost source of funds from the customers' standpoint, has increased almost 20 percent from 2001 to 2003.

The capitalization structure of the Company is obviously within the Company's control and more evidence is needed about how and why the Company arrived at this particular capitalization structure. Capitalization structure or breakdown goes a long way towards establishing the rate of return that might be approved by the Commission in this case. The Company's 2003 test year capitalization structure appears to offer the opportunity for a relatively high rate of return, which would produce large water rate increases for customers. Has a good-faith effort been expended, for instance, to refinance long-term debt or to reduce borrowing costs?

Q. HAVE YOU REVIEWED THE COMPANY'S TESTIMONY AND EXHIBITS WITH RESPECT TO THE RETURN ON EQUITY ASSUMPTION?

A. Yes, I have.

Q. CAN YOU DESCRIBE ANY ISSUES YOU HAVE WITH THE USE OF FORECASTING IN THE COMPANY'S CALCULATED RETURN ON EQUITY (ROE)?

A. Yes, I believe the Company's witness has over-relied upon projected stock market conditions, prices, merger and acquisition prospects influencing stock price, interest rate projections and other future considerations that are too speculative for a rate making decision by this Commission. It is common knowledge that stock prices are influenced day-to-day by many considerations and interest rate projections are highly speculative. The Company could be unfairly penalized or unjustly rewarded if the Commission were to rely upon such prospective and speculative forecasts. Further, such reliance upon prospective, speculative assumptions will lead inevitably to a battle of investment market prognosticators, a slippery slope without a definitive answer. I would suggest that the Commission adopt return on equity calculations which consider a minimum of forecasted information in arriving at a justifiable calculation. The Company's use of projected financial data is a step toward prospective rate setting. I believe the ACC's traditional process, based upon a demonstrative showing of historical costs and inadequate returns, is best since it allows all of the facts to be fully examined by the parties.

Q. IF THE COMMISSION WERE TO AGREE WITH YOU AND AVOID AN OVER-RELIANCE ON FINANCIAL MARKET FORECASTS, WHAT ARE THE IMPLICATIONS FOR THIS PROCEEDING?

A. This would suggest the adoption of an approach for calculating return on equity more similar to the Staff approach in the Northern and Eastern cases, as opposed to the Company's approach proposed in this Western Group case. A reliance on historical financial data will typically support the lower end of the ROE estimates produced by discounted cash flow models, regardless of whether they are generated by the Company or Commission Staff. It will also produce lower estimates from the risk premium approach by avoiding interest rate forecasts.

Q. DO YOU HAVE AN OPINION ABOUT THE RISK PREMIUM METHODS FOR ESTIMATING ROE?

A. Yes, conceptually the discounted cash flow models and the risk premium method can be useful approaches to estimating ROE, as long as historical data are used. In

the risk premium technique, I believe the reliance on historical 10-year Treasury returns is the correct risk-free benchmark.

The shortcoming to the risk premium calculations is the reliance on the return on equity experience of other water utilities. The myriad of factors that determine an acceptable return on equity for one water utility are unlikely to be repeated for others. The customer base is different, the regulatory environment is different, the water resource availability and water quality issues also differ. For example, a California water utility represents a very different equity investment opportunity than the Arizona Water Company. Debt structures alone will change the attractiveness of one water utility as an investment. The usefulness of comparables must be tempered or each utility in the sample needs to be adjusted for more direct comparability.

Q. IT SEEMS THAT YOU HAVE CRITICISMS FOR EACH COMPONENT OF THE RATE OF RETURN DERIVATION PROCESS. WHAT DO YOU RECOMMEND THAT THE COMMISSION DO UNDER THESE CIRCUMSTANCES?

A. Be conservative in the rate of return it awards the Company.

Q. DO YOU SUPPORT THE COMPANY'S ASSERTION THAT ITS RELATIVELY HIGH LEVEL OF UNCERTAINTY MERITS A HIGHER RATE OF RETURN THAN OTHER COMPARABLE WATER UTILITIES?

A. Absolutely not. First of all, the Company's size might be somewhat smaller than other companies, but it enjoys certain advantages as well. Notably the Company, and certainly the Western Group, has a growing base of customers, 4.5 percent as an annual average for Casa Grande from 1990 to 2003. The Company's risk is diversified by serving eighteen different water systems. Importantly, the Company's risk as perceived in the marketplace might actually be reduced as a result of this, as well as the previous Northern and Eastern rate proceedings, because a mechanism has been established for recovering CAP deferred M&I capital costs and recovering arsenic capital costs and certain O&M costs. The contention that the ACRM increases the Company's risks or uncertainties does not appear to make sense because the Company was instrumental in its creation. Regarding the purchased power adjustment mechanism and the purchased water adjustment mechanism, these factors do not appear to have been dominant cost considerations in the past.

Both mechanisms together produced only a net adjustment difference of $176,000 from 1993 to 2003. In sum, the uncertainties facing the Company are not demonstrably different from others in the industry and the uncertainties facing the Company will be reduced substantially with this and recent rate case decisions and orders. Two key sources of uncertainty facing the Company have already been resolved in the Northern and Eastern rate cases, and it is likely they will also be resolved in this one. In my opinion, the approved rate of return to come out of this proceeding should not be increased from the minimum levels estimated using the discounted cash flow, capital asset pricing, or risk premium method which will be utilized in this case. If anything, I believe there is a lower overall uncertainty facing the Company which might warrant a discount on the return on equity.

Q. DO YOU HAVE ANY OPINIONS ABOUT THE COMPANY'S PROPOSED RATE DESIGN?

A. Yes, I do.

Q. DO YOU BELIEVE THAT INVERTED BLOCK RATES CREATE UNDUE REVENUE UNCERTAINTY ON THE PART OF THE COMPANY'S WESTERN GROUP CUSTOMERS?

A. No, I do not. Inverted block rates are quite common throughout the water utility industry and they are widely accepted as an appropriate water resource management strategy. There is ample information regarding price elasticity for the Company to predict any reduction in water usage and associated revenue. In a location such as the City of Casa Grande, a rate structure other than inverted blocks would send the wrong message to present and future customers.

Q. WHAT ARE YOUR OPINIONS ABOUT THE PROPOSED WATER RATES BY METER SIZE FOR THE CITY OF CASA GRANDE?

A. The water rates by meter size proposed by the Company make no sense. For an unexplained and unjustified reason, the Company proposes to increase rates at a higher percentage for the smaller meter sizes. The Company's Exhibit H-2 suggests that in Casa Grande, the smallest meter size, 5/8 inch, will experience the highest percent rate increase, except for the 8 inch meter size. No rationale supports this. Regarding the proposed minimum charges, the Company's Exhibit H-3 would result

in an increase in charges of 25.7 percent for the 5/8 inch meter size, whereas the minimum charge for a 3 inch meter would increase by 57 percent in Casa Grande. Again, no rationale is offered to support this.

The Company's Exhibit H-4, the percentage changes in water bills, points to a regressive rate structure and, in fact, these rates offer an incentive not to conserve water. The Casa Grande customers who consume the least water are subject to the highest percent increases in their bills. This singles out the smaller lot owners, often older people on fixed incomes, for the higher rates. In contrast, those who use excessive amounts of water would face ever smaller increases in their bills.

As it stands, the Company's proposed water rate design has no validity. There has been no cost of service study by meter size or by volume of water sold, not to mention cost of service by customer type, so there is no basis in the Company's evidence submitted in this case to support its proposed rate design. A cost of service study by meter size and by volume of water sold should be offered as support for a rate design.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS WESTERN GROUP AND FOR CERTAIN RELATED APPROVALS	**DOCKET NO. W-01445A-04-0650** **NOTICE OF FILING TESTIMONY OF EDWARD F. HARVEY**

The City of Casa Grande hereby gives notice that the Direct Testimony of Edward F. Harvey is attached and has been filed this same date.

Dated this 20th day of April, 2005.

OSBORN MALEDON, P.A.

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EXHIBIT
CCG-4
admitted

SURPRISE
ARIZONA

City of Surprise
Water Resources Master Plan
Executive Summary

Revised
June 1, 2004

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Acronyms and Abbreviations

AAC	Arizona Administrative Code
AAW	Arizona American Water
ADEQ	Arizona Department of Environmental Quality
ADF	Average Daily Flow
ADWR	Arizona Department of Water Resources
AWWA	American Water Works Association
CAGRD	Central Arizona Groundwater Replenishment District
CAP	Central Arizona Project
CAWCD	Central Arizona Water Conservation District
DU	Dwelling Units
Gal	Gallons
GPAD	Gallons Per Acre Per Day
GPCD	Gallons Per Capita Per Day
GPD	Gallons Per Day
GPM	Gallons Per Minute
LF	Linear Feet
MAG	Maricopa Association of Governments
MG	Million Gallons
MGD	Million Gallons Per Day
MPA	Municipal Planning Area
MWD	Maricopa Water District
PPH	Persons Per House
psi	Pounds Per Square Inch
SPA	Special Planning Area

Glossary of Terms

Acre-foot (AF) A volume of water equal to 325,851 gallons.

Active Management Area (AMA) An area designated by ADWR to meet specific groundwater management goals.

Average Day Demand The average demand over a specific time period over which the average is calculated. For example, the annual water consumption divided by 365 days in a year.

Aquifer A geologic formation or soils that is sufficiently saturated to transmit or yield economic quantities of water to wells or springs.

Drinking Water Water that meets or exceeds all applicable federal, state, county, city, and local requirements concerning safety. Drinking water is also called potable water.

Groundwater The water contained in the aquifer.

Incidental Recharge The irrigation of landscape or crops which results in the secondary benefit of adding water to the aquifer.

Maximum Day Demand The maximum demand over a one-day period.

Numeric Model A computer program used to design and analyze water, reclaimed, or wastewater systems.

Peak Hour Demand The maximum demand over a one-hour period.

Recharge The application of water to the land surface for the specific purpose of adding water to the aquifer.

Reclaimed System Collectively, all property involved in the production, distribution, and treatment of reclaimed water, including land, water source, water lines, reservoirs, pumps, motors, hydraulic structures, and general properties.

Reclaimed Water Wastewater that has been treated and recovered for useful purposes.

Surface Water All water on the surface, as distinguished from subsurface water or groundwater.

Wastewater The used water from a community, customer, or individual.

Wastewater System Collectively, all property involved in the collection and treatment of wastewater, including land, sanitary sewer lines, treatment plants, pumps, motors, hydraulic structures, and general properties.

Water Provider A city, town, private water company, water co-operation, or public wholesaler responsible for the direct or indirect distribution of water to its customers.

Water System Collectively, all property involved in the production, distribution, and treatment of drinking water, including land, water source, water lines, reservoirs, pumps, motors, hydraulic structures, and general properties.

1.0 Introduction

The City of Surprise (City) has been experiencing rapid population growth. The City has estimated the 2002 population at 54,400 people. According to the City of Surprise General Plan 2020 (General Plan), the population is expected to increase to over 500,000 when the City reaches build-out. One of the key factors in sustaining growth within the City is to ensure that adequate water resources are available to meet current and future demands. In order to plan for future water demands, the City has contracted with RBF to assist the City in developing this Water Resources Master Plan.

To effectively plan for long-term water resources, it is important to understand the present and future water demands and the resources needed to meet those demands. This plan evaluates the City's future water demands and supplies over six distinct planning horizons. These horizons include 2002, 2005, 2010, 2015, 2020, and build out growth scenarios. The City's water demands were based on the projected population over the planning horizons for the City's water service area and planning area. The water resources currently available to the City were summarized. Then the water demand was compared to the available supplies over each planning horizon to determine if sufficient water resources were available. In addition, potentially available water resources were identified for future consideration.

2.0 Study Area

The area studied for this plan corresponds to the municipal planning area (MPA) defined in the General Plan. The MPA encompasses approximately 228 square miles. As described in the General Plan, the MPA was broken down into five smaller areas known as special planning areas (SPA). SPA1 is the planning area where the most growth is currently being experienced and where the existing water and wastewater infrastructure was analyzed. SPA2 through SPA5 are the future planning areas and were analyzed to determine the necessary water resources to satisfy the build-out infrastructure demands. It is important to note that the area studied as part of this master plan does not include the seventy-one square-mile expansion area recently added in a general plan amendment. The expansion area was not included due to the substantial completion of the master plan at the time the expansion area was proposed. The study boundaries and special planning areas are shown in Figure 1- Master Plan Study Area.

3.0 Arizona Water Law

In 1980, the State enacted the Arizona Groundwater Management Act (Act) to protect Arizona's groundwater resources. This Act and amendments to the Act since 1980 provide the framework for how the City may withdraw and use groundwater. All groundwater that is withdrawn from the aquifer must be replaced through recharge in

order to meet the State's groundwater management goals. Under certain conditions, groundwater may be withdrawn without the obligation to replace it and these conditions are described within the sections that discuss the different sources of water available to the City. In addition, State law specifies for what purposes groundwater can be used.

Groundwater use is further restricted by the Assured Water Supply (AWS) Rules adopted by the Director of the Arizona Department of Water Resources (ADWR) in 1995. The designation of having an assured water supply means that sufficient water of adequate quality will be continuously available to satisfy the needs of development for at least 100 years, consistent with the management plans and the achievement of the management goal for the Active Management Area (AMA). The City has been designated as having an AWS. The water resources that have been approved for the AWS are summarized in Table 1 - Assured Water Supply Approved Sources.

4.0 Water Demands

The population projections for this study play a key role in identifying the required water needs. The population projections were developed for six planning horizons. These planning horizons include:

- 2002 (Base Year)
- 2005
- 2010
- 2015
- 2020
- Build-out

The Community and Economic Development Department developed the population projections through 2020, while the build-out population projections were obtained from the General Plan. For the purposes of this analysis, an average water use of 152 gallons per capita per day (GPCD) was utilized. This factor represents the total residential and nonresidential water usage within the City's service area averaged over each resident served. The population and water demands for each of the planning horizons are shown in Table 2 -Water Demand Projections.

Within the City, there are twelve water providers (Table 3 – Water Providers with the General Plan). For the purposes of this study, it is assumed that the City of Surprise will acquire each water company when development in the area necessitates. This study assumes that the Arizona American Water Company (AAW) would continue to provide sufficient water to meet the demands of those users located within their service area. Therefore, the demands identified here are the demands projected for the City's service area and planning area and excludes the demands for the AAW service area. AAW's service area is shown in Figure 2 – Arizona-American Service Area.

5.0 Water Supply

The City has acquired entitlements to both groundwater and surface water supplies. A summary of the water supply that the City is entitled to is shown in Table 4 – Available Water Supply. The water resources are described below.

5.1 Irrigation Grandfathered Rights

One of the methods used to secure the right to withdraw groundwater is to extinguish irrigation grandfathered rights to groundwater through the application process established by ADWR. The City has extinguished irrigation grandfathered rights as development has replaced agriculture, and has therefore received a groundwater credit that they may utilize within their service area. The City currently holds 2,581.24 acre-feet of grandfathered right extinguishment credits. Although this volume of water has been identified as a legal source of groundwater for the City, it has not been included in the water resource analysis because it is available for use for one time only and is not a perpetual, renewable resource.

5.2 Incidental Recharge

ADWR has evaluated incidental recharge within the Phoenix AMA, and has determined that each water provider may claim 4% of the annual water delivered to its customers as incidental recharge. One of the sources of this incidental recharge is seepage of the water that is applied to irrigate landscape. While this is not a tangible source of water that can be managed, it gives the City the right to withdraw groundwater from the aquifer without having the obligation to replenish that amount.

5.3 Central Arizona Project (CAP) Water

The City has entered into contracts with the United States Bureau of Reclamation and the Central Arizona Water Conservation District (CAWCD) to secure the right to receive deliveries of water through the CAP. The City is currently entitled to 7,373 acre-feet/year of this water. The City is also participating in a reallocation process that is expected make an additional 2,876 acre-feet/year available to the City. This reallocation process is still ongoing and is expected to be complete around 2008. Additional water may become available to the municipal sector upon ratification of the Arizona Water Rights Settlement Act, which is currently being negotiated. Assuming that this amount of water will be allocated proportionally the same as the current reallocation process, the City could expect to receive an additional amount of water close to 4,200 acre-feet/year. Although the City does not currently receive CAP water, by contract, the City is still required to pay for the capital charges associated with the contracted amount of water.

5.4 Central Arizona Groundwater Replenishment District (CAGRD)

The City has entered into an agreement with the Central Arizona Replenishment District to recharge water on behalf of the City. The City's Assured Water Supply designation identifies up to 15,959 acre-feet/year of water. Due to the groundwater use laws administered by ADWR, groundwater that is withdrawn within the Phoenix AMA must be replenished back to the aquifer. While the City does recharge treated wastewater effluent to meet part of its replenishment obligation, the CAGRD is the mechanism by which the majority of the City's replenishment obligation is currently met. Thus, the CAGRD agreement allows the City to withdraw groundwater as a source of water. However, CAGRD water is relatively expensive.

5.5 Treated Wastewater Effluent

A renewable source of water that the City can utilize is its treated wastewater effluent. Two main options exist for using the reclaimed water sources within the City. The reclaimed water can be recharged back to the aquifer to meet the City's replenishment obligations or the water can be used directly to irrigate landscape. It is recommended that the effluent from the City's wastewater treatment plant be utilized to the fullest extent possible. The projected amount of treated effluent available from the City's wastewater service areas is outlined in Table 5 - Projected Quantities of Treated Effluent.

6.0 Demand and Water Supply Analysis

Ensuring an adequate water supply within the City of Surprise is one of the key factors for maintaining sustainable growth and allowing the City to achieve their development goals. As part of planning for the City's future water resources needs, an analysis was performed comparing the projected demands with the projected water supply. This comparison is necessary to determine if and when additional water supplies must be acquired and to analyze the use of different sources of water.

For this analysis, the projected water demands were compared with the combined water resource available to the City for each of the planning horizons. The results are summarized in Table 6 – Water Demand and Supply Comparison. These results are also displayed graphically in Figure 3 – Water Demand and Supply Comparison. As can be seen from Table 6 – Water Demand and Supply Comparison and the associated graph in Figure 3, the City has adequate water resources to meet the projected water demands for each of the planning horizons through buildout. At buildout, the analysis indicates that the City will have a slight surplus in its water supplies compared to the projected demands. The excess will be 797 acre-feet per year.

7.0 Water Resources Recommendations

Based on the results of the water demand and supply analysis, the currently identified sources of water available to the City will meet the projected demands through buildout. The excess water supply indicated by this analysis is slight and many of the assumptions used to determine both the demands and supplies are subject to change. In addition, the arena of water law and water availability is in a constant state of flux. Therefore, the City should revisit this analysis every 3-5 years to assess the most recent condition of the City's water resources.

7.1 Demand Assessment

The current water demand and supply analysis represents one of the worst-case scenarios. The demands assume that the City acquires all of the private water providers' service areas, except that of Arizona American Water, and the associated water use demands. However, the supplies that could come to the City from an acquisition of a water provider's service area have not been included in the available supplies to the City. Therefore, the current supplies may be a low estimate. The study should be performed again if development occurs at a different population density than that presented and used in the General Plan.

7.2 CAP Allocation Assessment

CAP water can be utilized through either a recharge and recovery program or by direct use after treatment to bring the water to drinking water standards. Facilities need to be constructed in order to utilize CAP water. The capital expenditure considerations with using CAP water needs to be evaluated compared to the cost of other sources of water. Since the CAP water is needed as a supply to meet the City's demands, it is recommended that infrastructure be developed to allow use of the CAP water. CAP water is a necessary component to the City's overall water resource portfolio due to its accessibility within the City and because it is a renewable resource.

The two additional reallocations of CAP water are still under consideration. The first reallocation that is expected to provide 2,876 acre-feet per year is estimated to be complete in 2008. This first reallocation has minimal risk of change. The second reallocation has a higher possibility of providing a different amount of water than what was estimated due to possible changes in the reallocation process or changes in the applicants' water needs, which affects the reallocation process. In addition, this second reallocation of water may not be available by 2008 due to additional regulatory requirements imposed on this reallocation. The City will remain involved with CAP proceedings and reallocation processes to constantly assess the impact to the City's water resources.

7.3 Reclaimed Water

One renewable resource that will play a critical role in allowing the City to meet its water demands is the utilization of the treated wastewater effluent. This water can be used either through a direct reuse program or a recharge and recovery program. Under the Arizona Department of Environmental Quality (ADEQ) requirements, any effluent that is recharged into the ground must be of Class B quality or better. Class A effluent would be required if the City desired to directly reuse the effluent to irrigate City parks. The analysis of the City's water resources indicates that the combined water supplies available to the City will meet the projected demands. This assumes that a significant amount of treated effluent will be utilized, especially by Buildout. Therefore it is important that the planned reclaimed water system is developed as proposed in this Plan.

7.4 Water Conservation

A water conservation program can be an effective tool to help extend available water resources. According to studies performed by the EPA, residential water use in the home can be reduced by 15 to 20% without major discomfort to the homeowner. Both the City and residents will benefit from the implementation of a water conservation program with a decreased demand to meet for the City and lower payment for water services for the residents.

The foundation of most water conservation programs is its public education component. While some water conservation measures can be physically implemented into the plumbing system, many conservation methods require changes to personal habits. Lasting changes usually occur over long periods of time and require consistent messages to promote these changes. Another reason that public education is especially important for the City is that many of our residents have relocated to the City from various other climates. The Southwest desert is an extreme environment and many people are not familiar with the types of vegetation that will survive in this type of climate. Considering that over 60% of residential water demand is typically used to water landscaping, education about desert-adapted plants and efficient watering practices is one of the best methods to achieve water conservation. It is recommended that the education component be maintained at the core of the City's water conservation program with expansion of the public outreach to provide new and different ways to conserve water, but with a consistent purpose.

The City is also expanding into other components of water conservation. Technology is constantly providing new devices that can be used to conserve water, such as dual-flush toilets, low-flow showerheads, hot water recirculating systems, and realistic-looking artificial turf, to name but a few. With so many options available, the City has begun to evaluate programs to promote the use of certain devices through incentives, to require water conservation measures through City ordinance, and other methods that would further develop the water conservation program. It is important to evaluate these different options to determine how the most water can be conserved for the least program cost. It is recommended that this evaluation continue to determine the most efficient and

effective water conservation measures. Once these are identified, they should be implemented according to a work plan that identifies the associated costs.

7.5 Maricopa Water District

A portion of the City of Surprise is located within the boundaries of the Maricopa Water District (MWD). While the Arizona-American Water Company service area encompasses the majority of the MWD area, approximately two and a half sections are located within the City's planning area. At the present time the City of Surprise does not have any type of water allocation from MWD. However, they are currently negotiating with MWD for a surface water allocation for the land within the MWD service area. While a potential allocation from MWD is not included within this analysis, it is an important resource to evaluate more closely in the future.

7.6 Lease Water

An additional option for increasing the City's water resources is to evaluate the feasibility of leasing water to meet the projected demands. There are various requirements and limitations in utilizing water leased from an Indian tribe when the water is considered as part of the City's AWS. Leased water can be lower in price than some of the other sources of water that are available. Due to the cost of the CAGRD water and its projected usage at build-out, it is recommended that the City further evaluate any opportunities that may be possible to lease water.

7.7 Groundwater Wells

In order to identify areas potentially favorable for locating a well, a hydrogeologic study was performed in SPA2 – SPA5. Utilizing the results of the hydrogeologic study, a well site prioritization matrix was developed, which outlines the potential favorable and unfavorable locations throughout the City for locating new wells. It is important that the City evaluates these conditions to locate high water quality production wells. The recommendation is to collect long-term data on these existing, identified wells to determine the potential yields from the aquifer and the water quality in the aquifer.

7.8 Assured Water Supply Designation

Under the rules set forth by the state of Arizona, a water provider must have an assured water supply designation of sufficient quantity to meet the current and projected demands of their service area. It is recommended that the City apply to amend their designation as new water resources are acquired. By amending the designation to include new water resources, the City will be able to help ensure continued growth and development within the municipal planning area.

Table 1 - Assured Water Supply Approved Sources

Source (acre-feet/year)	1999	2010
Grandfathered Rights	6.22	6.22
Incidental Recharge	183	785
Groundwater (CAGRD)	3,291	15,959
Effluent	1,972	3,584
Total	**5,452**	**20,334**

Table 2 -Water Demand Projections

Year	Total for City		Arizona American		Surprise Service Area
	Population	Demand (ac-ft/year)	Population	Demand (ac-ft/year)	Demand (ac-ft/year)
Current	54,416	9,265	31,314	5,332	3,933
2005	81,006	13,792	43,406	7,390	6,402
2010	124,537	21,204	61,514	10,473	10,730
2015	167,193	28,467	79,100	13,468	14,999
2020	213,951	36,428	88,533	15,074	21,354
Build-out	517,607	88,129	111,346	18,958	69,171

Table 3 - Water Providers within Surprise Municipal Planning Area

Water Providers
Arizona America Water
Beardsley Water Company
Brook/Circle City
Chaparral Water
El Mirage, City of
Morristown
Puesta Del Sol Water
Saguaro Acres
Saguaro View
Sun City Water
Surprise, City of
West End Water Company

Table 4 – Available Water Supply

Source	2002	2005	2010	2015	2020	Buildout
Incidental Recharge	183	256	429	600	854	2,767
CAP	7,373	7,373	7,373	7,373	7,373	7,373
1st CAP Reallocation	-	-	2,876	2,876	2,876	2,876
2nd CAP Reallocation	-	-	4,206	4,206	4,206	4,206
CAGRD	15,959	15,959	15,959	15,959	15,959	15,959
Effluent	3,000	3,955	8,928	11,986	15,338	36,787
Total Water Supply	26,515	27,543	39,771	43,000	46,606	69,968

Table 5 - Projected Quantities of Treated Effluent

	2002	2005	2010	2015	2020	Buildout
Effluent (Acre-feet)	3,901	5,807	8,928	11,986	15,338	36,787

Table 6 – Water Demand and Supply Analysis

acre-feet / year	2002	2005	2010	2015	2020	Buildout
Supplies						
Incidental Recharge	183	256	429	600	854	2,767
Existing CAP	7,373	7,373	7,373	7,373	7,373	7,373
1st CAP Reallocation			2,876	2,876	2,876	2,876
2nd CAP Reallocation			4,206	4,206	4,206	4,206
CAGRD	15,959	15,959	15,959	15,959	15,959	15,959
Effluent	3,000	3,955	8,928	11,986	15,338	36,787
Total Water Supply	26,515	27,543	39,771	43,000	46,606	69,968
Water Demand	3,933	6,402	10,730	14,999	21,354	69,171
Excess	22,582	21,141	29,041	28,001	25,252	797

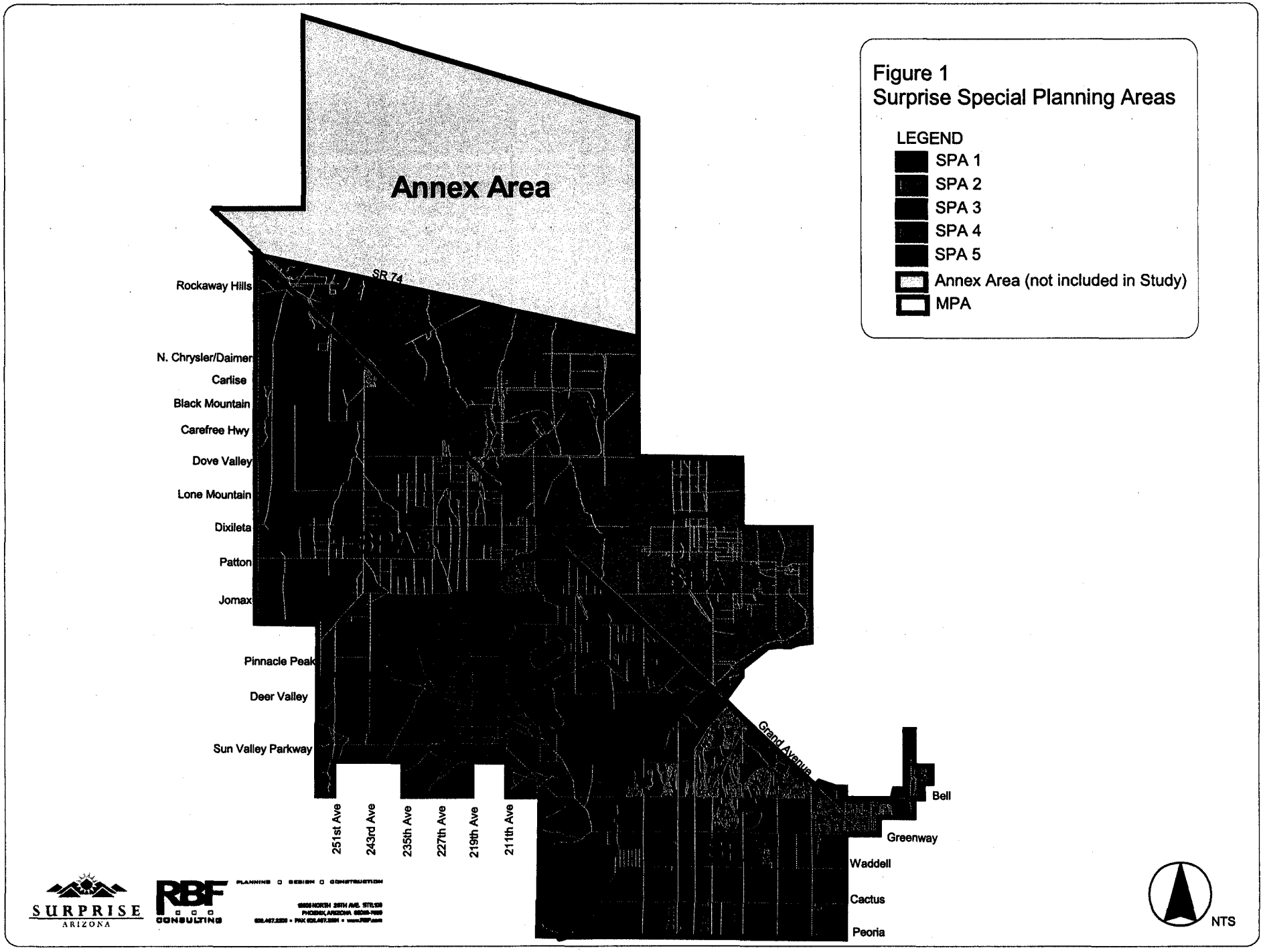


Figure 1
Surprise Special Planning Areas
LEGEND
SPA 1
SPA 2
SPA 3
SPA 4
SPA 5
Annex Area (not included in Study)
MPA
Annex Area
SR 74
Rockaway Hills
N. Chrysler/Daimer
Carlise
Black Mountain
Carefree Hwy
Dove Valley
Lone Mountain
Dixileta
Patton
Jomax
Pinnacle Peak
Deer Valley
Sun Valley Parkway
251st Ave
243rd Ave
235th Ave
227th Ave
219th Ave
211th Ave
Grand Avenue
Bell
Greenway
Waddell
Cactus
Peoria
NTS
SURPRISE
ARIZONA
RBF
CONSULTING

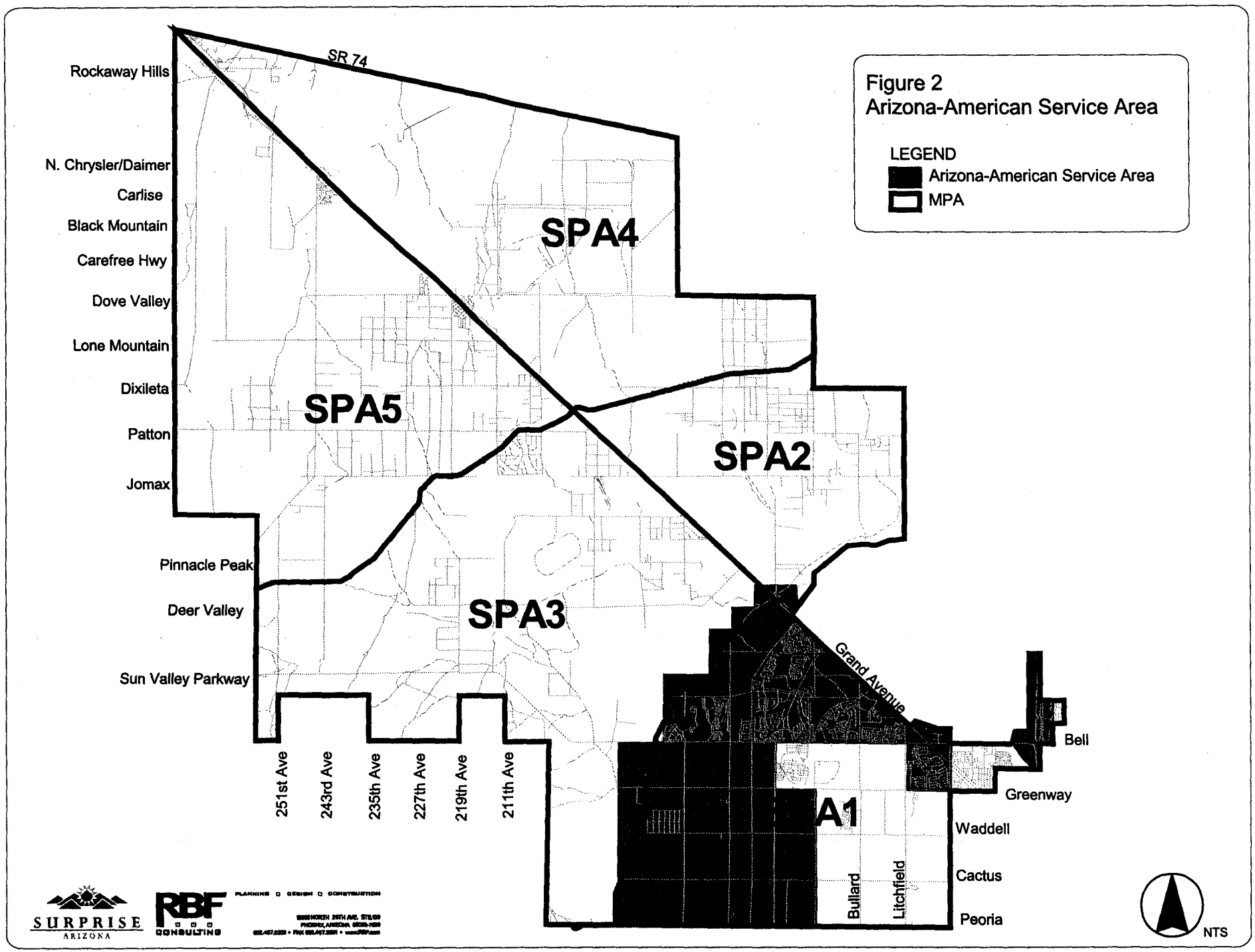
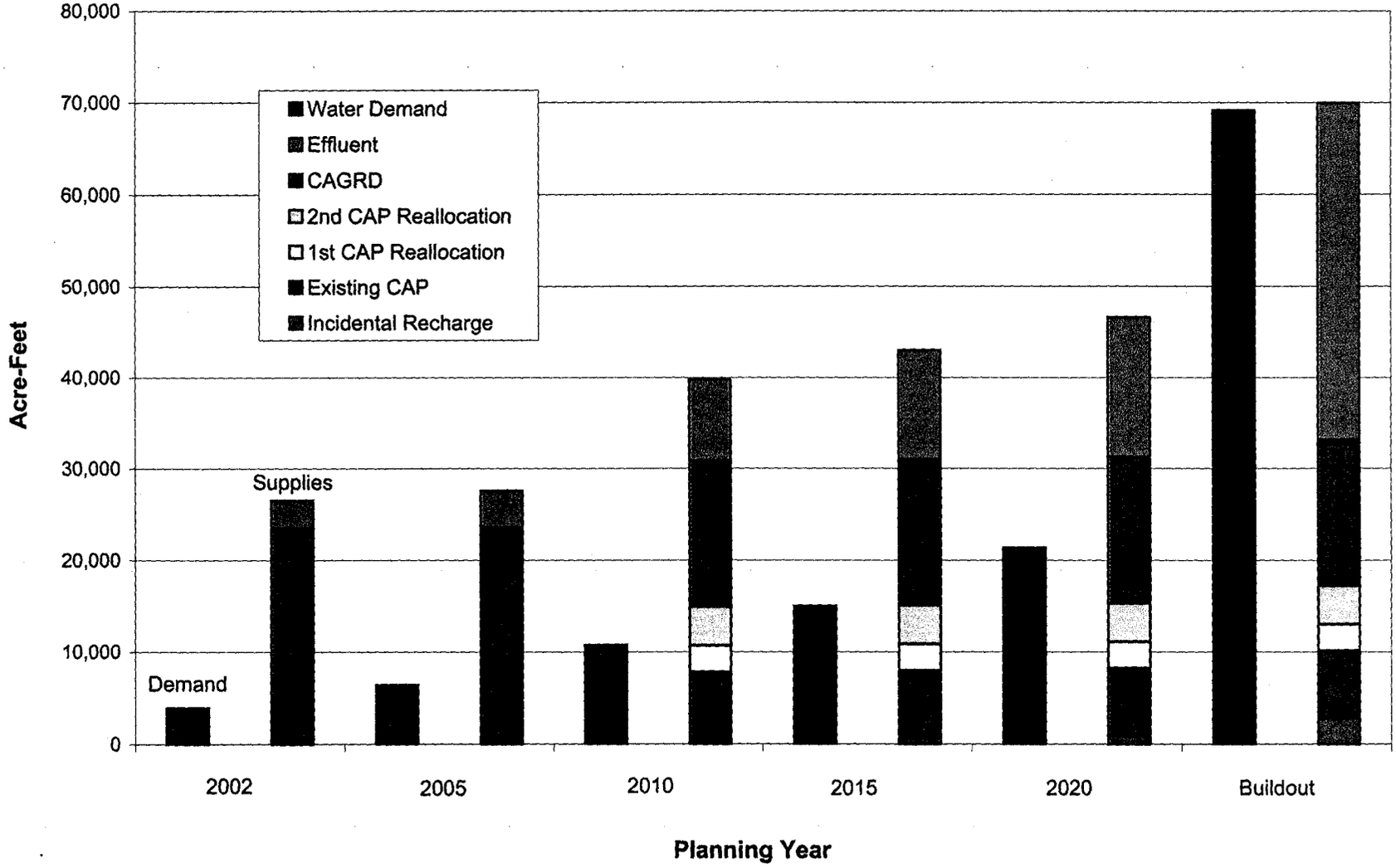


Figure 2
Arizona-American Service Area
LEGEND
Arizona-American Service Area
MPA
SR 74
Rockaway Hills
N. Chrysler/Daimer
Carlise
Black Mountain
Carefree Hwy
Dove Valley
Lone Mountain
Dixileta
Patton
Jomax
Pinnacle Peak
Deer Valley
Sun Valley Parkway
SPA4
SPA5
SPA2
SPA3
A1
Grand Avenue
Bell
Greenway
Waddell
Cactus
Peoria
Bullard
Litchfield
251st Ave
243rd Ave
235th Ave
227th Ave
219th Ave
211th Ave
NTS
SURPRISE
ARIZONA
RBF
CONSULTING

Figure 3 - Water Demand and Supply Analysis



March 2002

EXHIBIT
tabbies
OCG-5
admitted

FINAL

Water Resources Master Plan
City of Avondale

Registered Professional Engineer (Civil)
CERTIFICATE NO.
35265
MICHAEL A.
WORLTON
Date Signed 7/12/02
ARIZONA, U.S.A.

Prepared by:

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Executive Summary

E.1 Authorization

The City of Avondale, Arizona authorized RBF Consulting to complete a Water Resources Master Plan in order to identify the current status of the City's water resources, as well as improvements that will increase the future water supply.

E.2 Purpose of Plan

In order to assure a consistent and long-term water supply, the City of Avondale has commissioned the development of this Water Resources Master Plan. The purpose of this study is to develop strategies for acquiring and managing the City's long-term water resources needs. This will allow the City to ensure orderly, sustainable, and cost effective long-term development. This Water Resources Master Plan will identify long-range strategies to better anticipate future water requirements and ensure that water will be legally and physically available to meet the City's future demands.

E.3 Water Law

Being located in the desert southwest, the state of Arizona has enacted many laws in order to better regulate the state's water resources. These laws affect how the City of Avondale may acquire and use water supplies to meet the needs of its citizens. The 1980 Arizona Groundwater Management Act and amendments to the Act since 1980 (collectively, the "Groundwater Management Act" or "Act"), provide the framework for how the City may withdraw and use groundwater. Groundwater use is further restricted by the Assured Water Supply Rules adopted by the Director of the Arizona Department of Water Resources in 1995.

An assured water supply (AWS) means that sufficient water of adequate quality will be continuously available to satisfy the needs of the development for at least 100 years, consistent with the management plans of the active management area (AMA). The City of Avondale received this designation on August 16, 1999. In order to meet the AWS designation the City is claiming CAP and SRP surface water, and groundwater. A breakdown of the quantities of water that have been approved in the AWS for each of the City's resources is listed in Table E.1, AWS Approved Amounts. The recommendations set forth in this master plan have been selected to maintain the City's AWS designation.

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Table E.1 AWS Approved Amounts

Source	Amount (AFY)
SRP water	8,463
CAP water	4,746
Groundwater Allowance	273
Incidental Recharge	221-503
CAGRD	0-3,444

E.4 Water Supply

Many critical factors must be considered when establishing the water supply for a community. Due to the arid desert nature of this state, sufficient, renewable water supplies play a crucial role in the growth and development of a community. The City of Avondale currently meets its water demand requirements by utilizing both ground and surface water sources. The City of Avondale is meeting its water demands by claiming Salt River Project surface water, CAP water, and groundwater, through the groundwater allowance, incidental recharge, and membership in the Central Arizona Groundwater Replenishment District (CAGRD). A summary of the raw water supply that the City is entitled to is outlined in Table E.2 below. A brief description of each of these water resources is included within this executive summary.

Table E.2 Raw Water Supply Summary

Supply Source	Current Quantity (AFY)	Build Out Quantity (AFY)
CAP	4,746	4,746
SRP	6,619	14,512*
Phase In Allowance	265	265
Incidental Recharge	221	1,664†
Sub Total	11,851	21,108
Reclaimed Water	-	13,607+
Conservation Efforts	-	2,847§
Total	11,851	37,562

* This value is based on the *SRP Revised Water Entitlement Report* which is the water assessment and the normal flow water for a drought condition. The City would be required to file an application for modification of its designation of assured water supply with ADWR to have this quantity of water counted towards the assured water supply.

† 4.43% of total water demand.

+ Reclaimed water plan is described in detail in Section 6.2.

§Conservation Efforts assume that a reduction in the total gpcd will be realized through the City's Conservation plan. This assumes a total reduction from 200 gpcd to 185 gpcd.

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E.4.1 SRP

Salt River Project (SRP) surface water makes up the bulk of the water supplied to the City of Avondale. This water originates in the Salt and Verde River Watersheds and is transported through a network of canals to municipal, industrial, and agricultural water users located on lands within the Salt River Valley Water Users Association (SRVWUA). SRP water may be used only on lands entitled to receive water from the SRVWUA (Section 2.1.2, Water Agreements and Contracts). Generally, the SRVWUA on-project lands within Avondale are located east of the Agua Fria River.

According to the City of Avondale SRP Water Entitlement Report (January 18, 2002), the City currently has 2,206 acres of lands that are considered on-project. SRP generally provides 3 acre-feet per year (AFY) for each acre of on-project land. Currently the City is entitled to 6,619.05 AFY. At build-out, when all agricultural land is anticipated to be converted to municipal use, the total on-project acreage will be 6,559.75 acres with an associated entitlement of 19,679.25 AFY.

It is important to note that the City's current Assured Water Supply (AWS) designation, which was based on the City's projected demand and committed demand for the year 2010 and not build-out, shows that the City is allotted only 8,463 AFY of SRP water. This quantity of water was computed from 1990 census projections, and will need to be modified through an application to ADWR for a "modification of designation". Based on discussions with SRP and ADWR, and the City of Avondale SRP Water Entitlement Report (January 18, 2002), during drought conditions the City of Avondale would be able to receive 14,512 AFY at build out.

E.4.2 CAP

One of Avondale's renewable sources of water is Central Arizona Project (CAP) water. The City of Avondale currently has a CAP allocation of 4,746 acre-feet per year. The City of Avondale receives CAP water through the CAP canal and the SRP canal system. Unlike SRP water, CAP water can be used at any location throughout the City's water service area.

E.4.3 Groundwater

The City of Avondale meets its domestic water demands through the pumping of surface water that has been stored underground ("stored water"). The City receives allocations of surface water from various sources, and recharges this water into the aquifer for treatment and storage. The water is then extracted by one of the City's permitted recovery wells. Additionally, the City of Avondale receives a small allowance of groundwater that they may extract each year that is not considered recovered water.

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E.4.4 CAGRD

The Central Arizona Groundwater Replenishment District (CAGRD) was established by the legislature to replenish groundwater pumped by certain landowners and municipal providers located within the Active Management Areas. Membership in CAGRD is an alternative mechanism to help demonstrate an assured water supply. If a municipal provider or a developer can prove that groundwater is physically available to meet its needs, by joining CAGRD, it obtains the right to use more groundwater than would otherwise be allowed. The landowner or municipal provider must then pay CAGRD to replenish the excess groundwater used.

E.5 Water Treatment Requirements

The City of Avondale is required to meet the Federal water quality standards established by the U.S. Environmental Protection Agency (USEPA) and detailed in the Safe Drinking Water Act (SDWA). At the present time, Maximum Contaminant Levels (MCLs) have been established for 83 regulated contaminants, and treatment technique (TT) requirements have been set for an additional 9 contaminants (Specific treatment methods are required for these 9 contaminants rather than numeric limits). In addition to the regulations enacted into law, USEPA has established a number of drinking water rules, which also require compliance. The City's water treatment currently meets the established standards, however with the implementation of the new Arsenic rule, some of the City's wells will be out of compliance.

On January 22, 2001, the EPA proposed a reduction in the current arsenic standard from 50 µg/L to 10 µg/L. The proposed new standard has significant cost implications for water utilities, and as such, significant discussion surrounding the revised MCL was conducted. The Bush administration reviewed the rule and affirmed it in October 2001. This rule became effective on February 22, 2002. The date by which the City of Avondale must comply with the new arsenic standard is January 23, 2006. As reported in Section 5.5.2 Water Quality Data, several City of Avondale wells (6, 7, 11, 14, and 15) currently exceed the future MCL for arsenic (10 µg/L).

E.6 Water Demands

Avondale's Municipal Planning Area (MPA), which was established in the General Plan, was used for this master plan. The MPA identifies the boundaries that the City of Avondale intends to annex in the future. The MPA starts north of the Estrella Mountains and terminates at Indian School Road. The population growth for this area and the corresponding water demand was computed in the *2001 Water Infrastructure Master Plan*. A summary of these populations and demands is shown in Table E.3, Population and Demand Projections.

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Table E.3 Population and Demand Projections

Year	Population	Demand (Ac-ft/year)
2001	40,350	8,012*
2006	61,845	13,855
2011	83,506	18,708
2016	105,167	23,560
2021	126,828	28,413
2026	148,489	33,266
2040	167,665	37,562

The population based water demands presented in Table E.3 are based on the recommended combined per capita flow rate of 200 gallons per capita per day. This flow rate averages the total residential and nonresidential flow within the City of Avondale over each resident. It is important to note that this water demand provides a high estimate of the water demands within the City of Avondale. The City currently has a combined demand of 183 gpcd, and has not yet reached the 200 gpcd rate. The larger rate was used to provide a factor of safety in researching the quantity of additional water supplies that the City must acquire. Recommendations for reducing the City's gpcd rate are provided in the Section E.8.1, Conservation.

E.7 Third Management Plan

In order to better utilize the water resources located within the state of Arizona, the legislature passed the 1980 Groundwater Management Act. As part of this Act, certain areas within the state where groundwater mining was most severe were divided into active management areas (AMA). The City of Avondale is located within the Phoenix AMA. The goal of each AMA is to achieve a safe-yield of groundwater. Safe-yield is defined as a balance between the amount of groundwater extracted and replenished. In order to meet the safe-yield goal of the AMA, various management plans have been defined. Under the management plans, each water provider located within the AMA is required to meet a specified water usage amount. The City is currently regulated under the Third Management Plan

In order to provide an estimate of the allowable water usage in the City of Avondale based on the Third Management Plan, the future total water usage allowed was projected for the years 2001 to 2011. These allowable water usage projections were based on the population projections for the City as described in the *2001 Water Infrastructure Master Plan*. The population projections were broken down linearly for the first 10 years of the study, and the calculations assume that 90% of the new population growth each year is single family residential, and 10% of the new population growth each year is multifamily residential. The allowable GPCD projections for the next ten years according to

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the requirements of the Third Management Plan are shown in Table E.4, Future Allowable GPCD Projections.

Table E.4 Future Allowable GPCD Projections

Year	Population	Total GPCD
2001	40,350	**186**
2002	44,649	**167**
2003	48,948	**167**
2004	53,247	**167**
2005	57,546	**158**
2006	61,845	**158**
2007	66,177	**158**
2008	70,509	**158**
2009	74,842	**158**
2010	79,174	**148**
2011	83,506	**148**

An analysis was also performed to evaluate how Avondale's projected water consumption over the next 10 years compares with the future allowable GPCD. Table E.5, Water Consumption and GPCD Comparison, shows the water demand projected for each of the planning periods, along with the allowable water demand according to the GPCD projections.

Table E.5 Water Consumption and GPCD Comparison

Year	Population	Projected Demand	Effluent	GPCD Demands	3rd Mgmt Allocation
2001	40,350	8,012	-	8,012	8,398
2006	61,845	13,855	-	13,855	10,927
2011	83,506	18,708	6,777	11,931	13,844
2016	105,167	23,560	8,535	15,025	17,435
2021	126,828	28,413	10,292	18,121	21,026
2026	148,489	33,266	12,050	21,216	24,617
2040	167,665	37,562	13,607	23,955	27,796

It can be seen from the table above that, except for the year 2001, the projected demand for the City of Avondale exceeds the water allocation from the Third Management Plan. It is important to understand however, that effluent water does not count against the GPCD requirement. Therefore, for the years where the proposed reclaimed water plan is in place (2011-Future), the City of Avondale remains in compliance with the goals of the Third Management Plan. It is also important to note that the Fourth Management Plan goals will go into effect in the year 2011. These requirements will be available before January 1, 2008.

As demonstrated in the table above, unless the City's per capita water demand decreases, the City will be out of compliance with the Third Management Plan.

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There are various options that the City of Avondale may implement in order to maintain compliance with the Plan. These options include implementing stricter conservation measures, implementing the proposed effluent recharge program immediately, or seeking acceptance into the non per capita conservation program (NPCCP).

One method of maintaining compliance is to implement stricter conservation measures. The City must reduce their water demand by 16 GPCD by the year 2002 and then by an additional 9 GPCD by the year 2005 in order to remain in compliance. This is a realistic goal that can be reached through the implementation of the conservation measures listed in Table E.6, Avondale Conservation Options. By implementing a stricter conservation program, the City's water demand will decrease, maintaining compliance with the Third Management Plan, and reducing the overall water usage of the City.

A second option for maintaining compliance with the Third Management Plan is to implement the reclaimed water plan immediately. By implementing a reclaimed water plan, the effluent used is not counted against the GPCD usage. This extra water would allow Avondale to maintain their current usage rates and remain in compliance with the goals of the AMA. This option however, would require an outlay of capital immediately, instead of at a future time (2011) when the reclaimed water plan must be implemented to maintain sufficient supplies.

Another option for maintaining compliance with the Third Management Plan would be for Avondale to seek acceptance to the NPCCP in place of the GPCD program. Under the NPCCP, the provider must have a plan under which it will deliver no mined groundwater after January 1, 2010. Additionally, the provider must agree to implement reasonable conservation measures (RCMs) that ADWR determines will achieve a water use efficiency equivalent to the GPCD requirements.

E.8 Water Supply Recommendations

One of the fundamental purposes of this Water Resources Master Plan is to evaluate Avondale's current water supply and demand situation as well as the future demand and supply for the four separate planning periods. While the City of Avondale currently has adequate water resources to meet demand, the implementation of a program to acquire additional water resources must begin immediately, in order to meet future water demand requirements. Based on the analysis performed in Section 4 of this Water Resources Master Plan, water demand will begin to outstrip the current supply during the 2006-2011 planning period. Therefore, additional water resources must be acquired and implemented during the current planning period (2001 to 2006).

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Additional water resources that provide a good potential for increasing the City's water supply include SRP, CAGRD, the Buckeye Waterlogged Area, and effluent water.

A good portion of the lands within Avondale are located within the Salt River Reservoir District and are entitled to delivery of water from SRP (on-project lands). The City of Avondale's AWS designation currently allots 8,463 acre-feet of SRP water to the City of Avondale. According to discussions with SRP, it is believed that the City will be able to include up to 14,512 acre-feet per year of SRP water in the City's AWS designation. It is recommended that the City of Avondale continue discussions with SRP and ADWR, in order to assure that the SRP water is being counted toward the AWS. It is also recommended that the City of Avondale file with ADWR an application to modify its designation during the 2006-2011 planning period in order to increase the amount of SRP water in the AWS designation. Additionally, an application to modify the designation should be filed as often as additional water from SRP is allotted to the City.

Another water resource that the City of Avondale may utilize is its membership in CAGRD. If the City's recharge amounts and accrued credits fall below Avondale's ongoing usage, Avondale would need to pump "excess groundwater" and pay CAGRD to replenish this groundwater. For the year 2002/3, CAGRD charges $198 per acre-foot (AF) for replenishment water. This rate is scheduled to increase to $202/AF for 2003/4; and to $207/AF for 2004/5. This is an all-inclusive cost and gives the City the right to pump its local groundwater.

Located within the southern portion of the City of Avondale is a portion of the Buckeye waterlogged area and the St. Johns waterlogged area. As described in Section 3.2 of the Water Resources Master Plan, it is possible to exclude from groundwater calculations and water storage account debits water withdrawn from a waterlogged area. While the water quality in the Buckeye waterlogged area is currently unknown (it is believed to be very poor), it is recommended that the City of Avondale perform a feasibility study to determine the possibility and the costs associated with using this water to meet future water demand requirements.

E.8.1 Conservation Plan

One recommendation that will significantly help the City of Avondale's water supply is the implementation of a comprehensive water conservation program. Not only is the City required to implement conservation measures, but also by lowering the average GPCD, water supplies are extended. In order to aid the City in maintaining sufficient water supply for the future, a comprehensive water conservation plan has been developed. It is strongly recommended that these measures be implemented in order to better utilize the City's water supply.

The annual GPCD measures the amount of water pumped annually by the City divided by the population served. This is also the unit used by the Arizona

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Department of Water Resources (ADWR) to measure a community's compliance with the requirements of the Groundwater Management Act. For the year 2000, the City's average water use was 183 GPCD.

To reduce the water rates within the City of Avondale, there are many types of programs that could be implemented. However, ADWR has identified what it calls Reasonable Conservation Measures. This is a list of over 15 different residential and non-residential interior and exterior conservation measures. Table E.6, Avondale Water Conservation Options, lists these conservation measures, along with the conservation measures currently in place within the City of Avondale.

Table E.6 Avondale Water Conservation Options

ADWR Reasonable Conservation Measures	Avondale Existing Program	Avondale Programs Under Consideration
A. Residential Interior	***A. Residential Interior***	***A. Residential Interior***
1. Water Audit and Fixture Retrofit Program for Existing Customers	a. City distributed 4,000 water conservation kits	a. Initiate retrofitting rebate plumbing program b. Offer plumbing workshops
2. Ordinance or Condition of New Service Prohibiting Installation or Replacement of Plumbing Fixtures in Residential Housing Units Unless Fixtures Meet Water Saving Standards	b. City passed low flow plumbing code	
B. Residential Exterior		***B. Residential Exterior***
1. Audit Program for Existing Residential Customers		a. Initiate retrofitting rebate landscaping program b. Offer landscape workshops
2. Landscape Watering Advice Program for Existing and New Residential Customers		
3. Ordinances or Conditions of New Service for Model Homes in New Residential Developments		
4. Prohibit the Creation of New Covenants, Conditions and Restrictions which require the Use of Water-Intensive Landscaping or Which Prohibits the Use of Low Water Use Landscaping in Residential Developments		

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ADWR Reasonable Conservation Measures	Avondale Existing Program	Avondale Programs Under Consideration
5. Options		
a. Ordinances or Conditions of New Service Limiting Use of Turf and Other Water-Intensive Landscaping in New Multi-Family Developments		
b. Ordinance or Conditions of New Service Limiting Use of Turf and Other Water-Intensive Landscaping in Common Areas of New Single Family and Multi-Family Developments.		
c. Rebate Program for New Residential Customers for efficiently designed landscapes		
C. Non-Residential Interior		
1. Interior Audit Program for Existing Facilities		
2. Ordinance or Condition of New Service Prohibiting Installation or Replacement of Plumbing Fixtures in Non-Residential Facilities Unless Fixtures Meet Water Saving Standards	Initiated program requiring multi-family units to change existing water fixtures to water conserving fixtures.	
3. Distribution of Conservation Information to All Non-Residential Customers and Submittal of Water Use Plan by New Large Facilities	New businesses must submit Water Conservation Report.	
D. Non-Residential Exterior		
1. Exterior Audit Program for Existing Non-Residential Customers		

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ADWR Reasonable Conservation Measures	Avondale Existing Program	Avondale Programs Under Consideration
2. Landscape Ordinance or Conditions of New Service for New Facilities	a. City amended landscaping ordinance to require the use of the ADWR low water use plants list in all ROW landscaping and for the installation of automatic sprinkler system. b. Adopted ordinance making it mandatory for commercial developments to have at least 20% of their landscaping be low water use.	Ordinance for increasing low water use landscaping from 20% to 50%
E. Education 1. Public Information and Education Programs	a. Regular newspaper articles. b. Development and distribution of water conservation materials. c. K-5 schools program.	Increase school education program
	General Programs a. Implementation of block water rate. b. Leak detection and repair program. c. Replacement of all City water meters.	

E.8.2 Reclaimed Water Plan

One constant and renewable source of water that the City should take advantage of is its wastewater treatment plant effluent. Based on the analysis performed for this Water Resources Master Plan, a reclaimed water plan must be implemented in order to meet the City's build out water demands. It is recommended that the City of Avondale begin the design and implementation of a reclaimed water plan within the 2006-2011 planning period. A detailed discussion of the reclaimed water plan is provided below.

Effluent from the Avondale Wastewater Treatment Plant is currently discharged to the Agua Fria River. It is important to note that the discharge to the river has created a wetland type habitat. If the effluent were utilized in some fashion, a portion of the effluent might still have to be discharged to maintain the habitat.

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This issue would need to be worked out with the regulatory agencies during the design and construction of any effluent reuse facilities.

As part of the reclaimed water plan, the effluent produced by the City of Avondale was projected. Table E.7, Projected Wastewater Flows, provides the anticipated flow amounts based on the City's population projections.

Table E.7 Projected Wastewater Flows

Year	Wastewater Flow* (mgd)
2006	6.0
2011	8.0
2026	14.3
2040	16.2

*These flows are annual average day flows.

Based on an analysis of the possible end uses of effluent within the City of Avondale, it is recommended that the effluent be recharged using the City's recharge basins, and later extracted using the recovery wells.

Avondale has an active recharge program for its surface water supplies. The existing recharge site has land available for future expansion that could include effluent recharge. Effluent recharge would require pumping and transmission of the effluent from the plant to the recharge site. No additional treatment would be necessary and this approach minimizes the amount of pipe required. However, use of the City's reclaimed water for recharge will require additional permitting. The City currently maintains a full-scale Underground Storage Facility (USF) permit issued by ADWR that is valid until December 31, 2018. A revised or new USF permit will be required to allow recharge of reclaimed water. A Water Storage Facility permit and Recovery Well permit will also be required along with an Aquifer Protection permit for the recharge site. A planning level cost estimate for the facilities required for recharge is $6,000,000. This includes the pump station, pipeline, and construction of the Phase III recharge basins. The facility sizing and cost should be verified in a facility pre-design study.

E.8.3 Recovery Wells

As discussed throughout this Water Resources Master Plan, the City of Avondale recharges their surface water allocations and should plan to recharge their effluent. This water is then treated through natural processes, and pumped from the ground using recovery wells. This method of recharge and extraction provides additional treatment to the City's water before use. It is anticipated that this process will continue in the future.

As the City of Avondale grows and develops, it will be necessary to construct additional groundwater wells in order to have sufficient water resources capacity

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to serve the City. Over the course of the next 40 years, it is anticipated that 30 additional 1,500 gpm wells will be required. In order to obtain sufficient wells to access the water, the City will need to utilize various methods for acquiring these wells. The City of Avondale should look at drilling new wells, purchasing existing high production wells from other owners (e.g. SRP), or exchanging wells in order to obtain wells with higher production and better water quality.

In order to facilitate the process, a well site prioritization map was created. This map can be seen in Figure 5.18, Well Site Prioritization Map. Based on the analyses and findings, it is recommended that new City of Avondale public water supply wells be located within the areas delineated as having "good" or "moderate" groundwater production potential when possible. The well siting prioritization provided in this report should be used to provide guidance to City of Avondale decision-makers, for selection of optimum well sites on the basis of currently available information. It is recommended that a site-specific hydrogeologic analysis (pilot hole analysis or exploratory boring analysis) be conducted in association with the installation of each new water supply well.

Detailed technical discussion and analyses, which support the recommendations presented in this executive summary, are provided in the Water Resources Master Plan Report.

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EXECUTIVE SUMMARY

PURPOSE AND OBJECTIVES

The purpose of this Water Resources Master Plan (Plan) is to forecast City of Goodyear water resources supply and demands, infrastructure development and the associated costs. This Executive Summary presents the objectives of the Plan, briefly explains special issues affecting water resources planning, and describes estimates of future water demand. The Executive Summary also recommends a water resources strategy and implementation plan, and provides a list of specific recommendations.

The Plan addresses the water supplies for the planning period 2004 through 2013, with additional recommendations to meet estimated build-out demand. The scope of this Plan includes:

- Forecasts for potable and nonpotable water demands;
- Identification of regulatory issues impacting the City's ability to acquire future water supplies;
- Identification of water quality issues and concerns;
- Identification of potential future water supply development; and
- Strategies for implementing Plan recommendations.

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BACKGROUND

Goodyear's current water service area encompasses more than 30 square miles within the City's 135-square mile incorporated area. The City delivers potable and nonpotable water within its service area, and provides wastewater collection, treatment, and disposal services to its current population of more than 20,000 citizens.

The explosive growth rate is challenging the City to develop the infrastructure and water resources to satisfy the current and anticipated demands. Water quality constraints and regulatory requirements regarding renewable resources impact the City's ability to provide services efficiently and economically. Other providers in the metropolitan Phoenix area need many of the same resources, as Goodyear needs, to meet future demand.

Through Growing Smarter/Plus Legislation, the State of Arizona mandates that general plans be updated at least every 10 years. Following more than a year's effort and dozens of meetings by members of Goodyear's General Plan Advisory Committee, several opportunities for public input (including two public hearings by the Planning and Zoning Commission), and approval by the City Council, the citizen's of Goodyear approved General Plan 2003-2013 in the November, 2003 election.

A principal part of the General Plan called the Land Use Plan depicts desired land use locations for residential, commercial, industrial, and open space within the City's 135-square mile area. Covering 10 special "elements" or chapters, the plan addresses goals, objectives and policies that serve as guidelines for the City's future physical development. The General Plan 2003-2013 is the basis only for projections of population and density at build-out, and for the estimated amount of water required to serve that population and land use.

POPULATION AND WATER DEMAND PROJECTIONS

The population within the City's service area doubled between 2000 and 2003, and growth is expected to continue. The City's Land Use Plan estimates a potential total build-out population for the entire Planning Area of approximately 389,500. Projections for Water Planning Areas (WPA) south of Interstate 10 (WPAs 2, 3 and 4) indicate that population is expected to increase from an estimated 10,068 in 2000 to 343,700 at build-out. This number is equivalent to 88.2 percent of the City's total expected build-out population. Estimates of future water demand in this Plan are based on the assumption that the portion of the City north of Interstate 10 will continue to be served by other providers.

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Table ES-1 provides a summary of population and water demand projections for the City's expanded service area during the ten-year planning period and for build-out. Build-out is expected to occur no earlier than 2025.

Table ES-1 Projected Service Area Population and Water Demand

Year	Population	Total Demand (mgd)	Total Demand (ac-ft)
2000	10,068	2.31	2,592
2001	14,482	2.98	3,342
2002	16,336	3.26	3,656
2003	20,576	3.84	4,303
2004	25,407	4.79	5,368
2005	30,757	5.80	6,498
2006	36,281	6.61	7,410
2007	41,876	7.37	8,257
2008	47,482	8.06	9,028
2009	53,148	8.69	9,731
2010	58,839	9.25	10,359
2011	64,448	10.13	11,347
2012	69,892	10.99	12,305
2013	75,274	11.83	13,253
Build-out	343,700	57.25	64,123

Nearly 54,000 acre-feet of groundwater withdrawals were *reported* in 2003 within the Goodyear Municipal Planning Area. This water was considered to be either deficit groundwater, or it carried no replenishment obligation. Nearly 58,000 acre-feet of groundwater was actually pumped. Of this volume, about 84% represented agriculture use. The remaining withdrawals are attributed to municipal use (8.3%) and other uses (7.7 percent, for private use, industry, etc.). Water demand for residential, commercial and support services are expected to increase significantly based on growth projections. The Land Use Element of the City's General Plan estimates that 58 percent of the land use at build-out will be used for residential and related purposes, 16 percent will be used for commercial, industrial and employment, and 26 percent will support public and institutional uses.

Overall water use per housing unit has declined over the past several years, likely due to conservation efforts. Based on the observed trend, City staff prefers that a use rate of 0.5 acre-feet per housing unit be used for planning purposes to calculate water demand through build-out. Historic and future water demand data

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are summarized in Table ES-2 and are shown graphically in Figure ES-1. The estimated annual water demand at build-out is forecasted to be 64,123 acre-feet.

Nonpotable use here is represented by reclaimed water as used, or projected to be used, by the City. Reported deliveries of reuse water by the City were 43.6 acre-feet in 2002. Reuse water is currently delivered for turf irrigation and construction purposes. The potential demand for all types of nonpotable use has not been quantified, and is therefore included in the total potable demand. It is expected to increase over time. Some nonpotable uses may also be met with poor quality groundwater.

Figure ES-1
Historical and Projected Water Demands by Type

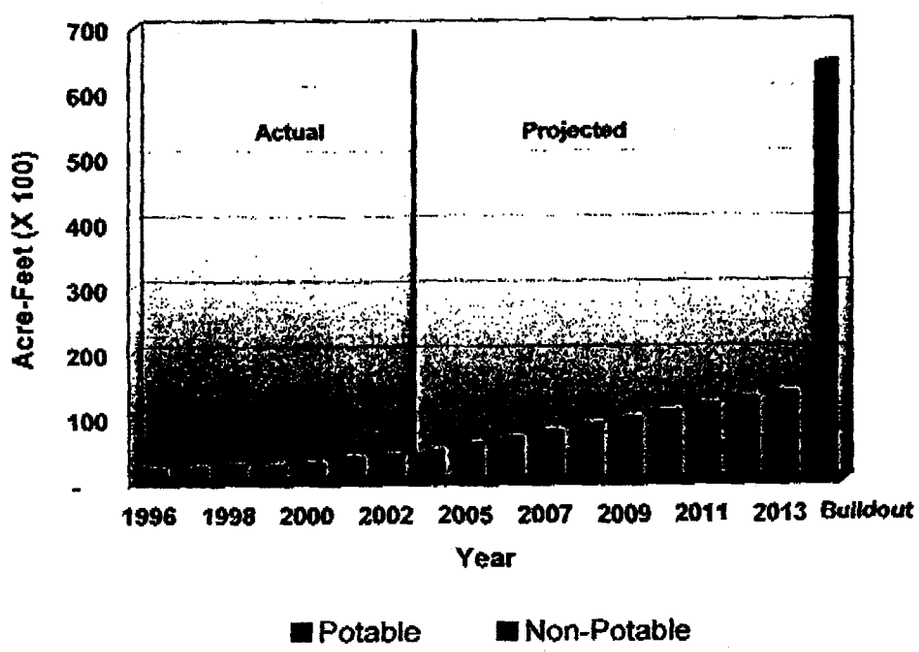

Table ES-2 Summary of Historical and Projected Water Demand (in acre-feet times 100)

Year	1996	1998	2000	2002	2005	2007	2009	2011	2013	Build-out
Total	16.9	23.3	25.9	36.6	65.0	82.6	97.3	113.5	132.5	641.2
Potable	16.9	23.3	25.7	36.1	62.4	77.1	88.8	98.7	115.2	557.6
Nonpotable	0.0	0.0	0.2	0.4	2.6	5.5	8.5	14.8	17.3	83.6

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WATER RESOURCES AVAILABILITY

Physical and institutional controls impact the allocation and use of water. Physical controls include the accessibility of groundwater, the accessibility of delivered Central Arizona Project (CAP) water, and the ability to use reclaimed water. Institutional controls range from adjudication of surface water rights to operating under the Groundwater Management Act, including the necessity to prove an Assured Water Supply (AWS) to support growth. The City holds an AWS Designation approved through 2005. The City's membership in the Central Arizona Groundwater Replenishment District (CAGRD) meets the AWS requirements of "consistency with management goals". This means that a renewable source water such as CAP water is recharged to the aquifer to replace pumped groundwater, or stored in the aquifer in anticipation of future pumping.

The water resources currently being used by the City. include:

- Groundwater supplies estimated to be adequate to meet the projected build-out demand; and
- A volume of reclaimed water for reuse or recharge equivalent to approximately 40 percent of the annual potable demand.

The water described above is supplied or managed through the City's existing water supply facilities. These consist of nine active municipal production wells, the City's 157th Avenue Water Reclamation Facility (WRF) and the Goodyear Soil Aquifer Treatment (SAT) recharge facility for reclaimed water. The City also participates in recharge programs, both In Lieu and Underground Storage Projects, to accrue Long Term Storage (LTS) credits.

The City's water resources portfolio, as of January 2003, consists of water rights, credits, allowances, and contract CAP water. These include:

- CAP allocation for 3,531 acre-feet (recharged but not currently available for delivery within the City's service area);
- LTS credit balance of 104,479 acre-feet (offsets groundwater pumping);
- Groundwater Allowance of approximately 52,800 acre-feet, which includes an extinguishment credit total of 42,969 acre-feet (offsets groundwater pumping);

In addition to applying groundwater credits and allowances to support groundwater withdrawals, the City relies on membership in the CAGRD to replenish groundwater withdrawn from the City's service area.

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CAGRD is currently modifying its Plan of Operation. Based on the expected availability of Excess CAP water, CAGRD anticipates a shortfall between 2016 and 2030, and again beyond 2051. CAGRD has identified a list of available supplies by which it plans to meet the anticipated shortfall. The list includes the following:

- Excess CAP;
- Transfers of contract Municipal & Industrial CAP;
- Indian CAP leases;
- Entitlement of 48,000 acre-feet of Non-Indian Agricultural (NIA) priority CAP;
- Groundwater transfers.

The CAGRD was originally designed as a temporary bridging mechanism to assist development by recharging CAP water for those contract holders without the infrastructure in place to take direct delivery. Once that infrastructure is in place, CAGRD expects those water providers to acquire their supply, thereby reducing CAGRD's replenishment obligation on behalf of the providers. The supplemental supply sources listed above represent many of the same resources that water providers in the Phoenix area will pursue to supplement their contract CAP in order to meet their build-out demands.

This change from reliance on groundwater to use of renewable supplies is a shift in water strategy for the City. As the City adds the facilities to take direct delivery of CAP into its system, compliance with certain regulatory requirements are addressed. With the addition of this water source, however, additional concerns such as reliability, quality, aesthetics, and infrastructure impacts (such as those experienced by the City of Tucson) are raised. This transition in supply sources is expected to continue during the next ten years.

WATER QUALITY

Until 2003, groundwater and reclaimed water used by the City, and CAP water intended for use by the City, was considered to be generally of adequate quality to meet demand, with no additional management required other than the normal disinfection or blending processes currently used. Elevated nitrate levels have been observed at City Wells Nos. 1 and 6, and at the newly acquired Centerra Well. Concentrations of total dissolved solids (TDS) are as much as 1,200 milligrams per liter (mg/L) in active City wells, and 1,900 mg/L in the new Centerra Well. In 2003, the City adopted the Secondary Standard of 500 mg/L for TDS. Wellhead treatment was initiated at three City wells in 2003 to address elevated nitrate and TDS concentrations.

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Water treatment methods currently practiced by the City are:

- Blending, to reduce variable and limited concentrations of arsenic, fluoride, nitrates and TDS;
- Disinfection by chlorination; and
- Wellhead treatment.

The presence of arsenic in groundwater is one of the water quality and regulation issues of immediate concern. The Promulgated Arsenic Rule will reduce the allowable level of arsenic in drinking water to 0.010 mg/L by 2006.

The pursuit of new groundwater resources through the service area will likely require treatment to meet approved Safe Drinking Water Standards and City-adopted Secondary Standards. Future treatment methods offered for consideration include:

- Blending, where practical, with new sources;
- Chemical/physical/filtration-type treatment;
- Wellhead treatment evolving to centralized treatment facilities, for either groundwater or surface water, when quantities and system configuration warrant; and
- Soil aquifer treatment, or soil and groundwater mitigation of constituents via infiltration into the groundwater. This method is most applicable to reclaimed water and CAP water, and can serve as aquifer storage method until the water is recovered.

Ten Year Planning Recommendations

The estimated Average day (AD) water demand will increase from 4.79 mgd in 2004 to 11.83 mgd by 2013. Maximum day (MD) demand in the City's service area is estimated to be 1.5 times the average day demand. The estimated MD water demand is 7.19 mgd in 2004, and is 17.75 mgd in 2013. Reliable system production capacity should be designed at no less than the MD demand. In terms of production wells, reliable capacity is recommended to be 80 percent of maximum production capacity. This operation standard provides a means to compensate for well maintenance or system outages even during periods of high demand. To meet the projected demands through 2013, the City will need to add 1.15 to 2.3 mgd of capacity each year.

A number of options exist to develop additional capacity, in addition to drilling new wells:

> Remediated groundwater-extraction wells – Treated poor-quality water delivered to the City could be used without replenishment obligation. This water would likely require treatment for TDS. Such a project is currently in design phase. The estimated volume is up to 500 gpm or 0.5 mgd.

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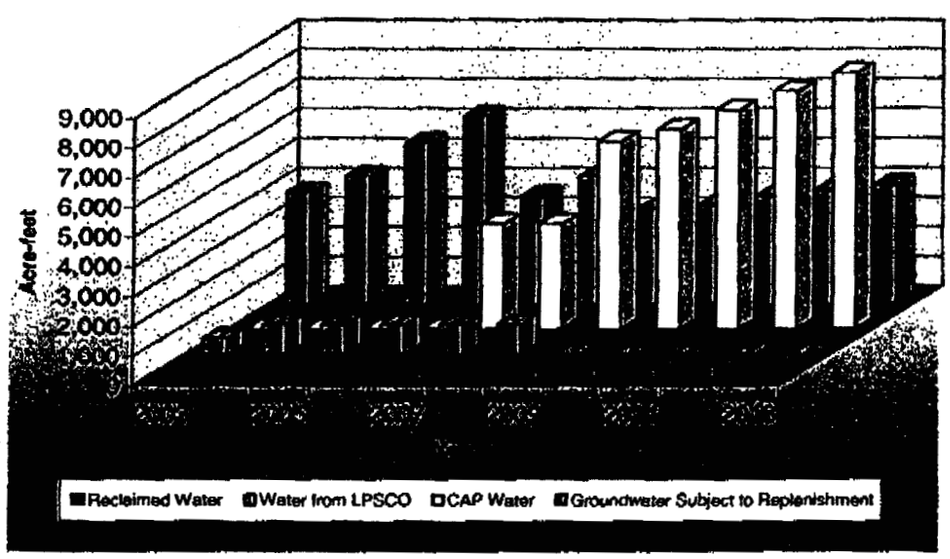
Acquire nonpotable well for nonpotable use – The City may consider acquiring the Central Avenue Suncore irrigation well, or other similar well, for turf irrigation or other nonpotable use. The City currently provides potable water to irrigate along Interstate 10.

Develop the Buckeye Waterlogged Area – Water withdrawals from the Buckeye Waterlogged Area are currently being evaluated for legal availability. Much of this water is of poor quality, containing elevated levels of TDS and nitrates. It may be applied to nonpotable uses or treated for poptable use.

Wells are expected to provide the production capacity required to meet demands in the immediate future, and will also be used to provide supplemental and backup supplies as the City begins to rely on the delivery of CAP water. By 2008, half of the AD demand could be met with treated CAP water. The City is considering several opportunities to treat CAP water, including participation in surface water treatment facilities (SWTF) and construction of a soil aquifer treatment facility to recharge, store and recover CAP water. Figure ES-2 shows the primary supply components expected to be available through 2013.

Figure ES-2 Projected Supply Components Through 2013



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The City is currently examining several projects for treating and delivering CAP water to the City system. There are several factors to be considered with each of these proposed projects. One, or a combination, of these projects may be used to treat CAP water as all or part of the anticipated CAP water becomes available.

Two alternatives listed below propose to recharge CAP water and recover it through wells. Groundwater treatment may be required. Other SWTF options may preclude the need for wells but require other infrastructure. The CAP water treatment alternatives are listed below:

- West Maricopa Combine CAP recharge/recovery/pipeline project; and,
- Verde/Val Vista SWTF CAP exchange and treatment;
- Arizona American Water Company - White Tanks SWTF (CAP);
- Avondale SWTF on the Grand Canal;
- Phoenix West Valley SWTF;
- City-owned SWTF.

The AAWC-WT facility is planned to be operational by 2006. This project is located on the Beardsley Canal and will include transmission lines to deliver water to the City's Service Area. The City may be required to construct pipeline from Camelback Road to connect to the distribution system.

The Avondale SWTF is proposed to be located on the Grand Canal. The City of Goodyear has a potential partnership opportunity with Avondale in this facility. Discussions are preliminary.

The City of Phoenix has proposed a West Valley SWTF on the Western Canal. The proposed capacity may increment from 40 to 80 mgd, with possible expansion to 120 mgd. The City of Phoenix is considering wholesale treatment of CAP water for the City of Goodyear, but discussion to date has been only on a preliminary basis. The City of Phoenix is also considering a facility to treat water from the Buckeye Waterlogged Area. The City of Goodyear could participate in this venture also, but discussions are preliminary.

The City of Phoenix currently owns the Verde treatment facility, but plans to relinquish control of that facility by end of 2005. Although discussion between the two cities addressed the possibility of Goodyear sending water to that facility for treatment (CAP water exchanged for Verde River water), the City of Phoenix declined such an agreement for reasons related to water quality when Phoenix is not in control of the SWTF[1]. The City of Goodyear is negotiating to treat the exchanged water in Mesa's Val Vista treatment facility, and use the Mesa

[1] Telephone communication with Steve Rossi, City of Phoenix, August 23, 2004.

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agreement to move the water through the Phoenix system to Goodyear. No additional details are available, at this time, for this option.

A planning matrix was prepared for the alternatives listed above to aid the decision-making process. It can be found in Part E.

For water demand planning purposes, City engineering staff recommend fire flow requirements of 3,000 gpm for 1.5 hours, per distribution pressure zone. In WPA 2, storage volume should be no less than one maximum day demand, plus fire flow requirements. For the service area south of the Gila River, storage volume should be no less than two days of average day demand, plus fire flow supply per zone. More storage is recommended for the EMR area because it is served only by a single transmission main crossing the Gila River at the Estrella Parkway bridge. Developer projects are expected to add at least 2 million gallons of storage to the City's system by 2005. Additional storage will be needed by 2007.

Other recommendations include:

- develop a system for electronic monitoring of the City's water system;
- develop a possible delivery system for reclaimed or poor quality water;
- develop a program for well testing and maintenance.

Table E-3 lists some anticipated system improvement projects, including CAP water treatment alternatives, water resource development alternatives and other planning recommendations.

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Table ES - 3 Water Project Alternatives and Implementation Schedule

Anticipated System Improvement Projects	Estimated Cost	Implementation Date
New Production Well	$930,000	2004
Reconditioned existing well	$55,000	2004
Remediated Groundwater project	$110,000	2004
30-inch Transmission Main- Cotton Lane	$1,081,000	2005-2013
3-Mgal Storage Tank – EMR	(developer)	2004-2005
1-Mgal Storage Tank – Sarival-110	(developer)	2004-2005
Install SCADA system monitoring	$150,000	2003-2004
Install SCADA system monitoring	$450,000	2006-2007
Reclaimed Water Recharge Facility	$8.8 Million	by 2011
Wellhead Treatment- EDR or RO for 1,000 and 2,000 gpm, cost range:	$5.7 to $10 Million	2004
Groundwater Treatment Facility- EDR or RO for 5 mgd, cost range;	$ 15.2 to 19.3 Million	2010-2013
OR		
CAP Water Treatment and Delivery Alternatives (*Capital costs per year*, only; does not include subcontract CAP water fees found in Part F)		
Surface Water Treatment Facility, 10 mgd or	$1.1 Million/yr	by 2008
AAWC CAP Treatment Facility (assumes 5mgd) or	$2.8M/yr	by 2008
WMC CAP Recharge and Pipeline (assumes 15.6 mgd)	$7.4M/yr	by 2008
Water Resource Development Alternatives		
CAP reallocation acquisition costs- 7,211 ac-ft	$3.6 Million	by 2008
Leased Indian CAP costs- 7,000 ac-ft	$10.5 Million	by 2012
Surface Water Rights development	Not quantified	initiate 2005
Planning Recommendations		
Update existing development projections and water demand forecasts		Bi-annual basis (Plan update)
Prepare a Water Conservation Plan		2004
Prepare a Reclaimed Water Study/Master Plan		2006
Update hydraulic models concurrently with land use data		Annual basis

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Long Term Planning Recommendations

Build-out demand is projected to be approximately 64,123 acre-feet per year. Since it is estimated that 40 percent of the delivered water will be available as reclaimed water, then the total volume of water needed is calculated as:

$$V + 0.4\,V = 64{,}123$$
$$V = 45{,}802$$

where ***V*** represents the unknown volume of water to be acquired to meet build-out demand. Of that volume, 18,321 acre-feet per year, or ***0.4V***, will be return flow and will be available as reclaimed water. Since the City already owns a CAP subcontract for 3,531 acre-feet per year, the City still must acquire approximately 42,300 additional acre-feet.

Table ES-4 Estimated Primary Supply Deficit

	Volume expected (ac-ft/yr)
Volume of water to be acquired (***V***)	45,802
Subcontract CAP	-3,500
Supply Deficit	42,300
Reclaimed Water (***0.4V***)	18,321
Build-out Demand	64,123

There are limited resources available to be developed. Some resources may be developed with relatively less effort, cost, or time than other resources, and are being evaluated to meet short-term objectives. Resources that are intended to be developed to meet short-term objectives require significant investment and/or long-term commitments, and are not currently guaranteed.

Reclaimed water represents a resource with the highest probability of success (with respect to availability, cost and general viability). CAP water, in the forms of an anticipated reallocation and Indian leases, has a relatively high probability, although it is not assured. The total anticipated volume from the combined CAP sources is 14,200 acre-feet per year, or 12.7 mgd.

If all CAP resources described above are acquired, then the supply deficit becomes 28,100 acre-feet per year. If not, then 42,300 acre-feet must still be acquired. The following resources may be available to fill the gap.

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- Groundwater
- New Indian leases
- Water ranches
- Surface Water Right Conversions
- Colorado River

Groundwater - Groundwater pumping must be offset through the use of credits or through replenishment by CAGRD. While reliance on LTS credits alone is not practical, LTS credits may be used to defer some of the costs associated with CAGRD replenishment obligations. The City may negotiate with CAGRD to increase the replenishment volume limit in their contract. There is no obligation to use this contract unless the City has no renewable supplies and no LTS credits to apply to annual withdrawals. The City's current contract with CAGRD limits the annual replenishment obligation to 10,000 acre-feet per year.

Surface water rights - The feasibility of developing surface water rights within the Goodyear area should be explored. The City of Goodyear filed water rights claims on lands that were allocated surface water diversions, gravity rights, and pump rights under the Benson-Allison and Arlington Canal Company Decrees.

Outside AMA - Several alternatives, all of which may be costly, exist outside the Active Management Area to obtain the volume of supplies needed to meet water demand at build-out. The following alternatives have constraints regarding their legal availability or physical accessibility. Virtually every option has a time constraint associated with it. The City should consider the following alternatives for obtaining additional supplies from outside the Phoenix AMA.

- CAGRD has identified Colorado River Indian Tribes (CRIT) water as one of the available "outside" sources. Therefore, Indian lease CAP negotiations may be expanded to include CRIT water. Indian leases of Colorado River water will likely become available between 2008 and 2010.
- Evaluate the potential for negotiating with Colorado River rightholders or the Bureau of Reclamation (BOR) to acquire river rights. Transfers would be subject to the recently developed ADWR water transfer policies, BOR's policies on water transfers, environmental laws and other legal constraints.
- Evaluate the option of acquiring land in one of the three designated basins from which groundwater may be transported into an Active Management Area (AMA). The Harquahala, McMullen and Butler Valleys have been so designated, with stipulations. In most cases, stipulations include purchasing land with prior farming history. In Butler Valley, acquisition would involve lease agreements with the Bureau of Land Management or with Arizona State Land Department.

The recommended planning approach relies on a balance of renewable resources supplemented with groundwater. Each alternative above has several

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components, any one of which may be applied to the planning process. Commitments may be made in stages, so that, as conditions change, a modified plan evolves.

Decisions regarding which alternatives to pursue must be based on comparative analyses that incorporate not only estimated cost per acre-foot of water, but also any infrastructure needs, legal or regulatory requirements and time factors. Such an analytical tool has been prepared to provide a brief overview of these factors and overall viability for each project (Part E).

SUMMARY

This document forecasts water demand and provides an assessment of existing and potential supplies. It recommends water system improvements and identifies some mechanisms for acquiring new water resources.

Costs for the recommended improvements are included in this Plan. Estimated costs are included for pipelines, reservoirs (tanks), and booster pump stations. Capital cost estimates for source-water development projects are derived from available project information, studies and staff estimates. Source water development costs are conceptual "order of magnitude" planning estimates requiring further analysis in the future.

A Present Worth Analysis is included for the majority of the system improvement components.

This document provides O&M costs for several production and distribution components, notably, for water treatment. As the volume of treated water increases, O&M costs will also increase. The City should be prepared to update rate studies and incorporate these costs into revised water rate structure fees.

Other significant issues that should be initiated are included in the following list:

Throughout this document, emphasis is placed on the importance of securing water supplies for future development. While the immediate concern is to develop and deliver water supplies to meet current demands and demands projected for the next ten years, other providers in the metropolitan area are competing for all available water supplies to meet their own future demands. Therefore, virtually all long-term water planning efforts that the City chooses to undertake should be initiated in the short-term planning period.

For ease of reference, a comprehensive list of key points from each section of this document are compiled and organized by Part in Part G.

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RECOMMENDATIONS

Population and Demand Planning Recommendations

- Projections for the Estrella Mountain Ranch development should be updated based on new ownership and development planning.
- The City should track water production/consumption, reclaimed water production, platting records, and construction permitting records. This will assist annual water use reporting, and provide prompt estimates of potable and non-potable water consumption and service area population, to help calibrate demand projections.

Water Resource and Credit Planning Recommendations

- The City should initiate the following activities:
  - Adopt a code amendment requiring developers of irrigated lands to extinguish their IGRs and assign them to the City with a negotiated compensation.
  - Extinguish all active groundwater rights associated with lands that lie within the City's distribution area.
- A list from ADWR of active IGR, Type I and Type II rights, by owner, location and allotment, has been provided in Appendix 3. ADWR maps showing rights and rightholders within the City boundaries, including the irrigation districts served by RID and BWCDD, have been provided to the City. This information can be highly useful to the City in its efforts to extinguish grandfathered rights, which should be done as soon as possible.
- Reclaimed water does *not* impact the City's per capita water usage. Reclaimed water, whether it is used directly or recharged for credit, carries the same benefit. When used directly, it reduces the need for potable water, and the need for credits to offset the pumping. The City currently uses reclaimed water to meet less than one percent of its total demand. Where economical, reclaimed water should be used for nonpotable applications in place of potable water.
- Reclaimed water from the Corgett WRF at Estrella Mountain Ranch currently being discharged to the wash should be captured and used directly or recharged for credits to offset groundwater usage.
- The City should conduct a study on the viability of using the Buckeye Waterlogged Area. The determination of surface water rights and subflow issues may impact the rights to pump this water. It is recommended that the City complete the study before investing in wells in the Buckeye Waterlogged Area.
- The Remediated Groundwater Incentive Program allows the City to use poor quality water that has been treated in accordance with National Primary Drinking Water Regulations (primary standards), with no replenishment obligation. The City has been offered an opportunity to participate in this program, which would provide up to 800 acre-feet per year of treated water for at least 12 years.
- The City currently participates in two in lieu recharge programs at the current rate of approximately $107 per acre-foot for contract CAP water and $73 per acre-foot for incentive CAP water, less the rebates from the participating irrigation districts.

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Participation in recharge programs with purchased incentive rate CAP water will provide additional LTS credits at a premium value.

- The City should continue its pursuit of comprehensive recovery-well permitting for all City wells to the maximum capacity allowed, including all new wells permitted for the service area. This approach will allow the City more flexibility in water resource and water credit management.

Water Quality Recommendations

- Groundwater quality in the eastern portion of WPA 2 has been thoroughly quantified and is still monitored closely, and a groundwater quality investigation has been conducted in WPA 4. However, groundwater supplies in the western portions of WPA 1 and 2 have not been adequately assessed. The City should conduct exploratory drilling and sampling in those areas to assess water quality and availability of new production well sites.

- The City should evaluate all new water sources for potential blending capabilities. Blending, where feasible, is the most cost-effective method of treatment.

- The City should monitor the distribution system, using blending/storage locations and other access points, to obtain reliable representations of system-blended water quality for mass balance evaluations, and to assess system blending capabilities for specific constituents.

- The City should continue to monitor and evaluate wellhead treatment technologies to expand current supplies, or to support new supply sources as needed, and provide the water quality dictated by the Primary DWS.

- The proposed Groundwater Rule is scheduled for issuance as a final regulation in 2004. The City should keep apprised of rulemaking to ensure awareness of any modifications to the final rule.

- The City should continue to monitor the research being conducted on arsenic removal and be prepared to make definitive decisions no later than 2004 regarding a preferred method of treatment.

- The City should proactively implement EPA's multibarrier approach to control waterborne-related illnesses associated with source water contamination.

- *Special recommendation to protect City wells from identified contaminant plumes* - For instances of aquifer contamination identified and/or delineated as a known contaminant plume, the City should take a proactive approach to protect drinking water supply. The proactive course of action should include a strategy to monitor the plume approach, to monitor supply wells as appropriate, and to implement immediate action upon verification that supply wells are impacted. The City should work directly with the Responsible Party or through the appropriate regulatory agency to install and monitor sentinel wells in strategic locations to provide adequate notification of pending impact to City supply wells. At such time that sentinel wells begin to exhibit evidence of plume contamination, a program should be developed and implemented to monitor the supply well(s) at risk.

Infrastructure Planning Recommendations

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Executive Summary

- Assessment of adequate production capacity should be based on the maximum day demand (1.5 times average day demand) plus reliable production capacity *at 80% of maximum production.* This formula can also be expressed as maximum production capacity should equal approximately 1.25 times maximum day demand.
- In WPA 2, system storage should be no less than one maximum day demand, plus fire flow requirements.
- For the Service Area south of the Gila River (WPAs 3 and 4), storage should be no less than two days of average day demand, plus fire flow supply per zone.
- A redundant supply option should be developed for that portion of the service area south of the Gila River. This could take the form of a second transmission line crossing the river or supply wells in Rainbow Valley.
- The City should evaluate opportunities to acquire existing irrigation wells retired from service due to development. Such wells could be made available to the City at no cost. This approach includes working with Sunchase to incorporate Rainbow Valley wells.
- Upgrades on flow-measuring meters and installation of supervisory control and data acquisition (SCADA) electronic monitoring systems are recommended. Electronic monitoring should include all major components of the water production and distribution system (wells, storage, zone transitions, etc.) to prevent losses, to provide real-time data and to quicken response time to emergencies or changes in system.
- The City should evaluate prospective uses for reclaimed and poor quality water, and consider the installation of transmission lines for direct reuse of these resources.
- Security measures should be evaluated and upgraded at all supply and distribution facilities;
- Options should be evaluated regarding potential use (i.e., turf irrigation) of Corgett WRF reclaimed water, including construction of the appropriate infrastructure for distribution and/or recharge of reclaimed water.
- The City should include all production wells in a program of monitoring and regular comparative analysis and design maintenance operations and rehabilitation based largely on the results of that program.

General Planning Recommendations

- The City should expand conservation efforts by encouraging non-residential customers to address practices that conserve water, and adopting an ordinance to enforce water demand reductions during times of supply shortage for all customers.
- The City should continue membership in WESTCAPS, but work towards strengthening the political influence towards the southern area to better benefit the City by participation of Buckeye and Avondale, not current members.
- The City should consider a water resources plan that allows the use of both groundwater and renewable resources.
- The City should begin to plan and implement the acquisition of the most reliable renewable water resources available to meet future demands.

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Executive Summary

- The City should adopt a plan flexible enough to adapt to the changing availability of water resources. The projects outlined in the Project Comparison Matrix (Part E) offer several alternatives, and should be evaluated based minimally on the primary criteria presented.
- The City should consider creating a committee to assist the City in dedicated attention to the monumental task of researching options, participating in regulatory and legislative developments, and prioritizing water resource options and funding. The City should approve a water resources director to plan for and manage the acquisition of water resources.
- Wells and supply augments are projected to meet all demand until 2007, after which time the City should expect to use wells only to supplement CAP water supplies and provide backup supplies in times of shortage/emergency.
- A rate study should be completed to evaluate the revenue requirements to service the increasing water demands and the associated infrastructure.
- A management and utilization plan should be developed for the waterlogged area.
- The City should conduct a study of alternatives related to brine disposal.
- The City should create a redundant source of water supplies for WPA-3 by constructing a second pipeline across the river or by developing a production source south of the river.
- When significant pumping is planned in the Rainbow Valley subbasin, recharge should be considered.
- The City should encourage CAGRD to recharge in the southern West Valley.
- The City should continue to maintain a SAT facility to handle surplus reclaimed water. Reclaimed water use and conditions at the current SAT site should be reevaluated periodically, but a second or replacement SAT site should be planned for construction by 2010.
- The City should consider increasing the direct use of reclaimed water where possible.
- The City should maximize the non-potable use of non-potable groundwater.
- The City should continue to participate in in-lieu and other recharge programs using the City's CAP allocation, supplemented with purchased incentive-rate CAP water, to accrue annual recovery credits and/or LTS credits. Because of the reimbursements to the City by the participating irrigation districts, in-lieu recharge continues to be the most cost-effective mechanism to accrue credits.
- The City should continue to recharge for credit reclaimed water that is not used directly to apply to annual withdrawals, currently averaging 1,600 to 1,800 acre-feet per year.
- The City should lobby for the 7,211 acre-feet per year of CAP reallocation previously committed by ADWR, or risk losing the reallocation to other contract holders who are now vying for that water.
- The City should continue negotiations on the GRIC water rights settlement act to acquire the right to lease 7,000 (or more) acre-feet per year of Indian CAP water rights. The City should monitor negotiations for additional lease agreements with GRIC, and consider expanding those negotiations to other Indian Tribes.

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- The City should evaluate the alternative of acquiring land in one of the basins outside the AMA where groundwater withdrawal and transport into the AMA is a legal alternative. These include Harquahala, McMullen, and Butler Valleys. Any one of these alternatives will require negotiating "shoulder space" in the CAP canal.
- The City should evaluate Colorado River rights alternatives for the opportunity to acquire and transport water into the City's service area. These alternatives will require negotiating "shoulder space" in the CAP canal.

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GLOSSARY OF TERMS

AA	Activated Alumina
AAWC	Arizona American Water Company
AD	Average Day Demand
ADEQ	Arizona Department of Environmental Quality
ADES	Arizona Department of Economic Services
ADHS	Arizona Department of Health Services
ADRE	Arizona Department of Real Estate
ADWR	Arizona Department of Water Resources
AMA	Active Management Area
AMWUA	Arizona Municipal Water Users Association
ARS	Arizona Revised Statues
ASL	Allen, Stephenson, and Lacey
ASLD	Arizona State Land Department
AWC	Arizona Water Company White Tanks
AWS	Assured Water Supply
BCR	Benefit-Cost Ratio
BLM	U.S. Bureau of Land Management
BOR	Bureau of Reclamation
BWCDD	Buckeye Water Conservation and Drainage District
CAGRD	Central Arizona Groundwater Replenishment District
CAP	Central Arizona Project
CASS	Central Arizona Salinity Study
CAWCD	Central Arizona Water Conservation District
CCL	Contaminant Candidate List
CFS	Cubic Feet Per Second
CIP	Capital Improvement Plan
CRIT	Colorado River Indian Tribes
CVIDD	Cibola Valley Irrigation and Distribution District
DBP	Disinfection By-products
D/DBP	Disinfectants and Disinfection By-products
DBPPs	Disinfection Byproduct Precursors
DIP	Ductile Iron Pipe
DO	Dissolved Oxygen
DOC	Dissolved Organic Carbon
DWSRF	Drink Water State Revolving Fund
EDR	Eletricaldialysis Reversal
EIRR	Economic Internal Rate of Return
EMR	Estrella Mountain Ranch
EPA	Environmental Protection Agency
ESD	Explanation of Significant Differences
GAC	Granular Activated Carbon
GFH	Granular Ferric Hydroxide
GFR	Grandfathered Rights
GIS	Geographical Information System
GMA	Groundwater Management Act

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GPCD	Gallons Per Capita Per Day
GPM	Gallons Per Minute
GRIC	Gila River Indian Community
GSF	Groundwater Savings Facility
GTRC	Goodyear Tire & Rubber Company
HAA5	Five Haloacetic Acids
HSR	Hydrologic Survey Reports
IGRs	Irrigation Grandfathered Rights
IRR	Internal Rate of Return
IX	Ion Exchange
LPSCO	Litchfield Park Service Company
LTS	Long-Term Storage
LT2ESWTR	Long Term 2 Enhanced Surface Water Treatment Rule
MAG	Maricopa Association of Governments
MCL	Maximum Contaminant Level
MCLGs	Maximum Contaminant Level Goals
MD	Maximum Day Demand
M/DBP	Microbia/disinfection By-products
MF	Microfiltration
MG	Million Gallons
MG/L	Milligrams Per Liter
MGD	Million Gallons Per Day
M&I	Municipal & Industrial
MIEX	Magnetized Ion Exchange
MPA	Municipal Planning Area
MRDL	Maximum Residual Disinfectant Level
MRL	Minimum Reporting Limits
MWD	Maricopa Water Conservation District
NF	Nanofiltration
NF/RO	Nanofiltration/Reverse Osmosis
NIA	Non-Indian Agriculture
NIPDWR	National Interim Primary Drinking Water Regulation
NPDES	National Pollutant Discharge Elimination System
NPDWR	National Primary Drinking Water Regulations
NPV	Net Present Value
O&M	Operations & Maintenance
ORP	Oxidation Reduction Potential
P3	Public –Private Partnership
PCE	Tetrachloroethylene
PGA	Phoenix-Goodyear Airport
POTW	Publicly-Owned Treatment Works
PPB	Parts Per Billion
PPM	Parts Per Million
PSI	Pounds Per Square Inch
PDWS	Primary Drinking Water Standards
RCMs	Reasonable Conservation Measures

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RID	Roosevelt Irrigation District
RO	Reverse Osmosis
ROW	Right of Way
RP	Responsible Party
SAT	Soil Aquifer Treatment
SCADA	Supervisory Control and Data Acquisition
SCO	Stipulation and Consent Order
SCOD	Soluble Chemical Oxygen Demand
SDWA	Safe Drinking Water Act
SDWS	Secondary Drinking Water Standards
SRP	Salt River Project
SWTF	Surface Water Treatment Facility
TCE	Trichloroethylene
TCR	Total Coliform Rule
TDS	Total Dissolved Solids
TKN	Total Kjeldahl Nitrogen
TOC	Total Organic Carbon
TTHM	Total Trihalomethanes
UCMR	Unregulated Contaminant Monitoring Regularization
UF	Ultrafiltration
USF&WS	U.S. Fish &Wildlife Service
USGS	United States Geological Survey
VOC	Volatile Organic Compounds
WESTCAPS	West Valley Central Arizona Project Subcontractors
WIFA	Water Infrastructure Finance Authority
WMC	West Maricopa Combine
WPA	Water Planning Area
WQARF	Water Quality Assurance Revolving Fund
WRFs	Water Reclamation Facilities
WWTP	Wastewater Treatment Plant

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EXHIBIT
CCG-7
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DRAFT OUTLINE
CASA GRANDE WATER RESOURCE MASTER PLAN

I Existing water supplies and demand patterns

A. Current water supplies

1. Number of wells, location, annual volume of production over past five years

2. Condition of wells, maximum annual production potential, required capital improvements schedule

3. Water quality profile and issues, i. e. arsenic

B. Current water demands

1. Annual sales by customer type and by meter size over past five years

2. Seasonality and peak use, monthly demand patterns over past five years, peak day use

3. Losses and unaccounted for water

II Future demands and net requirements

A. Demographic/economic projections

1. Population and employment growth trends, 1990 through 2005

2. Published or available projections, developer plans

3. Selection of high and low scenarios through at least 2025

B. Water demand projections

1. Selection of water demand forecasting approach, i.e. gallons per capita per day

2. High and low water demand projection scenarios through at least 2025

C. Net Water Requirements--Comparison of water demand projections with available maximum supplies from existing wells, identification of future unmet needs over time

III Additional Groundwater Resources

A. What is potential for acquiring groundwater rights, developing new wells

B. Increased production volume potential over time

C. Infrastructure requirements

D. Capital, operating costs schedule

E. Constraints and opportunities

IV CAP Water

A. Available water volumes, schedule of availability

B. Infrastructure requirements by component, location

C. Capital, operating costs schedules

D. Constraints and opportunities

V Non-potable water (effluent)

A. Available water volumes, schedule of availability

B. Infrastructure requirements, location

C. Capital, operating costs schedules

D. Constraints and opportunities

VI Other alternative resources—i.e.water purchases or transfers, etc.

A. Available water volumes, schedule of availability

B. Infrastructure requirements, location

C. Capital, operating costs schedules

D. Constraints and opportunities

VII Arsenic treatment

A. Current plan

B. Infrastructure requirements, location

C. Capital, operating costs schedules

D. Constraints and opportunities--Potential integration with other water supply alternatives, i.e. blending, combined treatment, etc.

VIII Recommended water master plan

A. Alternative supply scenarios or combination of resources considered

B. Description of selected future supply plan

1. Volume of new water available over time

2. Infrastructure needs and location

C. Justification of future supply plan

D. Schedule for permitting, implementation

E. Capital cost requirements schedule through 2025

F. Operating cost requirements through 2025

City of Casa Grande

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Department List

EXHIBIT
CCG-8
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Welcome to Casa Grande, Arizona

Introduction | Economic Activities | Scenic Attractions
Community Facilities | Utilities | Facts and Figures
Arts & Humanities Commission Art Brochure
Where to Find Out More about Casa Grande

Introduction

Casa Grande is a dynamic, involved community, a modern city with rural heritage and old-fashioned values. Its economic base is a mix of retail trade, factory outlet shopping, manufacturing and agriculture.

Founded in 1879, Casa Grande was named for the famous Hohokam Indian Ruins 20 miles to the northeast. Midway between Phoenix and Tucson, the city has grown to be the largest community in western Pinal County since its incorporation in 1915.

Principal Economic Activities

Casa Grande is strategically located at the intersection of two interstate highways (I-8 and I-10) in an area known as Arizona's Golden Corridor.

Once dependent on agriculture and mining, the community has evolved into a diversified full-service area with manufacturing, retail trade, government and tourist-related employment. All of Pinal County is a designated Enterprise Zone.

Scenic Attractions

Casa Grande's location, mild climate, and scenic attractions make it attractive to tourists and winter visiotrs. The Casa Grande Valley Historical Museum offers many historical displays and facts about the area. The unique architecture of the historical railroad station and other historic buildings can be enjoyed on a walking tour of Casa Grande.

Named a Main Street city in 1992, Museum hosts a number of shows each year featuring sculpture, water-color, multimedia and Western art by Arizona artists. The Casa Grande Valley Players will begin a new season of community theater. The city is also the home of the Arizona State Open Chili championship held every March.

The annual O'Odham Tash Celebration, a gathering of tribes, is held in mid-February and features

Casa Grande is revitalizing the unique downtown area. The Casa Grande Art

Native American arts and crafts, ceremonial dances, rodeos, powwows and parades.

Community Facilities

Casa Grande offers a broad range of community facilities including two senior centers, two museums, a library, a bowling center, a fitness and racquet club, one pool, one movie triplex, four golf courses, an archery range, and rodeo facilties. There are more than 18 parks, many with ramadas, handball courts, tennis courts, softball diamonds, and playgound equipment.

Governmental

The city is governed by a mayor, six council members and a city manager. Police protection is provided by the city and the Pinal County Sheriff's Department. There are three fire stations with both full-time and part-time emergency medical personnel. All Stations are staffed with Advanced Life Support Paramedics

Lodging and Meeting Facilities

There are over 650 rooms available in seven hotels/motels which also feature numerous meeting facilities, with the largest seating 500 persons. Casa Grande also offers 15 RV parks in the area.

Medical

Casa Grande Regional Medical Center with 201 beds and the Desert Pavilion with 64 beds provide long-term care. Medical professions in Casa Grande include: 41 physicians (11 consulting physicians), four orthodonists, 12 chiropractors, four obstetricians, nine optometrists, and 17 dentists. Also, 32 additional physicians (specialists) are available through the Associated and Allied Health Professions.

Financial

Casa Grande has six banks and two credit unions with 11 branch locations. Further, Casa Grande businesses are eligible for assistance in financing fixed assets through the Strategic Finance Division of the Arizona Department of Commerce. Information on private activity bonds within the city may be obtained from the same source or from the Industrial Development Authority of Casa Grande, Pinal County Arizona, 300 East 4th Street, Casa Grande, AZ 85222.

Industrial Properties

There are eight fully improved parks, most with access to rail, all with excellent access to I-10 and I-8. Parcels, ranging from one to 360 acres, are available.

Educational

Casa Grande has nine public elementary schools, two private elementary schools, and a new public high school facility at 2730 N. Trekell Rd., with a 2,800-student capacity. Central Arizona College, a two-year community college east of Casa Grande, offers a range of courses including college preparatory, liberal arts, vocational/technical, and career education. Arizona State University in Tempe (45 miles north) and the University of Arizona in Tucson (67 miles south) are major four-year state institutions. Northern Arizona University at Central Arizona College allows a student to choose choose from over 17 bachelor's and 12

Airport

Residents of Casa Grande have access to the Casa Grande Municipal Airport with two, 5,200-foot asphalt runways.

master's degrees, plus 12 certificates and endorsements; for information, call (520) 421-1394. The University of Phoenix offers bachelors and masters degrees in business-related areas in conjunction with the community college.

Utilities

Electricity	Arizona Public Service	(520) 421-8400
	E.D. 1	(520) 424-3344
	E.D. 2	(520) 723-7741
Natural Gas	Southwest Gas Corporation	(520) 836-8251
Telephone	Qwest	(800) 244-1111
Water	Arizona Water Company	(520) 836-8785
Sewer	Municipal	(520) 421-8600
Landfill	Municipal - See Rate Increase	(520) 421-8600
Garbage	Municipal	(520) 421-8600
Trash	Municipal	(520) 421-8600
Irrigation	Municipal	(520) 421-8600

Facts and Figures

Latitude and Longitude	32.89231 N, 111.73592 W
Elevation	1,405 feet above sea level
Land Area	138.64 sq kilometers (53.53 sq miles)
2003 Population	29,700
Charter Adopted	1975
Sales Tax/96-97 Collection	1.8%, $6,894,045
Bed Tax/96/97 Collection	2%, $717,806

Outside Sources: Arizona Department of Economic Security, U.S. Census Bureau, U.S. Geological Survey

Find Your Representatives by zip code

Acknowledgment

This page was created primarily using information from the **Arizona Department of Commerce Community Profile of Casa Grande.**

For a complete copy of the community profile, please contact:

Arizona Department of Commerce
1700 West Washington Street, Ste. 600

Phoenix, AZ 85007
(602) 771-1100 - Main Switchboard
(602) 771-1200 - Fax
www.azcommerce.com

E-mail Us At:

City of Casa Grande

Write Us At:

City of Casa Grande
510 E. Florence Blvd.
Casa Grande, AZ 85222

Call Us At:

520-421-8600
TDD 520-421-2035

ARIZONA WATER COMPANY

an Arizona corporation, established April 1, 1955

The Articles of Incorporation of Arizona Water Company were filed with the Arizona Corporation Commission, on December 15, 1954. On March 23, 1955, the Commission approved the Company's application to acquire the water properties and related franchises and rights of Arizona Public Service Company. The Company exists as an Arizona corporation, specifically a public utility, as defined by the Arizona Revised Statutes, furnishing domestic, commercial, and industrial water service to customers, in several communities throughout the State of Arizona under the Terms and Conditions for the Provision of Water Service approved by the Commission.

The Company's executive, accounting, and engineering personnel are at the Phoenix Office. This office provides centralized management, planning, control and services for each of the Company's 18 systems. The communities served by Arizona Water Company, the addresses and telephone numbers for the Company's 11 local offices, and the General Service Water Rates and other related Tariff Schedules, etc. for these areas are:

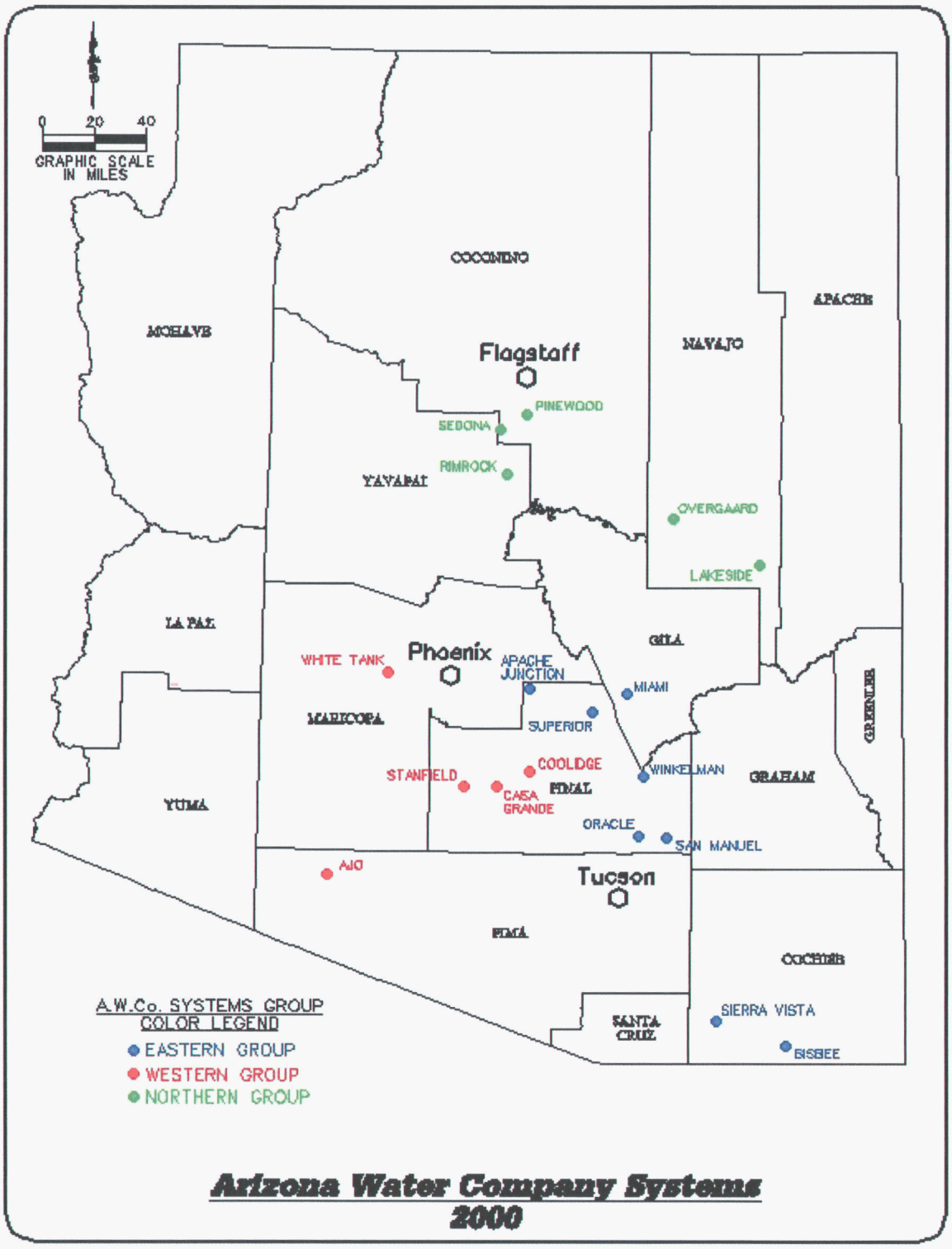
Ajo Heights | Apache Junction | Bisbee | Casa Grande | Coolidge | Lakeside
Miami | Oracle | Overgaard | Pinewood | Rimrock | San Manuel
Sedona | Sierra Vista | Stanfield | Superior | White Tank | Winkelman

MAP

Disclaimer
Home • Corporate Office • Division Offices • Tariffs & Rates
Water Conservation • Backflow Prevention • Water Quality Reports
Map • Employment • Links
Payment Options • FAQs

Questions or comments may be sent to Arizona Water Company

Updated: January 3, 2002.



Ajo Heights Apache Junction Bisbee Casa Grande Coolidge Lakeside
Miami Oracle Overgaard Pinewood Rimrock San Manuel
Sedona Sierra Vista Stanfield Superior White Tank Winkelman

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Questions or comments may be sent to Arizona Water Company

Updated: April 5, 2002

ADDITIONAL COSTS TO HOMEOWNERS FOR CARRYING COSTS OF PREPAID HOOKUP FEES

	DEVELOPER SALES OF LOTS TO BUILDERS							BUILDERS SALES TO HOMEOWNERS			
Year	HU Fee Paid	Units	Hook Up Fee	Cost + 15% p/a Cost of Money	Average Cost per Unit	Additional Cost per Unit	Individual Lot HU Fee Cost	Builder Cost of HU Fee	+ 15% Cost of Money (1/2 yr)	Individual Home HU Fee Cost	Additional Cost to Home Owner
0	$ 225,000										
1		500	$ 150	$ 86,250			$ 172.50	$ 86,250	$ 92,719	$ 185.44	$ 35.44
2		500	$ 150	$ 99,188			$ 198.38	$ 99,188	$ 106,627	$ 213.25	$ 63.25
3		500	$ 150	$ 114,066	199.67	$ 49.67	$ 228.13	$ 114,066	$ 122,621	$ 245.24	$ 95.24
TOTAL	$ 225,000	1,500		$ 299,503				$ 299,503	$ 321,966		
									Average	$ 214.64	$ 64.64
										% Increase	43%

If Developer must pay fee for 1,500 houses at a time, will add the fee and cost of money (15% per year) to the cost of lot.

Builder will buy lots and add the fee and cost of money (15% per year) to the cost of the house.

If the Builder pays the fee at the time of paying for the service line and meter, the additional cost to the home buyer is only $150 rather than $214.64.

EXHIBIT
tabbies
P-1
admitted

ADDITIONAL COSTS TO HOMEOWNERS FOR CARRYING COSTS OF PREPAID HOOKUP FEES

	A	B	C	D	E	F	G	H	I	J	K	L
1	DEVELOPER SALES OF LOTS TO BUILDERS								BUILDERS SALES TO HOMEOWNERS			
2	Year	HU Fee Paid	Units	Hook Up Fee	Cost + 15% p/a Cost of Money	Average Cost per Unit	Additional Cost per	Individual Lot HU Fee Cost	Builder Cost of HU Fee	+ 15% Cost of Money (1/2 yr)	Individual Home HU Fee Cost	Additional Cost to Home Owner
3	0	=1500*150										
4	1		500	150	=(D4*C4)*1.15			=E4/500	86250	=I4*1.075	=J4/500	=K4-150
5	2		500	150	=(D5*C5)*(1.15^2)			=E5/500	99187.5	=I5*1.075	=J5/500	=K5-150
6	3		500	150	=(D6*C6)*(1.15^3)	=SUM(E4:E6)/1500	=F6-D6	=E6/500	114065.625	=I6*1.075	=J6/500	=K6-150
7												
8	TOTAL	=SUM(B3:B6)	=SUM(C4:C6)		=SUM(E4:E6)				=SUM(I4:I6)	=SUM(J4:J6)		
9												
10										Average	=AVERAGE(K4:K6)	=AVERAGE(L4:L6)
11											% Increase	=(214.64/150)-1

EXHIBIT
tabbies
P-2
admitted

3. Where service is being provided for the first time, the customer shall provide and maintain a private cutoff valve within 18 inches of the meter on the customer's side of the meter, and the utility shall provide a like valve on the utility's side of such meter.
4. The Company may install its meter at the property line or, at the Company's option, on the customer's property in a location mutually agreed upon.
5. Where the meter or service line location on the customer's premises is changed at the request of the customer or due to alterations on the customer's premises, the customer shall provide and have installed at his expense all piping necessary for relocating the meter and the utility may make a charge for moving the meter and/or service line.
6. The customer's lines or piping must be installed in such a manner as to prevent cross-connection or backflow.
7. Each utility shall file a tariff for service and meter installations for Commission review and approval.

C. Easements and rights-of-way
1. Each customer shall grant adequate easement and right-of-way satisfactory to the utility to ensure that customer's proper service connection. Failure on the part of the customer to grant adequate easement and right-of-way shall be grounds for the utility to refuse service.
2. When a utility discovers that a customer or his agent is performing work or has constructed facilities adjacent to or within an easement or right-of-way and such work, construction or facility poses a hazard or is in violation of federal, state or local laws, ordinances, statutes, rules or regulations, or significantly interferes with the utility's access to equipment, the utility shall notify the customer or his agent and shall take whatever actions are necessary to eliminate the hazard, obstruction or violation at the customer's expense.

Historical Note

Adopted effective March 2, 1982 (Supp. 82-2). Amended subsection (B) effective September 28, 1982 (Supp. 82-5).

R14-2-406. Main extension agreements

A. Each utility entering into a main extension agreement shall comply with the provisions of this rule which specifically defines the conditions governing main extensions.

B. An applicant for the extension of mains may be required to pay to the Company, as a refundable advance in aid of construction, before construction is commenced, the estimated reasonable cost of all mains, including all valves and fittings.
1. In the event that additional facilities are required to provide pressure, storage or water supply, exclusively for the new service or services requested, and the cost of the additional facilities is disproportionate to anticipated revenues to be derived from future consumers using these facilities, the estimated reasonable cost of such additional facilities may be included in refundable advances in aid of construction to be paid to the Company.
2. Upon request by a potential applicant for a main extension, the utility shall prepare, without charge, a preliminary sketch and rough estimate of the cost of installation to be paid by said applicant. Any applicant for a main extension requesting the utility to prepare detailed plans, specifications, or cost estimates may be required to deposit with the utility an amount equal to the estimated cost of preparation. The utility shall, upon request, make available within 45 days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the applicant accepts utility construction of the extension, the deposit shall be credited to the cost of construction; otherwise the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the utility's expense, appropriate details shall be set forth in the plans, specifications and cost estimates.
3. Where the utility requires an applicant to advance funds for a main extension, the utility shall furnish the applicant with a copy of the Commission rules on main extension agreements prior to the applicant's acceptance of the utility's extension agreement.
4. In the event the utility's actual cost of construction is less than the amount advanced by the customer, the utility shall make a refund to the applicant within 30 days after the completion of the construction or utility's receipt of invoices related to that construction.
5. The provisions of this rule apply only to those applicants who in the utility's judgment will be permanent customers of the utility. Applications for temporary service shall be governed by the Commission's rules concerning temporary service applications.

C. Minimum written agreement requirements
1. Each main extension agreement shall include the following information:
   a. Name and address of applicant(s)
   b. Proposed service address
   c. Description of requested service
   d. Description and map of the requested line extension
   e. Itemized cost estimate to include materials, labor, and other costs as necessary
   f. Payment terms
   g. A clear and concise explanation of any refunding provisions, if applicable
   h. Utility's estimated start date and completion date for construction of the main extension
2. Each applicant shall be provided with a copy of the written main extension agreement.

D. Refunds of advances made pursuant to this rule shall be made in accord with the following method: the Company shall each year pay to the party making an advance under a main extension agreement, or that party's assignees or other successors in interest where the Company has received notice and evidence of such assignment or succession, a minimum amount equal to 10% of the total gross annual revenue from water sales to each bona fide consumer whose service line is connected to main lines covered by the main extension agreement, for a period of not less than 10 years. Refunds shall be made by the Company on or before the 31st day of August of each year, covering any refunds owing from water revenues received during the preceding July 1st to June 30th period. A balance remaining at the end of the ten-year period set out shall become non-refundable, in which case the balance not refunded shall be entered as a contribution in aid of construction in the accounts of the Company, however, agreements under this general order may provide that any balance of the amount advanced thereunder remaining at the end of the 10 year period set out, shall thereafter remain payable in whole or in part and in such manner as is set forth in the agreement. The aggregate refunds under this rule shall in no event exceed the total of the refundable advances in aid of construction. No interest shall be paid by the utility on any amounts advanced. The Company shall make no refunds from any revenue received from any lines, other than customer service lines, leading up to or taking off from the particular main extension covered by the agreement.

EXHIBIT
P-3
admitted

E. Amounts advanced in aid of construction of main extensions shall be refunded in accord with the rules of this Commission in force and effect on the date the agreement therefor was executed. All costs under main extension agreements entered into after the adoption of this rule shall be refunded as provided herein.

F. The Commission will not approve the transfer of any Certificate of Public Convenience and Necessity where the transferor has entered into a main extension agreement, unless it is demonstrated to the Commission that the transferor has agreed to satisfy the refund agreement, or that the transferee has assumed and has agreed to pay the transferor's obligations under such agreement.

G. All agreements entered into under this rule shall be evidenced by a written statement, and signed by the Company and the parties advancing the funds for advances in aid under this rule or the duly authorized agents of each.

H. The size, design, type and quality of materials of the system, installed under this rule location in the ground and the manner of installation, shall be specified by the Company, and shall be in accord with the requirements of the Commission or other public agencies having authority therein. The Company may install main extensions of any diameter meeting the requirements of the Commission or any other public agencies having authority over the construction and operation of the water system and mains, except individual main extensions, shall comply with and conform to the following minimum specifications:

1. 150 p.s.i. working pressure rating and
2. 6" standard diameter.

However, single residential customer advances in aid of construction shall not exceed the reasonable cost of construction of the 6-inch diameter main extension.

I. All pipelines, valves, fittings, wells, tanks or other facilities installed under this rule shall be the sole property of the Company, and parties making advances in aid of construction under this rule shall have no right, title or interest in any such facilities.

J. The Company shall schedule all new requests for main extension agreements, and for service under main extension agreements, promptly and in the order received.

K. An applicant for service seeking to enter into a main extension agreement may request that the utility include on a list of contractors from whom bids will be solicited, the name(s) of any bonded contractor(s), provided that all bids shall be submitted by the bid date stipulated by the utility. If a lower bid is thus obtained or if a bid is obtained at an equal price and with a more appropriate time of performance, and if such bid contemplates conformity with the Company's requirements and specifications, the Company shall be required to meet the terms and conditions of the bid proffered, or to enter into a construction contract with the contractor proffering such bid. Performance bond in the total amount of the contract may be required by the utility from the contractor prior to construction.

L. Any discounts obtained by the utility from contracts terminated under this rule shall be accounted for by credits to the appropriate account dominated as Contributions in Aid of Construction.

M. All agreements under this rule shall be filed with and approved by the Utilities Division of the Commission. No agreement shall be approved unless accompanied by a Certificate of Approval to Construct as issued by the Arizona Department of Health Services. Where agreements for main extensions are not filed and approved by the Utilities Division, the refundable advance shall be immediately due and payable to the person making the advance.

Historical Note

Adopted effective March 2, 1982 (Supp. 82-2). Amended subsections (D) and (K) effective September 28, 1982 (Supp. 82-5). Amended to correct subsection numbering (Supp. 99-4).

R14-2-407. Provision of service

A. Utility responsibility. Each utility shall be responsible for providing potable water to the customer's point of delivery.

B. Customer responsibility

1. Each customer shall be responsible for maintaining all facilities on the customer's side of the point of delivery in a safe and efficient manner and in accordance with the rules of the state Department of Health.
2. Each customer shall be responsible for safeguarding all utility property installed in or on the customer's premises for the purpose of supplying water to that customer.
3. Each customer shall exercise all reasonable care to prevent loss or damage to utility property, excluding ordinary wear and tear. The customer shall be responsible for loss of or damage to utility property on the customer's premises arising from neglect, carelessness, or misuse and shall reimburse the utility for the cost of necessary repairs or replacements.
4. Each customer shall be responsible for payment for any equipment damage resulting from unauthorized breaking of seals, interfering, tampering or bypassing the utility meter.
5. Each customer shall be responsible for notifying the utility of any failure identified in the utility's equipment.
6. Water furnished by the utility shall be used only on the customer's premises and shall not be resold to any other person. During critical water conditions, as determined by the Commission, the customer shall use water only for those purposes specified by the Commission. Disregard for this rule shall be sufficient cause for refusal or discontinuance of service.

C. Continuity of service. Each utility shall make reasonable efforts to supply a satisfactory and continuous level of service. However, no utility shall be responsible for any damage or claim of damage attributable to any interruption or discontinuation of service resulting from:

1. Any cause against which the utility could not have reasonably foreseen or made provision for, i.e., force majeure
2. Intentional service interruptions to make repairs or perform routine maintenance
3. Curtailment.

D. Service interruptions

1. Each utility shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.
2. Each utility shall make reasonable provisions to meet emergencies resulting from failure of service, and each utility shall issue instructions to its employees covering procedures to be followed in the event of emergency in order to prevent or mitigate interruption or impairment of service.
3. In the event of a national emergency or local disaster resulting in disruption of normal service, the utility may, in the public interest, interrupt service to other customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.

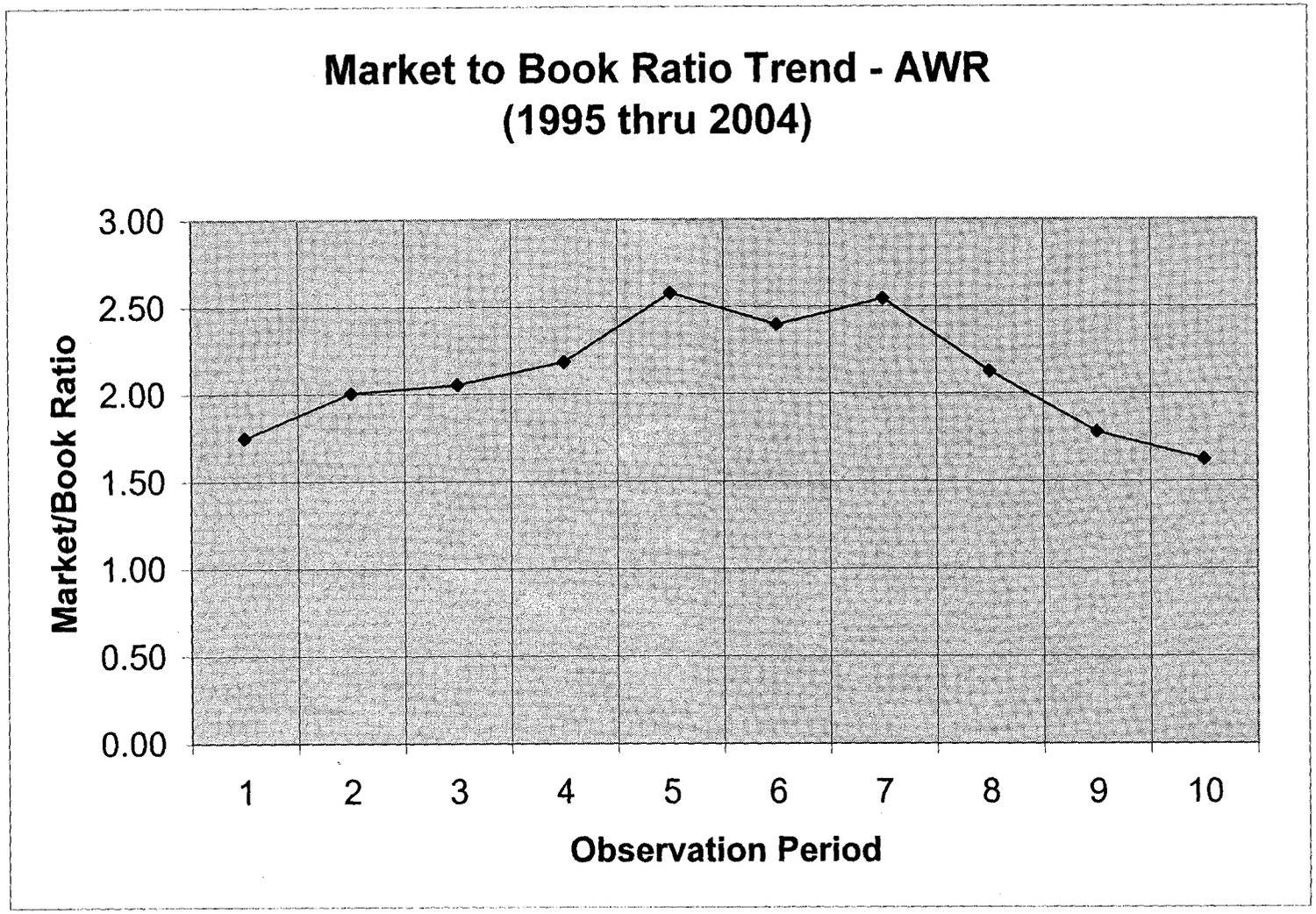
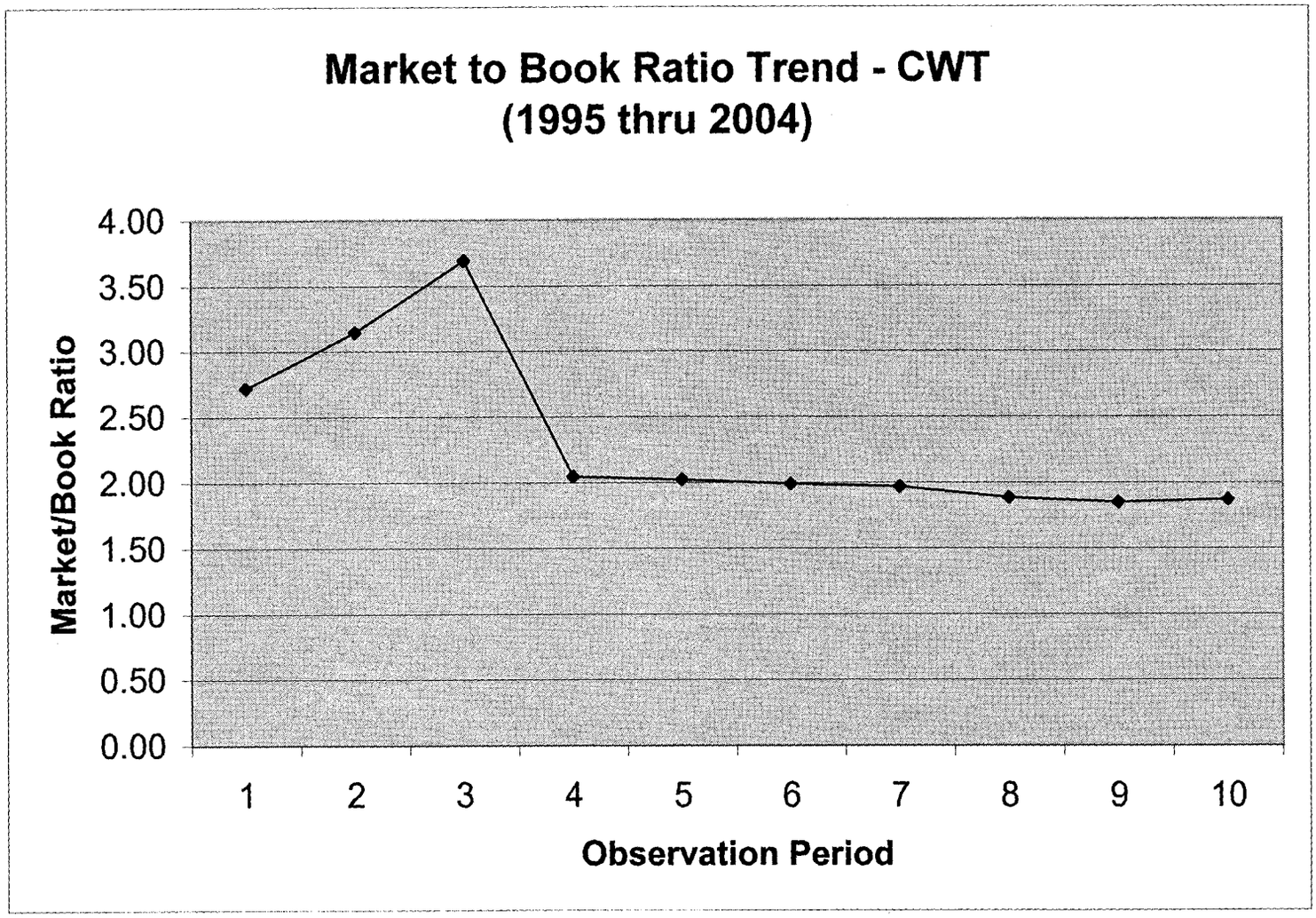
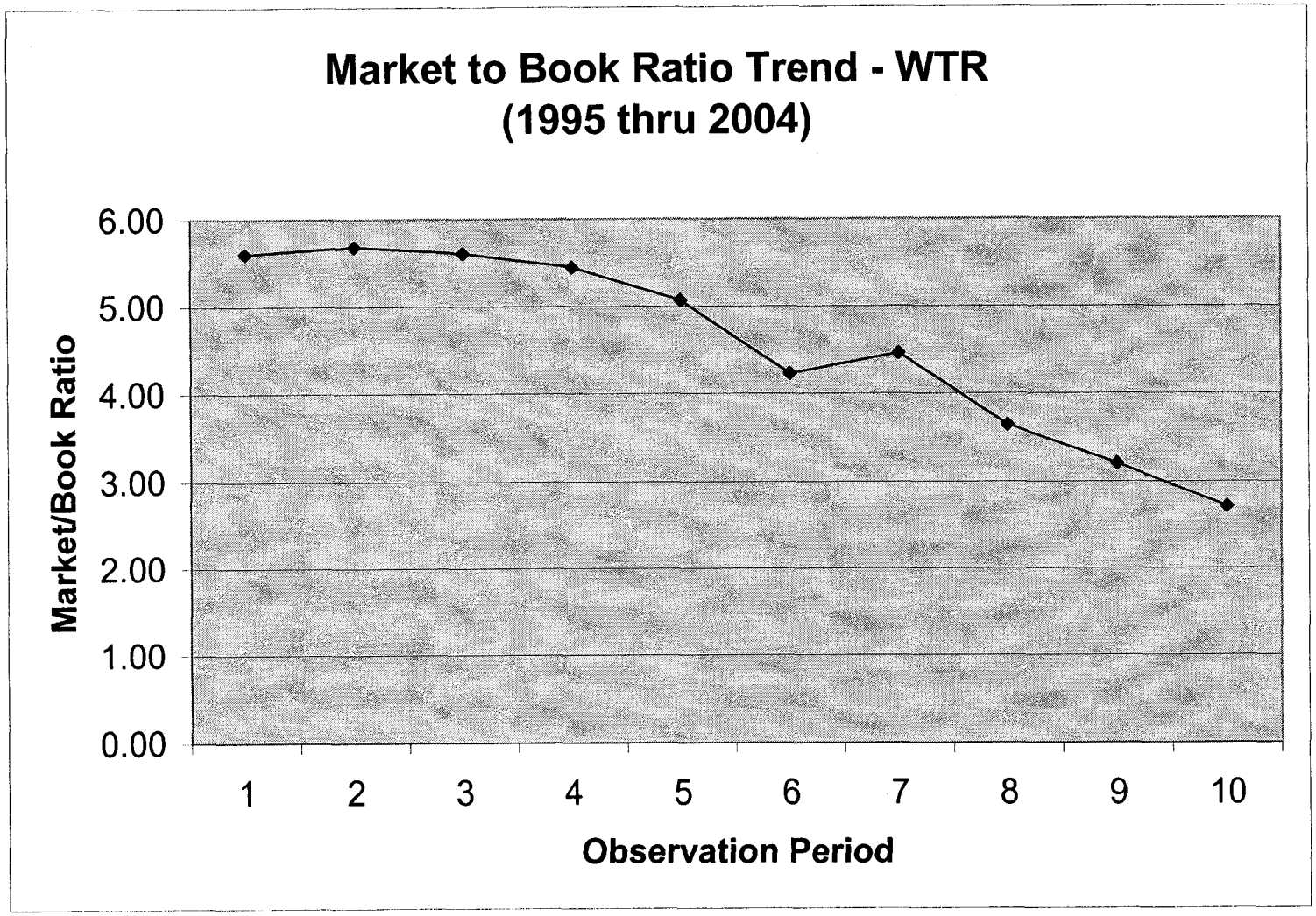


EXHIBIT
tabbies
RUCO-1
ordered admitted


Market to Book Ratio Trend - CWT
(1995 thru 2004)
Market/Book Ratio
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1
2
3
4
5
6
7
8
9
10
Observation Period


Market to Book Ratio Trend - WTR
(1995 thru 2004)
Market/Book Ratio
6.00
5.00
4.00
3.00
2.00
1.00
0.00
1
2
3
4
5
6
7
8
9
10
Observation Period

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
1995	18.00	10.29	1.75	31.85	11.72	2.72	18.37	3.28	5.60
1996	21.29	11.01	2.01	35.89	12.22	3.15	20.11	3.59	5.69
1997	22.55	11.24	2.05	45.87	13.00	3.69	20.98	3.79	5.61
1998	25.04	11.48	2.18	27.38	13.38	2.05	23.32	4.28	5.45
1999	30.49	11.82	2.58	27.16	13.43	2.02	23.16	4.57	5.07
2000	30.54	12.74	2.40	25.69	12.90	1.99	21.67	5.13	4.22
2001	33.64	13.22	2.54	25.49	12.95	1.97	24.68	5.53	4.46
2002	29.87	14.05	2.13	24.71	13.12	1.88	21.18	5.81	3.65
2003	24.87	13.97	1.78	26.70	14.44	1.85	22.83	7.12	3.21
2004	24.32	14.98	1.62	29.28	15.65	1.87	21.31	7.85	2.71
Ten Year Average	**26.06**	**12.48**	**2.10**	**30.00**	**13.28**	**2.32**	**21.76**	**5.09**	**4.57**
Current (05/03/2005)	**25.90**	**15.20**	**1.70**	**34.08**	**16.00**	**2.13**	**27.29**	**8.05**	**3.39**

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
Tue, Jan 3, 1995	17.00	10.29	1.65	31.75	11.72	2.71	17.75	3.28	5.41
Wed, Jan 4, 1995	17.00	10.29	1.65	31.63	11.72	2.70	17.75	3.28	5.41
Thu, Jan 5, 1995	17.00	10.29	1.65	31.63	11.72	2.70	17.75	3.28	5.41
Fri, Jan 6, 1995	17.13	10.29	1.66	31.75	11.72	2.71	17.75	3.28	5.41
Mon, Jan 9, 1995	17.00	10.29	1.65	31.50	11.72	2.69	17.75	3.28	5.41
Tue, Jan 10, 1995	17.13	10.29	1.66	31.63	11.72	2.70	17.75	3.28	5.41
Wed, Jan 11, 1995	16.88	10.29	1.64	31.75	11.72	2.71	17.75	3.28	5.41
Thu, Jan 12, 1995	17.00	10.29	1.65	31.38	11.72	2.68	17.75	3.28	5.41
Fri, Jan 13, 1995	17.38	10.29	1.69	31.63	11.72	2.70	17.75	3.28	5.41
Mon, Jan 16, 1995	17.38	10.29	1.69	31.63	11.72	2.70	17.88	3.28	5.45
Tue, Jan 17, 1995	17.50	10.29	1.70	31.50	11.72	2.69	17.88	3.28	5.45
Wed, Jan 18, 1995	17.13	10.29	1.66	31.63	11.72	2.70	18.00	3.28	5.49
Thu, Jan 19, 1995	17.38	10.29	1.69	31.38	11.72	2.68	17.88	3.28	5.45
Fri, Jan 20, 1995	17.25	10.29	1.68	31.25	11.72	2.67	18.00	3.28	5.49
Mon, Jan 23, 1995	17.50	10.29	1.70	31.38	11.72	2.68	17.75	3.28	5.41
Tue, Jan 24, 1995	17.63	10.29	1.71	30.88	11.72	2.63	17.88	3.28	5.45
Wed, Jan 25, 1995	17.38	10.29	1.69	30.38	11.72	2.59	17.88	3.28	5.45
Thu, Jan 26, 1995	17.38	10.29	1.69	30.88	11.72	2.63	17.88	3.28	5.45
Fri, Jan 27, 1995	17.25	10.29	1.68	31.38	11.72	2.68	17.75	3.28	5.41
Mon, Jan 30, 1995	17.50	10.29	1.70	31.50	11.72	2.69	17.75	3.28	5.41
Tue, Jan 31, 1995	17.50	10.29	1.70	30.88	11.72	2.63	17.88	3.28	5.45
Wed, Feb 1, 1995	17.50	10.29	1.70	30.50	11.72	2.60	17.75	3.28	5.41
Thu, Feb 2, 1995	17.88	10.29	1.74	30.13	11.72	2.57	17.75	3.28	5.41
Fri, Feb 3, 1995	17.75	10.29	1.72	30.25	11.72	2.58	17.75	3.28	5.41
Mon, Feb 6, 1995	18.00	10.29	1.75	30.13	11.72	2.57	17.75	3.28	5.41
Tue, Feb 7, 1995	17.75	10.29	1.72	30.00	11.72	2.56	17.38	3.28	5.30
Wed, Feb 8, 1995	17.88	10.29	1.74	30.50	11.72	2.60	17.75	3.28	5.41
Thu, Feb 9, 1995	17.00	10.29	1.65	30.50	11.72	2.60	17.63	3.28	5.37
Fri, Feb 10, 1995	17.00	10.29	1.65	30.25	11.72	2.58	17.75	3.28	5.41
Mon, Feb 13, 1995	17.25	10.29	1.68	30.38	11.72	2.59	17.63	3.28	5.37
Tue, Feb 14, 1995	17.13	10.29	1.66	30.88	11.72	2.63	17.75	3.28	5.41
Wed, Feb 15, 1995	17.13	10.29	1.66	31.38	11.72	2.68	17.75	3.28	5.41
Thu, Feb 16, 1995	17.25	10.29	1.68	31.88	11.72	2.72	17.88	3.28	5.45
Fri, Feb 17, 1995	17.38	10.29	1.69	32.00	11.72	2.73	18.00	3.28	5.49
Tue, Feb 21, 1995	17.13	10.29	1.66	32.13	11.72	2.74	17.88	3.28	5.45
Wed, Feb 22, 1995	17.25	10.29	1.68	32.00	11.72	2.73	18.00	3.28	5.49
Thu, Feb 23, 1995	17.25	10.29	1.68	32.13	11.72	2.74	17.88	3.28	5.45
Fri, Feb 24, 1995	17.25	10.29	1.68	32.13	11.72	2.74	17.88	3.28	5.45
Mon, Feb 27, 1995	17.13	10.29	1.66	31.88	11.72	2.72	18.00	3.28	5.49
Tue, Feb 28, 1995	17.38	10.29	1.69	32.00	11.72	2.73	18.13	3.28	5.53
Wed, Mar 1, 1995	17.13	10.29	1.66	31.75	11.72	2.71	17.88	3.28	5.45
Thu, Mar 2, 1995	17.13	10.29	1.66	31.75	11.72	2.71	18.00	3.28	5.49
Fri, Mar 3, 1995	16.88	10.29	1.64	31.88	11.72	2.72	18.00	3.28	5.49
Mon, Mar 6, 1995	16.75	10.29	1.63	31.75	11.72	2.71	17.75	3.28	5.41
Tue, Mar 7, 1995	16.63	10.29	1.62	31.75	11.72	2.71	17.75	3.28	5.41
Wed, Mar 8, 1995	16.50	10.29	1.60	31.63	11.72	2.70	18.13	3.28	5.53
Thu, Mar 9, 1995	16.25	10.29	1.58	31.75	11.72	2.71	18.13	3.28	5.53
Fri, Mar 10, 1995	16.25	10.29	1.58	31.88	11.72	2.72	18.00	3.28	5.49
Mon, Mar 13, 1995	16.13	10.29	1.57	31.63	11.72	2.70	18.00	3.28	5.49
Tue, Mar 14, 1995	15.88	10.29	1.54	31.50	11.72	2.69	18.13	3.28	5.53
Wed, Mar 15, 1995	16.00	10.29	1.55	31.63	11.72	2.70	18.13	3.28	5.53
Thu, Mar 16, 1995	16.00	10.29	1.55	31.25	11.72	2.67	18.13	3.28	5.53
Fri, Mar 17, 1995	16.13	10.29	1.57	30.75	11.72	2.62	17.88	3.28	5.45
Mon, Mar 20, 1995	16.13	10.29	1.57	30.63	11.72	2.61	17.75	3.28	5.41
Tue, Mar 21, 1995	16.25	10.29	1.58	30.25	11.72	2.58	17.88	3.28	5.45
Wed, Mar 22, 1995	16.25	10.29	1.58	30.00	11.72	2.56	17.88	3.28	5.45
Thu, Mar 23, 1995	16.13	10.29	1.57	29.88	11.72	2.55	18.13	3.28	5.53
Fri, Mar 24, 1995	16.00	10.29	1.55	29.88	11.72	2.55	18.00	3.28	5.49
Mon, Mar 27, 1995	16.38	10.29	1.59	30.00	11.72	2.56	18.00	3.28	5.49
Tue, Mar 28, 1995	16.63	10.29	1.62	29.88	11.72	2.55	18.00	3.28	5.49
Wed, Mar 29, 1995	16.38	10.29	1.59	29.75	11.72	2.54	17.88	3.28	5.45
Thu, Mar 30, 1995	16.25	10.29	1.58	29.75	11.72	2.54	18.00	3.28	5.49
Fri, Mar 31, 1995	16.13	10.29	1.57	29.88	11.72	2.55	17.88	3.28	5.45
Mon, Apr 3, 1995	16.38	10.29	1.59	29.88	11.72	2.55	17.88	3.28	5.45
Tue, Apr 4, 1995	16.25	10.29	1.58	30.25	11.72	2.58	17.75	3.28	5.41
Wed, Apr 5, 1995	16.38	10.29	1.59	30.38	11.72	2.59	18.00	3.28	5.49
Thu, Apr 6, 1995	16.75	10.29	1.63	30.88	11.72	2.63	18.13	3.28	5.53
Fri, Apr 7, 1995	16.38	10.29	1.59	31.13	11.72	2.66	17.88	3.28	5.45
Mon, Apr 10, 1995	16.38	10.29	1.59	31.25	11.72	2.67	18.00	3.28	5.49
Tue, Apr 11, 1995	16.38	10.29	1.59	31.13	11.72	2.66	18.13	3.28	5.53
Wed, Apr 12, 1995	16.38	10.29	1.59	31.25	11.72	2.67	18.13	3.28	5.53
Thu, Apr 13, 1995	16.00	10.29	1.55	31.50	11.72	2.69	18.13	3.28	5.53
Mon, Apr 17, 1995	16.00	10.29	1.55	31.50	11.72	2.69	18.25	3.28	5.56
Tue, Apr 18, 1995	16.00	10.29	1.55	31.13	11.72	2.66	17.88	3.28	5.45
Wed, Apr 19, 1995	16.25	10.29	1.58	31.44	11.72	2.68	17.88	3.28	5.45

Thu, Apr 20, 1995	16.13	10.29	1.57	32.00	11.72	2.73	17.88	3.28	5.45
Fri, Apr 21, 1995	16.38	10.29	1.59	32.13	11.72	2.74	17.88	3.28	5.45
Mon, Apr 24, 1995	16.25	10.29	1.58	32.13	11.72	2.74	17.88	3.28	5.45
Tue, Apr 25, 1995	16.50	10.29	1.60	31.50	11.72	2.69	18.00	3.28	5.49
Wed, Apr 26, 1995	16.63	10.29	1.62	31.63	11.72	2.70	18.00	3.28	5.49
Thu, Apr 27, 1995	17.00	10.29	1.65	31.75	11.72	2.71	18.13	3.28	5.53
Fri, Apr 28, 1995	17.13	10.29	1.66	31.88	11.72	2.72	18.00	3.28	5.49
Mon, May 1, 1995	16.88	10.29	1.64	32.00	11.72	2.73	17.88	3.28	5.45
Tue, May 2, 1995	16.75	10.29	1.63	32.63	11.72	2.78	18.13	3.28	5.53
Wed, May 3, 1995	17.00	10.29	1.65	32.13	11.72	2.74	18.13	3.28	5.53
Thu, May 4, 1995	17.25	10.29	1.68	32.13	11.72	2.74	18.13	3.28	5.53
Fri, May 5, 1995	17.25	10.29	1.68	31.75	11.72	2.71	18.13	3.28	5.53
Mon, May 8, 1995	17.38	10.29	1.69	31.75	11.72	2.71	18.25	3.28	5.56
Tue, May 9, 1995	17.38	10.29	1.69	32.00	11.72	2.73	18.00	3.28	5.49
Wed, May 10, 1995	17.50	10.29	1.70	31.88	11.72	2.72	18.13	3.28	5.53
Thu, May 11, 1995	17.63	10.29	1.71	32.00	11.72	2.73	18.13	3.28	5.53
Fri, May 12, 1995	18.38	10.29	1.79	31.88	11.72	2.72	18.13	3.28	5.53
Mon, May 15, 1995	18.00	10.29	1.75	32.00	11.72	2.73	18.00	3.28	5.49
Tue, May 16, 1995	17.88	10.29	1.74	32.25	11.72	2.75	18.00	3.28	5.49
Wed, May 17, 1995	17.88	10.29	1.74	32.25	11.72	2.75	17.88	3.28	5.45
Thu, May 18, 1995	18.00	10.29	1.75	32.38	11.72	2.76	17.88	3.28	5.45
Fri, May 19, 1995	17.88	10.29	1.74	32.63	11.72	2.78	18.00	3.28	5.49
Mon, May 22, 1995	18.25	10.29	1.77	32.13	11.72	2.74	18.00	3.28	5.49
Tue, May 23, 1995	18.13	10.29	1.76	31.38	11.72	2.68	18.00	3.28	5.49
Wed, May 24, 1995	17.88	10.29	1.74	31.88	11.72	2.72	18.00	3.28	5.49
Thu, May 25, 1995	17.25	10.29	1.68	31.88	11.72	2.72	18.00	3.28	5.49
Fri, May 26, 1995	17.63	10.29	1.71	31.75	11.72	2.71	18.13	3.28	5.53
Tue, May 30, 1995	18.38	10.29	1.79	32.00	11.72	2.73	18.13	3.28	5.53
Wed, May 31, 1995	18.50	10.29	1.80	32.00	11.72	2.73	18.13	3.28	5.53
Thu, Jun 1, 1995	18.75	10.29	1.82	32.38	11.72	2.76	17.75	3.28	5.41
Fri, Jun 2, 1995	18.75	10.29	1.82	32.25	11.72	2.75	17.75	3.28	5.41
Mon, Jun 5, 1995	18.50	10.29	1.80	32.38	11.72	2.76	17.88	3.28	5.45
Tue, Jun 6, 1995	18.50	10.29	1.80	32.38	11.72	2.76	17.75	3.28	5.41
Wed, Jun 7, 1995	18.88	10.29	1.83	32.25	11.72	2.75	18.00	3.28	5.49
Thu, Jun 8, 1995	18.63	10.29	1.81	32.38	11.72	2.76	18.13	3.28	5.53
Fri, Jun 9, 1995	18.75	10.29	1.82	32.38	11.72	2.76	18.00	3.28	5.49
Mon, Jun 12, 1995	18.50	10.29	1.80	32.63	11.72	2.78	18.00	3.28	5.49
Tue, Jun 13, 1995	18.63	10.29	1.81	32.25	11.72	2.75	18.13	3.28	5.53
Wed, Jun 14, 1995	18.88	10.29	1.83	32.13	11.72	2.74	18.00	3.28	5.49
Thu, Jun 15, 1995	18.88	10.29	1.83	32.25	11.72	2.75	18.13	3.28	5.53
Fri, Jun 16, 1995	18.88	10.29	1.83	32.13	11.72	2.74	18.13	3.28	5.53
Mon, Jun 19, 1995	19.13	10.29	1.86	31.88	11.72	2.72	18.13	3.28	5.53
Tue, Jun 20, 1995	19.13	10.29	1.86	31.63	11.72	2.70	18.13	3.28	5.53
Wed, Jun 21, 1995	19.25	10.29	1.87	31.50	11.72	2.69	18.25	3.28	5.56
Thu, Jun 22, 1995	18.88	10.29	1.83	31.63	11.72	2.70	18.25	3.28	5.56
Fri, Jun 23, 1995	19.00	10.29	1.85	31.88	11.72	2.72	18.25	3.28	5.56
Mon, Jun 26, 1995	18.50	10.29	1.80	32.00	11.72	2.73	18.38	3.28	5.60
Tue, Jun 27, 1995	18.75	10.29	1.82	31.88	11.72	2.72	18.75	3.28	5.72
Wed, Jun 28, 1995	19.75	10.29	1.92	31.75	11.72	2.71	18.38	3.28	5.60
Thu, Jun 29, 1995	19.25	10.29	1.87	31.50	11.72	2.69	18.50	3.28	5.64
Fri, Jun 30, 1995	19.38	10.29	1.88	31.50	11.72	2.69	18.50	3.28	5.64
Mon, Jul 3, 1995	19.25	10.29	1.87	31.38	11.72	2.68	18.25	3.28	5.56
Wed, Jul 5, 1995	18.88	10.29	1.83	31.38	11.72	2.68	18.38	3.28	5.60
Thu, Jul 6, 1995	18.50	10.29	1.80	31.38	11.72	2.68	18.50	3.28	5.64
Fri, Jul 7, 1995	18.63	10.29	1.81	31.75	11.72	2.71	18.50	3.28	5.64
Mon, Jul 10, 1995	18.63	10.29	1.81	31.88	11.72	2.72	18.63	3.28	5.68
Tue, Jul 11, 1995	18.63	10.29	1.81	31.25	11.72	2.67	18.50	3.28	5.64
Wed, Jul 12, 1995	18.38	10.29	1.79	31.38	11.72	2.68	18.63	3.28	5.68
Thu, Jul 13, 1995	18.13	10.29	1.76	31.38	11.72	2.68	18.38	3.28	5.60
Fri, Jul 14, 1995	17.00	10.29	1.65	31.50	11.72	2.69	18.00	3.28	5.49
Mon, Jul 17, 1995	17.25	10.29	1.68	31.88	11.72	2.72	18.25	3.28	5.56
Tue, Jul 18, 1995	17.25	10.29	1.68	31.38	11.72	2.68	18.25	3.28	5.56
Wed, Jul 19, 1995	17.25	10.29	1.68	31.25	11.72	2.67	17.88	3.28	5.45
Thu, Jul 20, 1995	17.88	10.29	1.74	31.00	11.72	2.65	18.13	3.28	5.53
Fri, Jul 21, 1995	17.75	10.29	1.72	30.75	11.72	2.62	18.13	3.28	5.53
Mon, Jul 24, 1995	18.00	10.29	1.75	30.50	11.72	2.60	18.25	3.28	5.56
Tue, Jul 25, 1995	18.13	10.29	1.76	30.50	11.72	2.60	18.00	3.28	5.49
Wed, Jul 26, 1995	18.38	10.29	1.79	30.38	11.72	2.59	18.00	3.28	5.49
Thu, Jul 27, 1995	18.38	10.29	1.79	30.13	11.72	2.57	17.88	3.28	5.45
Fri, Jul 28, 1995	18.63	10.29	1.81	29.88	11.72	2.55	17.63	3.28	5.37
Mon, Jul 31, 1995	18.25	10.29	1.77	30.25	11.72	2.58	17.75	3.28	5.41
Tue, Aug 1, 1995	18.13	10.29	1.76	29.75	11.72	2.54	17.88	3.28	5.45
Wed, Aug 2, 1995	18.00	10.29	1.75	29.88	11.72	2.55	18.13	3.28	5.53
Thu, Aug 3, 1995	18.00	10.29	1.75	30.00	11.72	2.56	18.13	3.28	5.53
Fri, Aug 4, 1995	18.00	10.29	1.75	30.00	11.72	2.56	18.00	3.28	5.49
Mon, Aug 7, 1995	17.75	10.29	1.72	30.25	11.72	2.58	17.88	3.28	5.45
Tue, Aug 8, 1995	17.75	10.29	1.72	30.25	11.72	2.58	17.88	3.28	5.45
Wed, Aug 9, 1995	17.88	10.29	1.74	30.50	11.72	2.60	17.88	3.28	5.45
Thu, Aug 10, 1995	17.63	10.29	1.71	30.50	11.72	2.60	18.00	3.28	5.49
Fri, Aug 11, 1995	17.75	10.29	1.72	30.13	11.72	2.57	17.63	3.28	5.37
Mon, Aug 14, 1995	17.88	10.29	1.74	30.13	11.72	2.57	17.63	3.28	5.37
Tue, Aug 15, 1995	17.63	10.29	1.71	30.13	11.72	2.57	18.00	3.28	5.49
Wed, Aug 16, 1995	17.88	10.29	1.74	30.00	11.72	2.56	18.00	3.28	5.49
Thu, Aug 17, 1995	17.88	10.29	1.74	29.88	11.72	2.55	18.13	3.28	5.53
Fri, Aug 18, 1995	18.13	10.29	1.76	30.00	11.72	2.56	18.13	3.28	5.53
Mon, Aug 21, 1995	18.25	10.29	1.77	30.25	11.72	2.58	18.25	3.28	5.56

Tue, Aug 22, 1995	18.38	10.29	1.79	30.25	11.72	2.58	18.25	3.28	5.56
Wed, Aug 23, 1995	18.38	10.29	1.79	30.13	11.72	2.57	18.25	3.28	5.56
Thu, Aug 24, 1995	18.50	10.29	1.80	30.38	11.72	2.59	18.00	3.28	5.49
Fri, Aug 25, 1995	18.88	10.29	1.83	30.38	11.72	2.59	18.13	3.28	5.53
Mon, Aug 28, 1995	18.25	10.29	1.77	30.25	11.72	2.58	18.13	3.28	5.53
Tue, Aug 29, 1995	18.13	10.29	1.76	31.00	11.72	2.65	18.00	3.28	5.49
Wed, Aug 30, 1995	18.25	10.29	1.77	30.75	11.72	2.62	18.00	3.28	5.49
Thu, Aug 31, 1995	18.00	10.29	1.75	31.00	11.72	2.65	18.00	3.28	5.49
Fri, Sep 1, 1995	18.13	10.29	1.76	31.00	11.72	2.65	17.88	3.28	5.45
Tue, Sep 5, 1995	18.25	10.29	1.77	30.75	11.72	2.62	18.00	3.28	5.49
Wed, Sep 6, 1995	18.00	10.29	1.75	31.25	11.72	2.67	18.13	3.28	5.53
Thu, Sep 7, 1995	18.13	10.29	1.76	30.88	11.72	2.63	18.13	3.28	5.53
Fri, Sep 8, 1995	18.13	10.29	1.76	31.00	11.72	2.65	18.00	3.28	5.49
Mon, Sep 11, 1995	18.25	10.29	1.77	31.25	11.72	2.67	18.00	3.28	5.49
Tue, Sep 12, 1995	18.13	10.29	1.76	31.38	11.72	2.68	18.00	3.28	5.49
Wed, Sep 13, 1995	18.25	10.29	1.77	31.75	11.72	2.71	18.13	3.28	5.53
Thu, Sep 14, 1995	18.00	10.29	1.75	31.75	11.72	2.71	18.00	3.28	5.49
Fri, Sep 15, 1995	18.00	10.29	1.75	31.50	11.72	2.69	18.00	3.28	5.49
Mon, Sep 18, 1995	18.00	10.29	1.75	31.25	11.72	2.67	18.00	3.28	5.49
Tue, Sep 19, 1995	18.00	10.29	1.75	31.25	11.72	2.67	18.00	3.28	5.49
Wed, Sep 20, 1995	18.25	10.29	1.77	31.00	11.72	2.65	18.13	3.28	5.53
Thu, Sep 21, 1995	18.13	10.29	1.76	31.13	11.72	2.66	18.00	3.28	5.49
Fri, Sep 22, 1995	18.25	10.29	1.77	31.13	11.72	2.66	17.88	3.28	5.45
Mon, Sep 25, 1995	18.13	10.29	1.76	31.25	11.72	2.67	18.00	3.28	5.49
Tue, Sep 26, 1995	18.13	10.29	1.76	31.88	11.72	2.72	18.00	3.28	5.49
Wed, Sep 27, 1995	18.13	10.29	1.76	32.13	11.72	2.74	17.88	3.28	5.45
Thu, Sep 28, 1995	18.38	10.29	1.79	32.63	11.72	2.78	17.88	3.28	5.45
Fri, Sep 29, 1995	18.50	10.29	1.80	32.88	11.72	2.81	18.13	3.28	5.53
Mon, Oct 2, 1995	18.75	10.29	1.82	32.88	11.72	2.81	18.13	3.28	5.53
Tue, Oct 3, 1995	18.50	10.29	1.80	32.88	11.72	2.81	18.13	3.28	5.53
Wed, Oct 4, 1995	18.75	10.29	1.82	32.50	11.72	2.77	18.13	3.28	5.53
Thu, Oct 5, 1995	19.00	10.29	1.85	32.75	11.72	2.79	18.38	3.28	5.60
Fri, Oct 6, 1995	19.00	10.29	1.85	33.25	11.72	2.84	18.25	3.28	5.56
Mon, Oct 9, 1995	19.00	10.29	1.85	33.00	11.72	2.82	18.25	3.28	5.56
Tue, Oct 10, 1995	18.88	10.29	1.83	33.13	11.72	2.83	18.25	3.28	5.56
Wed, Oct 11, 1995	19.00	10.29	1.85	33.13	11.72	2.83	18.38	3.28	5.60
Thu, Oct 12, 1995	18.88	10.29	1.83	33.00	11.72	2.82	18.63	3.28	5.68
Fri, Oct 13, 1995	18.63	10.29	1.81	33.38	11.72	2.85	18.63	3.28	5.68
Mon, Oct 16, 1995	18.63	10.29	1.81	33.13	11.72	2.83	18.75	3.28	5.72
Tue, Oct 17, 1995	18.75	10.29	1.82	32.88	11.72	2.81	19.13	3.28	5.83
Wed, Oct 18, 1995	18.88	10.29	1.83	32.75	11.72	2.79	19.25	3.28	5.87
Thu, Oct 19, 1995	19.00	10.29	1.85	33.38	11.72	2.85	19.25	3.28	5.87
Fri, Oct 20, 1995	19.00	10.29	1.85	33.75	11.72	2.88	19.38	3.28	5.91
Mon, Oct 23, 1995	19.00	10.29	1.85	34.50	11.72	2.94	19.38	3.28	5.91
Tue, Oct 24, 1995	19.00	10.29	1.85	34.50	11.72	2.94	19.13	3.28	5.83
Wed, Oct 25, 1995	19.00	10.29	1.85	34.13	11.72	2.91	19.25	3.28	5.87
Thu, Oct 26, 1995	19.00	10.29	1.85	34.25	11.72	2.92	19.25	3.28	5.87
Fri, Oct 27, 1995	18.75	10.29	1.82	34.13	11.72	2.91	19.13	3.28	5.83
Mon, Oct 30, 1995	18.63	10.29	1.81	33.63	11.72	2.87	19.25	3.28	5.87
Tue, Oct 31, 1995	18.88	10.29	1.83	33.25	11.72	2.84	19.25	3.28	5.87
Wed, Nov 1, 1995	18.75	10.29	1.82	33.00	11.72	2.82	19.25	3.28	5.87
Thu, Nov 2, 1995	18.88	10.29	1.83	32.75	11.72	2.79	19.38	3.28	5.91
Fri, Nov 3, 1995	18.63	10.29	1.81	33.25	11.72	2.84	19.25	3.28	5.87
Mon, Nov 6, 1995	18.88	10.29	1.83	32.88	11.72	2.81	19.25	3.28	5.87
Tue, Nov 7, 1995	18.75	10.29	1.82	32.88	11.72	2.81	19.38	3.28	5.91
Wed, Nov 8, 1995	18.88	10.29	1.83	32.88	11.72	2.81	19.50	3.28	5.95
Thu, Nov 9, 1995	18.88	10.29	1.83	32.88	11.72	2.81	19.50	3.28	5.95
Fri, Nov 10, 1995	19.00	10.29	1.85	33.00	11.72	2.82	19.25	3.28	5.87
Mon, Nov 13, 1995	19.00	10.29	1.85	33.13	11.72	2.83	19.50	3.28	5.95
Tue, Nov 14, 1995	19.25	10.29	1.87	33.25	11.72	2.84	19.38	3.28	5.91
Wed, Nov 15, 1995	19.13	10.29	1.86	33.88	11.72	2.89	19.50	3.28	5.95
Thu, Nov 16, 1995	18.75	10.29	1.82	33.75	11.72	2.88	19.63	3.28	5.98
Fri, Nov 17, 1995	18.50	10.29	1.80	33.50	11.72	2.86	19.50	3.28	5.95
Mon, Nov 20, 1995	18.50	10.29	1.80	33.50	11.72	2.86	19.63	3.28	5.98
Tue, Nov 21, 1995	18.63	10.29	1.81	33.63	11.72	2.87	19.75	3.28	6.02
Wed, Nov 22, 1995	18.38	10.29	1.79	33.63	11.72	2.87	19.88	3.28	6.06
Fri, Nov 24, 1995	18.63	10.29	1.81	33.88	11.72	2.89	19.75	3.28	6.02
Mon, Nov 27, 1995	18.50	10.29	1.80	33.50	11.72	2.86	20.00	3.28	6.10
Tue, Nov 28, 1995	18.38	10.29	1.79	33.38	11.72	2.85	19.88	3.28	6.06
Wed, Nov 29, 1995	18.63	10.29	1.81	33.13	11.72	2.83	19.63	3.28	5.98
Thu, Nov 30, 1995	18.88	10.29	1.83	33.25	11.72	2.84	19.25	3.28	5.87
Fri, Dec 1, 1995	19.13	10.29	1.86	33.38	11.72	2.85	19.75	3.28	6.02
Mon, Dec 4, 1995	20.00	10.29	1.94	33.50	11.72	2.86	19.88	3.28	6.06
Tue, Dec 5, 1995	20.13	10.29	1.96	33.88	11.72	2.89	19.75	3.28	6.02
Wed, Dec 6, 1995	19.75	10.29	1.92	34.00	11.72	2.90	19.75	3.28	6.02
Thu, Dec 7, 1995	19.63	10.29	1.91	33.88	11.72	2.89	20.00	3.28	6.10
Fri, Dec 8, 1995	19.25	10.29	1.87	33.88	11.72	2.89	19.88	3.28	6.06
Mon, Dec 11, 1995	19.13	10.29	1.86	34.00	11.72	2.90	19.75	3.28	6.02
Tue, Dec 12, 1995	19.25	10.29	1.87	33.63	11.72	2.87	19.75	3.28	6.02
Wed, Dec 13, 1995	20.00	10.29	1.94	34.00	11.72	2.90	19.88	3.28	6.06
Thu, Dec 14, 1995	20.13	10.29	1.96	34.38	11.72	2.93	20.13	3.28	6.14
Fri, Dec 15, 1995	20.00	10.29	1.94	34.13	11.72	2.91	20.38	3.28	6.21
Mon, Dec 18, 1995	20.13	10.29	1.96	34.38	11.72	2.93	20.13	3.28	6.14
Tue, Dec 19, 1995	20.38	10.29	1.98	34.88	11.72	2.98	20.25	3.28	6.17
Wed, Dec 20, 1995	20.38	10.29	1.98	34.88	11.72	2.98	20.38	3.28	6.21
Thu, Dec 21, 1995	20.38	10.29	1.98	34.88	11.72	2.98	20.63	3.28	6.29

Fri, Dec 22, 1995	20.88	10.29	2.03	35.25	11.72	3.01	20.75	3.28	6.33
Tue, Dec 26, 1995	20.75	10.29	2.02	34.75	11.72	2.97	20.88	3.28	6.36
Wed, Dec 27, 1995	20.88	10.29	2.03	34.50	11.72	2.94	21.00	3.28	6.40
Thu, Dec 28, 1995	20.25	10.29	1.97	34.13	11.72	2.91	21.38	3.28	6.52
Fri, Dec 29, 1995	20.25	10.29	1.97	32.75	11.72	2.79	20.75	3.28	6.33
Average	**18.00**	**10.29**	**1.75**	**31.85**	**11.72**	**2.72**	**18.37**	**3.28**	**5.60**

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
Tue, Jan 2, 1996	21.00	11.01	1.91	32.88	12.22	2.69	21.13	3.59	5.88
Wed, Jan 3, 1996	21.13	11.01	1.92	33.25	12.22	2.72	21.00	3.59	5.85
Thu, Jan 4, 1996	21.13	11.01	1.92	33.38	12.22	2.73	21.13	3.59	5.88
Fri, Jan 5, 1996	21.50	11.01	1.95	33.63	12.22	2.75	21.13	3.59	5.88
Mon, Jan 8, 1996	21.50	11.01	1.95	33.75	12.22	2.76	21.00	3.59	5.85
Tue, Jan 9, 1996	21.38	11.01	1.94	33.88	12.22	2.77	20.75	3.59	5.78
Wed, Jan 10, 1996	21.25	11.01	1.93	33.75	12.22	2.76	20.50	3.59	5.71
Thu, Jan 11, 1996	21.25	11.01	1.93	33.75	12.22	2.76	20.75	3.59	5.78
Fri, Jan 12, 1996	21.13	11.01	1.92	34.13	12.22	2.79	20.88	3.59	5.81
Mon, Jan 15, 1996	21.00	11.01	1.91	34.13	12.22	2.79	20.75	3.59	5.78
Tue, Jan 16, 1996	20.75	11.01	1.88	34.38	12.22	2.81	20.75	3.59	5.78
Wed, Jan 17, 1996	21.13	11.01	1.92	35.13	12.22	2.87	21.00	3.59	5.85
Thu, Jan 18, 1996	21.38	11.01	1.94	35.13	12.22	2.87	21.00	3.59	5.85
Fri, Jan 19, 1996	21.75	11.01	1.98	35.13	12.22	2.87	20.88	3.59	5.81
Mon, Jan 22, 1996	21.88	11.01	1.99	35.38	12.22	2.89	21.00	3.59	5.85
Tue, Jan 23, 1996	21.75	11.01	1.98	35.25	12.22	2.88	21.00	3.59	5.85
Wed, Jan 24, 1996	21.50	11.01	1.95	34.75	12.22	2.84	20.88	3.59	5.81
Thu, Jan 25, 1996	21.50	11.01	1.95	34.88	12.22	2.85	20.88	3.59	5.81
Fri, Jan 26, 1996	21.38	11.01	1.94	35.00	12.22	2.86	21.00	3.59	5.85
Mon, Jan 29, 1996	21.38	11.01	1.94	35.50	12.22	2.91	21.00	3.59	5.85
Tue, Jan 30, 1996	20.75	11.01	1.88	35.88	12.22	2.94	21.00	3.59	5.85
Wed, Jan 31, 1996	20.88	11.01	1.90	36.13	12.22	2.96	21.13	3.59	5.88
Thu, Feb 1, 1996	21.00	11.01	1.91	35.13	12.22	2.87	21.25	3.59	5.92
Fri, Feb 2, 1996	21.25	11.01	1.93	35.13	12.22	2.87	21.25	3.59	5.92
Mon, Feb 5, 1996	21.00	11.01	1.91	35.25	12.22	2.88	21.38	3.59	5.95
Tue, Feb 6, 1996	21.00	11.01	1.91	35.50	12.22	2.91	21.25	3.59	5.92
Wed, Feb 7, 1996	21.00	11.01	1.91	35.38	12.22	2.89	21.25	3.59	5.92
Thu, Feb 8, 1996	20.88	11.01	1.90	35.00	12.22	2.86	21.00	3.59	5.85
Fri, Feb 9, 1996	20.75	11.01	1.88	35.00	12.22	2.86	20.63	3.59	5.75
Mon, Feb 12, 1996	20.63	11.01	1.87	35.00	12.22	2.86	20.88	3.59	5.81
Tue, Feb 13, 1996	20.50	11.01	1.86	35.38	12.22	2.89	21.13	3.59	5.88
Wed, Feb 14, 1996	19.88	11.01	1.81	35.88	12.22	2.94	21.25	3.59	5.92
Thu, Feb 15, 1996	19.75	11.01	1.79	36.00	12.22	2.95	21.88	3.59	6.09
Fri, Feb 16, 1996	19.88	11.01	1.81	36.50	12.22	2.99	21.88	3.59	6.09
Tue, Feb 20, 1996	19.38	11.01	1.76	36.75	12.22	3.01	21.63	3.59	6.02
Wed, Feb 21, 1996	19.63	11.01	1.78	37.13	12.22	3.04	21.38	3.59	5.95
Thu, Feb 22, 1996	19.50	11.01	1.77	37.00	12.22	3.03	21.63	3.59	6.02
Fri, Feb 23, 1996	19.63	11.01	1.78	36.75	12.22	3.01	21.63	3.59	6.02
Mon, Feb 26, 1996	19.25	11.01	1.75	36.88	12.22	3.02	22.13	3.59	6.16
Tue, Feb 27, 1996	19.50	11.01	1.77	35.88	12.22	2.94	21.88	3.59	6.09
Wed, Feb 28, 1996	19.25	11.01	1.75	35.63	12.22	2.92	21.88	3.59	6.09
Thu, Feb 29, 1996	19.00	11.01	1.73	34.88	12.22	2.85	22.25	3.59	6.20
Fri, Mar 1, 1996	19.63	11.01	1.78	35.00	12.22	2.86	22.38	3.59	6.23
Mon, Mar 4, 1996	19.63	11.01	1.78	35.00	12.22	2.86	22.38	3.59	6.23
Tue, Mar 5, 1996	19.38	11.01	1.76	35.13	12.22	2.87	22.25	3.59	6.20
Wed, Mar 6, 1996	19.13	11.01	1.74	34.75	12.22	2.84	22.38	3.59	6.23
Thu, Mar 7, 1996	19.13	11.01	1.74	34.75	12.22	2.84	22.25	3.59	6.20
Fri, Mar 8, 1996	19.13	11.01	1.74	34.50	12.22	2.82	22.00	3.59	6.13
Mon, Mar 11, 1996	19.13	11.01	1.74	34.13	12.22	2.79	21.88	3.59	6.09
Tue, Mar 12, 1996	19.25	11.01	1.75	34.38	12.22	2.81	22.00	3.59	6.13
Wed, Mar 13, 1996	19.00	11.01	1.73	34.50	12.22	2.82	21.88	3.59	6.09
Thu, Mar 14, 1996	19.13	11.01	1.74	34.25	12.22	2.80	22.13	3.59	6.16
Fri, Mar 15, 1996	19.13	11.01	1.74	34.00	12.22	2.78	22.00	3.59	6.13
Mon, Mar 18, 1996	19.13	11.01	1.74	33.75	12.22	2.76	22.50	3.59	6.27
Tue, Mar 19, 1996	19.50	11.01	1.77	33.63	12.22	2.75	22.50	3.59	6.27
Wed, Mar 20, 1996	19.88	11.01	1.81	33.50	12.22	2.74	22.25	3.59	6.20
Thu, Mar 21, 1996	19.88	11.01	1.81	33.75	12.22	2.76	22.38	3.59	6.23
Fri, Mar 22, 1996	20.00	11.01	1.82	33.88	12.22	2.77	22.50	3.59	6.27
Mon, Mar 25, 1996	20.00	11.01	1.82	33.88	12.22	2.77	22.50	3.59	6.27
Tue, Mar 26, 1996	19.75	11.01	1.79	34.25	12.22	2.80	22.50	3.59	6.27
Wed, Mar 27, 1996	20.50	11.01	1.86	34.38	12.22	2.81	22.88	3.59	6.37
Thu, Mar 28, 1996	20.88	11.01	1.90	34.63	12.22	2.83	22.88	3.59	6.37
Fri, Mar 29, 1996	20.63	11.01	1.87	35.00	12.22	2.86	23.13	3.59	6.44
Mon, Apr 1, 1996	21.13	11.01	1.92	34.88	12.22	2.85	23.13	3.59	6.44
Tue, Apr 2, 1996	20.75	11.01	1.88	34.75	12.22	2.84	23.25	3.59	6.48
Wed, Apr 3, 1996	21.63	11.01	1.96	35.00	12.22	2.86	23.38	3.59	6.51
Thu, Apr 4, 1996	21.63	11.01	1.96	34.88	12.22	2.85	23.00	3.59	6.41
Mon, Apr 8, 1996	21.63	11.01	1.96	34.38	12.22	2.81	22.88	3.59	6.37
Tue, Apr 9, 1996	21.38	11.01	1.94	35.00	12.22	2.86	23.13	3.59	6.44
Wed, Apr 10, 1996	20.88	11.01	1.90	34.50	12.22	2.82	23.50	3.59	6.55
Thu, Apr 11, 1996	20.63	11.01	1.87	35.00	12.22	2.86	23.38	3.59	6.51
Fri, Apr 12, 1996	20.88	11.01	1.90	34.63	12.22	2.83	23.50	3.59	6.55
Mon, Apr 15, 1996	21.00	11.01	1.91	34.50	12.22	2.82	23.75	3.59	6.62
Tue, Apr 16, 1996	20.63	11.01	1.87	34.38	12.22	2.81	23.75	3.59	6.62
Wed, Apr 17, 1996	20.38	11.01	1.85	34.13	12.22	2.79	23.63	3.59	6.58

Thu, Apr 18, 1996	20.13	11.01	1.83	34.00	12.22	2.78	23.63	3.59	6.58
Fri, Apr 19, 1996	20.50	11.01	1.86	34.25	12.22	2.80	23.63	3.59	6.58
Mon, Apr 22, 1996	20.38	11.01	1.85	34.63	12.22	2.83	23.63	3.59	6.58
Tue, Apr 23, 1996	20.88	11.01	1.90	34.75	12.22	2.84	23.38	3.59	6.51
Wed, Apr 24, 1996	21.13	11.01	1.92	34.75	12.22	2.84	23.25	3.59	6.48
Thu, Apr 25, 1996	21.25	11.01	1.93	34.63	12.22	2.83	23.25	3.59	6.48
Fri, Apr 26, 1996	21.38	11.01	1.94	35.13	12.22	2.87	23.25	3.59	6.48
Mon, Apr 29, 1996	21.38	11.01	1.94	34.63	12.22	2.83	23.13	3.59	6.44
Tue, Apr 30, 1996	21.50	11.01	1.95	34.88	12.22	2.85	23.25	3.59	6.48
Wed, May 1, 1996	21.75	11.01	1.98	34.88	12.22	2.85	23.38	3.59	6.51
Thu, May 2, 1996	21.25	11.01	1.93	35.00	12.22	2.86	23.25	3.59	6.48
Fri, May 3, 1996	21.00	11.01	1.91	34.88	12.22	2.85	23.13	3.59	6.44
Mon, May 6, 1996	20.00	11.01	1.82	35.00	12.22	2.86	22.63	3.59	6.30
Tue, May 7, 1996	19.75	11.01	1.79	35.00	12.22	2.86	22.50	3.59	6.27
Wed, May 8, 1996	20.50	11.01	1.86	34.75	12.22	2.84	22.75	3.59	6.34
Thu, May 9, 1996	20.38	11.01	1.85	34.88	12.22	2.85	23.13	3.59	6.44
Fri, May 10, 1996	20.25	11.01	1.84	34.88	12.22	2.85	23.13	3.59	6.44
Mon, May 13, 1996	20.25	11.01	1.84	34.75	12.22	2.84	22.75	3.59	6.34
Tue, May 14, 1996	20.25	11.01	1.84	34.88	12.22	2.85	22.75	3.59	6.34
Wed, May 15, 1996	20.50	11.01	1.86	34.50	12.22	2.82	22.88	3.59	6.37
Thu, May 16, 1996	20.13	11.01	1.83	34.63	12.22	2.83	23.13	3.59	6.44
Fri, May 17, 1996	20.13	11.01	1.83	34.25	12.22	2.80	23.75	3.59	6.62
Mon, May 20, 1996	21.13	11.01	1.92	34.75	12.22	2.84	24.00	3.59	6.69
Tue, May 21, 1996	21.13	11.01	1.92	35.00	12.22	2.86	24.13	3.59	6.72
Wed, May 22, 1996	21.00	11.01	1.91	35.38	12.22	2.89	24.13	3.59	6.72
Thu, May 23, 1996	20.50	11.01	1.86	35.38	12.22	2.89	24.00	3.59	6.69
Fri, May 24, 1996	20.63	11.01	1.87	35.38	12.22	2.89	23.88	3.59	6.65
Tue, May 28, 1996	20.63	11.01	1.87	34.25	12.22	2.80	24.13	3.59	6.72
Wed, May 29, 1996	20.75	11.01	1.88	34.38	12.22	2.81	24.50	3.59	6.82
Thu, May 30, 1996	21.00	11.01	1.91	34.25	12.22	2.80	24.38	3.59	6.79
Fri, May 31, 1996	22.25	11.01	2.02	34.50	12.22	2.82	24.50	3.59	6.82
Mon, Jun 3, 1996	22.00	11.01	2.00	34.25	12.22	2.80	24.38	3.59	6.79
Tue, Jun 4, 1996	21.75	11.01	1.98	34.38	12.22	2.81	24.00	3.59	6.69
Wed, Jun 5, 1996	21.50	11.01	1.95	34.13	12.22	2.79	24.00	3.59	6.69
Thu, Jun 6, 1996	21.38	11.01	1.94	34.38	12.22	2.81	24.00	3.59	6.69
Fri, Jun 7, 1996	21.75	11.01	1.98	34.75	12.22	2.84	24.13	3.59	6.72
Mon, Jun 10, 1996	21.50	11.01	1.95	34.13	12.22	2.79	24.38	3.59	6.79
Tue, Jun 11, 1996	21.38	11.01	1.94	33.75	12.22	2.76	24.50	3.59	6.82
Wed, Jun 12, 1996	21.38	11.01	1.94	33.88	12.22	2.77	24.50	3.59	6.82
Thu, Jun 13, 1996	21.63	11.01	1.96	33.75	12.22	2.76	24.63	3.59	6.86
Fri, Jun 14, 1996	21.75	11.01	1.98	34.00	12.22	2.78	24.88	3.59	6.93
Mon, Jun 17, 1996	21.50	11.01	1.95	34.25	12.22	2.80	25.00	3.59	6.96
Tue, Jun 18, 1996	21.88	11.01	1.99	34.13	12.22	2.79	24.50	3.59	6.82
Wed, Jun 19, 1996	21.75	11.01	1.98	34.38	12.22	2.81	24.25	3.59	6.75
Thu, Jun 20, 1996	21.63	11.01	1.96	34.50	12.22	2.82	23.63	3.59	6.58
Fri, Jun 21, 1996	21.75	11.01	1.98	34.75	12.22	2.84	23.38	3.59	6.51
Mon, Jun 24, 1996	21.50	11.01	1.95	35.00	12.22	2.86	23.88	3.59	6.65
Tue, Jun 25, 1996	21.25	11.01	1.93	34.75	12.22	2.84	23.50	3.59	6.55
Wed, Jun 26, 1996	21.25	11.01	1.93	34.75	12.22	2.84	23.38	3.59	6.51
Thu, Jun 27, 1996	22.13	11.01	2.01	34.75	12.22	2.84	23.88	3.59	6.65
Fri, Jun 28, 1996	22.00	11.01	2.00	35.00	12.22	2.86	24.75	3.59	6.89
Mon, Jul 1, 1996	22.00	11.01	2.00	35.00	12.22	2.86	24.38	3.59	6.79
Tue, Jul 2, 1996	22.00	11.01	2.00	35.00	12.22	2.86	24.63	3.59	6.86
Wed, Jul 3, 1996	21.88	11.01	1.99	34.75	12.22	2.84	24.50	3.59	6.82
Fri, Jul 5, 1996	21.88	11.01	1.99	35.00	12.22	2.86	24.63	3.59	6.86
Mon, Jul 8, 1996	22.13	11.01	2.01	35.00	12.22	2.86	24.88	3.59	6.93
Tue, Jul 9, 1996	21.75	11.01	1.98	35.13	12.22	2.87	24.75	3.59	6.89
Wed, Jul 10, 1996	21.88	11.01	1.99	34.75	12.22	2.84	25.00	3.59	6.96
Thu, Jul 11, 1996	21.88	11.01	1.99	34.75	12.22	2.84	16.50	3.59	4.60
Fri, Jul 12, 1996	21.75	11.01	1.98	34.63	12.22	2.83	16.50	3.59	4.60
Mon, Jul 15, 1996	21.25	11.01	1.93	34.50	12.22	2.82	16.38	3.59	4.56
Tue, Jul 16, 1996	21.00	11.01	1.91	34.00	12.22	2.78	16.38	3.59	4.56
Wed, Jul 17, 1996	20.38	11.01	1.85	33.50	12.22	2.74	16.13	3.59	4.49
Thu, Jul 18, 1996	20.25	11.01	1.84	33.13	12.22	2.71	16.13	3.59	4.49
Fri, Jul 19, 1996	20.25	11.01	1.84	33.25	12.22	2.72	16.25	3.59	4.53
Mon, Jul 22, 1996	20.00	11.01	1.82	33.00	12.22	2.70	16.00	3.59	4.46
Tue, Jul 23, 1996	19.88	11.01	1.81	33.00	12.22	2.70	15.88	3.59	4.42
Wed, Jul 24, 1996	20.00	11.01	1.82	32.88	12.22	2.69	15.75	3.59	4.39
Thu, Jul 25, 1996	20.00	11.01	1.82	32.50	12.22	2.66	15.88	3.59	4.42
Fri, Jul 26, 1996	19.75	11.01	1.79	32.88	12.22	2.69	16.00	3.59	4.46
Mon, Jul 29, 1996	19.63	11.01	1.78	32.88	12.22	2.69	15.88	3.59	4.42
Tue, Jul 30, 1996	19.63	11.01	1.78	32.63	12.22	2.67	15.88	3.59	4.42
Wed, Jul 31, 1996	19.38	11.01	1.76	32.75	12.22	2.68	16.13	3.59	4.49
Thu, Aug 1, 1996	19.50	11.01	1.77	33.00	12.22	2.70	16.25	3.59	4.53
Fri, Aug 2, 1996	20.00	11.01	1.82	33.50	12.22	2.74	16.25	3.59	4.53
Mon, Aug 5, 1996	19.88	11.01	1.81	33.50	12.22	2.74	16.50	3.59	4.60
Tue, Aug 6, 1996	19.88	11.01	1.81	33.50	12.22	2.74	16.75	3.59	4.67
Wed, Aug 7, 1996	20.38	11.01	1.85	34.38	12.22	2.81	16.50	3.59	4.60
Thu, Aug 8, 1996	20.00	11.01	1.82	35.00	12.22	2.86	16.63	3.59	4.63
Fri, Aug 9, 1996	20.00	11.01	1.82	35.63	12.22	2.92	17.00	3.59	4.74
Mon, Aug 12, 1996	19.88	11.01	1.81	35.63	12.22	2.92	17.25	3.59	4.81
Tue, Aug 13, 1996	20.25	11.01	1.84	36.00	12.22	2.95	17.00	3.59	4.74
Wed, Aug 14, 1996	20.25	11.01	1.84	36.13	12.22	2.96	17.00	3.59	4.74
Thu, Aug 15, 1996	20.13	11.01	1.83	36.00	12.22	2.95	16.38	3.59	4.56
Fri, Aug 16, 1996	20.25	11.01	1.84	36.38	12.22	2.98	16.63	3.59	4.63
Mon, Aug 19, 1996	21.25	11.01	1.93	36.88	12.22	3.02	16.88	3.59	4.70

Tue, Aug 20, 1996	21.63	11.01	1.96	37.00	12.22	3.03	16.75	3.59	4.67
Wed, Aug 21, 1996	21.75	11.01	1.98	37.00	12.22	3.03	16.63	3.59	4.63
Thu, Aug 22, 1996	21.88	11.01	1.99	37.00	12.22	3.03	16.50	3.59	4.60
Fri, Aug 23, 1996	22.00	11.01	2.00	37.25	12.22	3.05	16.75	3.59	4.67
Mon, Aug 26, 1996	22.63	11.01	2.05	37.13	12.22	3.04	17.00	3.59	4.74
Tue, Aug 27, 1996	22.38	11.01	2.03	37.13	12.22	3.04	16.88	3.59	4.70
Wed, Aug 28, 1996	22.50	11.01	2.04	36.38	12.22	2.98	16.75	3.59	4.67
Thu, Aug 29, 1996	22.25	11.01	2.02	36.25	12.22	2.97	16.63	3.59	4.63
Fri, Aug 30, 1996	22.00	11.01	2.00	35.75	12.22	2.93	16.50	3.59	4.60
Tue, Sep 3, 1996	22.75	11.01	2.07	35.88	12.22	2.94	16.75	3.59	4.67
Wed, Sep 4, 1996	22.38	11.01	2.03	35.88	12.22	2.94	17.00	3.59	4.74
Thu, Sep 5, 1996	22.38	11.01	2.03	35.75	12.22	2.93	16.88	3.59	4.70
Fri, Sep 6, 1996	22.88	11.01	2.08	36.00	12.22	2.95	16.75	3.59	4.67
Mon, Sep 9, 1996	22.88	11.01	2.08	36.50	12.22	2.99	16.63	3.59	4.63
Tue, Sep 10, 1996	22.50	11.01	2.04	36.50	12.22	2.99	16.38	3.59	4.56
Wed, Sep 11, 1996	22.63	11.01	2.05	36.50	12.22	2.99	16.25	3.59	4.53
Thu, Sep 12, 1996	22.75	11.01	2.07	36.88	12.22	3.02	16.38	3.59	4.56
Fri, Sep 13, 1996	23.13	11.01	2.10	37.00	12.22	3.03	16.38	3.59	4.56
Mon, Sep 16, 1996	23.00	11.01	2.09	37.13	12.22	3.04	16.25	3.59	4.53
Tue, Sep 17, 1996	22.63	11.01	2.05	37.00	12.22	3.03	16.00	3.59	4.46
Wed, Sep 18, 1996	22.63	11.01	2.05	37.13	12.22	3.04	15.88	3.59	4.42
Thu, Sep 19, 1996	22.63	11.01	2.05	36.88	12.22	3.02	15.88	3.59	4.42
Fri, Sep 20, 1996	22.75	11.01	2.07	36.88	12.22	3.02	16.13	3.59	4.49
Mon, Sep 23, 1996	22.63	11.01	2.05	36.88	12.22	3.02	16.00	3.59	4.46
Tue, Sep 24, 1996	22.63	11.01	2.05	37.75	12.22	3.09	16.38	3.59	4.56
Wed, Sep 25, 1996	22.75	11.01	2.07	37.88	12.22	3.10	16.38	3.59	4.56
Thu, Sep 26, 1996	22.63	11.01	2.05	38.13	12.22	3.12	16.38	3.59	4.56
Fri, Sep 27, 1996	23.00	11.01	2.09	38.00	12.22	3.11	16.63	3.59	4.63
Mon, Sep 30, 1996	23.13	11.01	2.10	38.13	12.22	3.12	16.38	3.59	4.56
Tue, Oct 1, 1996	23.13	11.01	2.10	38.13	12.22	3.12	16.75	3.59	4.67
Wed, Oct 2, 1996	23.38	11.01	2.12	38.38	12.22	3.14	17.00	3.59	4.74
Thu, Oct 3, 1996	22.38	11.01	2.03	38.50	12.22	3.15	16.88	3.59	4.70
Fri, Oct 4, 1996	22.00	11.01	2.00	38.38	12.22	3.14	16.88	3.59	4.70
Mon, Oct 7, 1996	22.00	11.01	2.00	38.13	12.22	3.12	17.00	3.59	4.74
Tue, Oct 8, 1996	21.88	11.01	1.99	38.00	12.22	3.11	16.88	3.59	4.70
Wed, Oct 9, 1996	21.88	11.01	1.99	38.00	12.22	3.11	16.88	3.59	4.70
Thu, Oct 10, 1996	22.00	11.01	2.00	37.75	12.22	3.09	17.00	3.59	4.74
Fri, Oct 11, 1996	21.75	11.01	1.98	37.63	12.22	3.08	17.00	3.59	4.74
Mon, Oct 14, 1996	21.88	11.01	1.99	37.38	12.22	3.06	16.75	3.59	4.67
Tue, Oct 15, 1996	21.88	11.01	1.99	37.38	12.22	3.06	16.75	3.59	4.67
Wed, Oct 16, 1996	21.88	11.01	1.99	37.50	12.22	3.07	16.50	3.59	4.60
Thu, Oct 17, 1996	21.63	11.01	1.96	37.75	12.22	3.09	16.88	3.59	4.70
Fri, Oct 18, 1996	21.38	11.01	1.94	37.13	12.22	3.04	16.75	3.59	4.67
Mon, Oct 21, 1996	21.50	11.01	1.95	37.38	12.22	3.06	16.88	3.59	4.70
Tue, Oct 22, 1996	21.38	11.01	1.94	37.25	12.22	3.05	16.88	3.59	4.70
Wed, Oct 23, 1996	21.13	11.01	1.92	37.13	12.22	3.04	17.00	3.59	4.74
Thu, Oct 24, 1996	21.75	11.01	1.98	37.25	12.22	3.05	17.00	3.59	4.74
Fri, Oct 25, 1996	21.63	11.01	1.96	37.38	12.22	3.06	16.88	3.59	4.70
Mon, Oct 28, 1996	21.75	11.01	1.98	37.50	12.22	3.07	16.88	3.59	4.70
Tue, Oct 29, 1996	21.75	11.01	1.98	37.88	12.22	3.10	16.75	3.59	4.67
Wed, Oct 30, 1996	21.75	11.01	1.98	37.50	12.22	3.07	16.88	3.59	4.70
Thu, Oct 31, 1996	21.75	11.01	1.98	37.38	12.22	3.06	17.00	3.59	4.74
Fri, Nov 1, 1996	21.50	11.01	1.95	37.25	12.22	3.05	16.88	3.59	4.70
Mon, Nov 4, 1996	21.50	11.01	1.95	37.50	12.22	3.07	16.88	3.59	4.70
Tue, Nov 5, 1996	21.75	11.01	1.98	36.38	12.22	2.98	17.13	3.59	4.77
Wed, Nov 6, 1996	21.75	11.01	1.98	36.13	12.22	2.96	17.38	3.59	4.84
Thu, Nov 7, 1996	22.00	11.01	2.00	36.25	12.22	2.97	17.50	3.59	4.87
Fri, Nov 8, 1996	21.75	11.01	1.98	36.00	12.22	2.95	17.50	3.59	4.87
Mon, Nov 11, 1996	22.25	11.01	2.02	36.25	12.22	2.97	17.63	3.59	4.91
Tue, Nov 12, 1996	22.00	11.01	2.00	36.38	12.22	2.98	17.25	3.59	4.81
Wed, Nov 13, 1996	21.88	11.01	1.99	36.38	12.22	2.98	17.38	3.59	4.84
Thu, Nov 14, 1996	21.63	11.01	1.96	36.63	12.22	3.00	17.38	3.59	4.84
Fri, Nov 15, 1996	21.88	11.01	1.99	37.38	12.22	3.06	17.38	3.59	4.84
Mon, Nov 18, 1996	22.25	11.01	2.02	38.13	12.22	3.12	17.38	3.59	4.84
Tue, Nov 19, 1996	22.38	11.01	2.03	38.38	12.22	3.14	17.88	3.59	4.98
Wed, Nov 20, 1996	22.38	11.01	2.03	38.50	12.22	3.15	17.75	3.59	4.94
Thu, Nov 21, 1996	22.50	11.01	2.04	38.75	12.22	3.17	18.13	3.59	5.05
Fri, Nov 22, 1996	22.75	11.01	2.07	38.63	12.22	3.16	18.13	3.59	5.05
Mon, Nov 25, 1996	22.75	11.01	2.07	39.13	12.22	3.20	18.75	3.59	5.22
Tue, Nov 26, 1996	23.00	11.01	2.09	38.88	12.22	3.18	18.63	3.59	5.19
Wed, Nov 27, 1996	23.50	11.01	2.13	38.88	12.22	3.18	18.75	3.59	5.22
Fri, Nov 29, 1996	23.38	11.01	2.12	39.13	12.22	3.20	18.63	3.59	5.19
Mon, Dec 2, 1996	23.75	11.01	2.16	39.13	12.22	3.20	18.63	3.59	5.19
Tue, Dec 3, 1996	23.63	11.01	2.15	40.00	12.22	3.27	18.88	3.59	5.26
Wed, Dec 4, 1996	23.88	11.01	2.17	40.38	12.22	3.30	19.38	3.59	5.40
Thu, Dec 5, 1996	23.75	11.01	2.16	40.00	12.22	3.27	19.13	3.59	5.33
Fri, Dec 6, 1996	23.50	11.01	2.13	39.63	12.22	3.24	18.88	3.59	5.26
Mon, Dec 9, 1996	23.50	11.01	2.13	39.38	12.22	3.22	19.50	3.59	5.43
Tue, Dec 10, 1996	23.25	11.01	2.11	39.00	12.22	3.19	19.38	3.59	5.40
Wed, Dec 11, 1996	23.00	11.01	2.09	39.13	12.22	3.20	19.13	3.59	5.33
Thu, Dec 12, 1996	22.88	11.01	2.08	39.00	12.22	3.19	18.88	3.59	5.26
Fri, Dec 13, 1996	22.63	11.01	2.05	38.88	12.22	3.18	18.75	3.59	5.22
Mon, Dec 16, 1996	21.75	11.01	1.98	39.13	12.22	3.20	19.00	3.59	5.29
Tue, Dec 17, 1996	21.25	11.01	1.93	39.38	12.22	3.22	19.00	3.59	5.29
Wed, Dec 18, 1996	21.38	11.01	1.94	39.75	12.22	3.25	19.13	3.59	5.33
Thu, Dec 19, 1996	21.63	11.01	1.96	40.13	12.22	3.28	19.25	3.59	5.36

Fri, Dec 20, 1996	21.88	11.01	1.99	43.75	12.22	3.58	19.75	3.59	5.50
Mon, Dec 23, 1996	22.00	11.01	2.00	42.75	12.22	3.50	19.88	3.59	5.54
Tue, Dec 24, 1996	21.88	11.01	1.99	42.13	12.22	3.45	19.88	3.59	5.54
Thu, Dec 26, 1996	22.00	11.01	2.00	42.63	12.22	3.49	19.75	3.59	5.50
Fri, Dec 27, 1996	22.00	11.01	2.00	42.88	12.22	3.51	19.63	3.59	5.47
Mon, Dec 30, 1996	22.50	11.01	11.49	42.50	12.22	30.28	19.75	3.59	16.16
Tue, Dec 31, 1996	21.75	11.01	10.74	42.00	12.22	29.78	19.88	3.59	16.29
Average	**21.29**	**11.01**	**2.01**	**35.89**	**12.22**	**3.15**	**20.11**	**3.59**	**5.69**

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
Thu, Jan 2, 1997	21.88	11.24	1.95	41.50	13.00	3.19	19.50	3.79	5.15
Fri, Jan 3, 1997	21.88	11.24	1.95	41.50	13.00	3.19	20.25	3.79	5.34
Mon, Jan 6, 1997	22.00	11.24	1.96	40.75	13.00	3.13	20.13	3.79	5.31
Tue, Jan 7, 1997	22.00	11.24	1.96	40.88	13.00	3.14	20.00	3.79	5.28
Wed, Jan 8, 1997	22.25	11.24	1.98	40.00	13.00	3.08	20.13	3.79	5.31
Thu, Jan 9, 1997	22.38	11.24	1.99	40.63	13.00	3.13	20.00	3.79	5.28
Fri, Jan 10, 1997	22.13	11.24	1.97	41.25	13.00	3.17	20.13	3.79	5.31
Mon, Jan 13, 1997	22.00	11.24	1.96	41.50	13.00	3.19	20.13	3.79	5.31
Tue, Jan 14, 1997	22.25	11.24	1.98	41.00	13.00	3.15	20.25	3.79	5.34
Wed, Jan 15, 1997	22.25	11.24	1.98	40.88	13.00	3.14	20.13	3.79	5.31
Thu, Jan 16, 1997	22.50	11.24	2.00	40.38	13.00	3.11	20.00	3.79	5.28
Fri, Jan 17, 1997	22.00	11.24	1.96	40.38	13.00	3.11	19.75	3.79	5.21
Mon, Jan 20, 1997	21.75	11.24	1.94	41.25	13.00	3.17	20.00	3.79	5.28
Tue, Jan 21, 1997	21.88	11.24	1.95	41.38	13.00	3.18	20.00	3.79	5.28
Wed, Jan 22, 1997	22.13	11.24	1.97	43.25	13.00	3.33	19.75	3.79	5.21
Thu, Jan 23, 1997	22.13	11.24	1.97	43.00	13.00	3.31	19.88	3.79	5.24
Fri, Jan 24, 1997	22.50	11.24	2.00	42.25	13.00	3.25	20.13	3.79	5.31
Mon, Jan 27, 1997	22.38	11.24	1.99	41.63	13.00	3.20	20.13	3.79	5.31
Tue, Jan 28, 1997	22.50	11.24	2.00	42.25	13.00	3.25	20.38	3.79	5.38
Wed, Jan 29, 1997	22.63	11.24	2.01	42.13	13.00	3.24	20.38	3.79	5.38
Thu, Jan 30, 1997	22.25	11.24	1.98	41.88	13.00	3.22	20.38	3.79	5.38
Fri, Jan 31, 1997	22.50	11.24	2.00	42.25	13.00	3.25	20.50	3.79	5.41
Mon, Feb 3, 1997	22.38	11.24	1.99	42.25	13.00	3.25	20.25	3.79	5.34
Tue, Feb 4, 1997	22.38	11.24	1.99	42.50	13.00	3.27	20.25	3.79	5.34
Wed, Feb 5, 1997	22.25	11.24	1.98	42.25	13.00	3.25	20.38	3.79	5.38
Thu, Feb 6, 1997	22.13	11.24	1.97	42.63	13.00	3.28	20.25	3.79	5.34
Fri, Feb 7, 1997	22.00	11.24	1.96	42.63	13.00	3.28	20.25	3.79	5.34
Mon, Feb 10, 1997	21.88	11.24	1.95	42.00	13.00	3.23	19.75	3.79	5.21
Tue, Feb 11, 1997	22.13	11.24	1.97	41.63	13.00	3.20	20.00	3.79	5.28
Wed, Feb 12, 1997	22.88	11.24	2.04	42.00	13.00	3.23	20.00	3.79	5.28
Thu, Feb 13, 1997	22.63	11.24	2.01	41.88	13.00	3.22	20.13	3.79	5.31
Fri, Feb 14, 1997	22.00	11.24	1.96	42.13	13.00	3.24	20.13	3.79	5.31
Tue, Feb 18, 1997	21.88	11.24	1.95	42.50	13.00	3.27	20.25	3.79	5.34
Wed, Feb 19, 1997	21.50	11.24	1.91	42.75	13.00	3.29	20.13	3.79	5.31
Thu, Feb 20, 1997	21.38	11.24	1.90	42.63	13.00	3.28	20.13	3.79	5.31
Fri, Feb 21, 1997	21.50	11.24	1.91	42.75	13.00	3.29	20.38	3.79	5.38
Mon, Feb 24, 1997	22.50	11.24	2.00	42.38	13.00	3.26	20.38	3.79	5.38
Tue, Feb 25, 1997	22.38	11.24	1.99	41.75	13.00	3.21	20.50	3.79	5.41
Wed, Feb 26, 1997	22.38	11.24	1.99	41.63	13.00	3.20	20.25	3.79	5.34
Thu, Feb 27, 1997	22.63	11.24	2.01	42.00	13.00	3.23	20.13	3.79	5.31
Fri, Feb 28, 1997	22.50	11.24	2.00	42.00	13.00	3.23	20.13	3.79	5.31
Mon, Mar 3, 1997	22.75	11.24	2.02	42.75	13.00	3.29	20.13	3.79	5.31
Tue, Mar 4, 1997	22.00	11.24	1.96	42.88	13.00	3.30	20.13	3.79	5.31
Wed, Mar 5, 1997	21.75	11.24	1.94	42.25	13.00	3.25	20.13	3.79	5.31
Thu, Mar 6, 1997	21.88	11.24	1.95	41.75	13.00	3.21	19.88	3.79	5.24
Fri, Mar 7, 1997	22.50	11.24	2.00	42.38	13.00	3.26	19.88	3.79	5.24
Mon, Mar 10, 1997	22.88	11.24	2.04	43.63	13.00	3.36	20.00	3.79	5.28
Tue, Mar 11, 1997	22.75	11.24	2.02	44.63	13.00	3.43	20.00	3.79	5.28
Wed, Mar 12, 1997	21.88	11.24	1.95	45.00	13.00	3.46	19.75	3.79	5.21
Thu, Mar 13, 1997	21.50	11.24	1.91	45.25	13.00	3.48	19.63	3.79	5.18
Fri, Mar 14, 1997	20.75	11.24	1.85	44.00	13.00	3.38	19.38	3.79	5.11
Mon, Mar 17, 1997	20.63	11.24	1.83	42.88	13.00	3.30	19.00	3.79	5.01
Tue, Mar 18, 1997	21.00	11.24	1.87	41.75	13.00	3.21	18.25	3.79	4.82
Wed, Mar 19, 1997	21.38	11.24	1.90	41.63	13.00	3.20	18.50	3.79	4.88
Thu, Mar 20, 1997	21.63	11.24	1.92	41.88	13.00	3.22	18.38	3.79	4.85
Fri, Mar 21, 1997	22.13	11.24	1.97	42.00	13.00	3.23	18.13	3.79	4.78
Mon, Mar 24, 1997	21.75	11.24	1.94	41.88	13.00	3.22	17.75	3.79	4.68
Tue, Mar 25, 1997	22.25	11.24	1.98	41.38	13.00	3.18	17.25	3.79	4.55
Wed, Mar 26, 1997	22.63	11.24	2.01	40.88	13.00	3.14	17.13	3.79	4.52
Thu, Mar 27, 1997	22.50	11.24	2.00	40.38	13.00	3.11	16.63	3.79	4.39
Mon, Mar 31, 1997	22.00	11.24	1.96	39.00	13.00	3.00	15.63	3.79	4.12
Tue, Apr 1, 1997	21.38	11.24	1.90	38.88	13.00	2.99	16.63	3.79	4.39
Wed, Apr 2, 1997	21.38	11.24	1.90	38.25	13.00	2.94	17.25	3.79	4.55
Thu, Apr 3, 1997	21.50	11.24	1.91	38.38	13.00	2.95	17.50	3.79	4.62
Fri, Apr 4, 1997	21.50	11.24	1.91	38.38	13.00	2.95	17.75	3.79	4.68
Mon, Apr 7, 1997	21.75	11.24	1.94	38.63	13.00	2.97	18.88	3.79	4.98
Tue, Apr 8, 1997	22.13	11.24	1.97	39.13	13.00	3.01	19.38	3.79	5.11
Wed, Apr 9, 1997	21.75	11.24	1.94	38.63	13.00	2.97	19.50	3.79	5.15
Thu, Apr 10, 1997	22.13	11.24	1.97	38.63	13.00	2.97	19.63	3.79	5.18
Fri, Apr 11, 1997	21.88	11.24	1.95	38.63	13.00	2.97	19.50	3.79	5.15
Mon, Apr 14, 1997	21.75	11.24	1.94	38.50	13.00	2.96	19.63	3.79	5.18
Tue, Apr 15, 1997	21.63	11.24	1.92	38.25	13.00	2.94	19.88	3.79	5.24
Wed, Apr 16, 1997	21.50	11.24	1.91	37.63	13.00	2.89	19.88	3.79	5.24
Thu, Apr 17, 1997	21.25	11.24	1.89	38.00	13.00	2.92	19.63	3.79	5.18
Fri, Apr 18, 1997	21.13	11.24	1.88	38.75	13.00	2.98	19.88	3.79	5.24

Mon, Apr 21, 1997	21.00	11.24	1.87	39.00	13.00	3.00	19.88	3.79	5.24
Tue, Apr 22, 1997	20.75	11.24	1.85	40.38	13.00	3.11	19.88	3.79	5.24
Wed, Apr 23, 1997	20.50	11.24	1.82	41.00	13.00	3.15	20.00	3.79	5.28
Thu, Apr 24, 1997	20.50	11.24	1.82	41.75	13.00	3.21	19.50	3.79	5.15
Fri, Apr 25, 1997	21.13	11.24	1.88	42.63	13.00	3.28	19.63	3.79	5.18
Mon, Apr 28, 1997	21.50	11.24	1.91	44.00	13.00	3.38	19.75	3.79	5.21
Tue, Apr 29, 1997	21.75	11.24	1.94	42.88	13.00	3.30	19.88	3.79	5.24
Wed, Apr 30, 1997	21.63	11.24	1.92	43.25	13.00	3.33	20.00	3.79	5.28
Thu, May 1, 1997	22.13	11.24	1.97	43.50	13.00	3.35	19.88	3.79	5.24
Fri, May 2, 1997	22.38	11.24	1.99	44.50	13.00	3.42	20.00	3.79	5.28
Mon, May 5, 1997	23.00	11.24	2.05	45.88	13.00	3.53	20.00	3.79	5.28
Tue, May 6, 1997	23.13	11.24	2.06	44.50	13.00	3.42	20.13	3.79	5.31
Wed, May 7, 1997	22.75	11.24	2.02	43.13	13.00	3.32	20.13	3.79	5.31
Thu, May 8, 1997	22.13	11.24	1.97	43.13	13.00	3.32	20.00	3.79	5.28
Fri, May 9, 1997	22.38	11.24	1.99	43.63	13.00	3.36	19.63	3.79	5.18
Mon, May 12, 1997	22.25	11.24	1.98	43.63	13.00	3.36	19.63	3.79	5.18
Tue, May 13, 1997	22.25	11.24	1.98	44.00	13.00	3.38	19.50	3.79	5.15
Wed, May 14, 1997	22.25	11.24	1.98	44.38	13.00	3.41	19.13	3.79	5.05
Thu, May 15, 1997	22.50	11.24	2.00	44.38	13.00	3.41	18.88	3.79	4.98
Fri, May 16, 1997	23.13	11.24	2.06	44.50	13.00	3.42	18.88	3.79	4.98
Mon, May 19, 1997	23.75	11.24	2.11	44.88	13.00	3.45	18.88	3.79	4.98
Tue, May 20, 1997	23.38	11.24	2.08	44.75	13.00	3.44	18.75	3.79	4.95
Wed, May 21, 1997	23.25	11.24	2.07	45.13	13.00	3.47	18.63	3.79	4.91
Thu, May 22, 1997	22.75	11.24	2.02	44.50	13.00	3.42	18.63	3.79	4.91
Fri, May 23, 1997	22.75	11.24	2.02	44.88	13.00	3.45	18.75	3.79	4.95
Tue, May 27, 1997	22.63	11.24	2.01	44.88	13.00	3.45	18.63	3.79	4.91
Wed, May 28, 1997	23.25	11.24	2.07	45.38	13.00	3.49	18.75	3.79	4.95
Thu, May 29, 1997	23.00	11.24	2.05	45.25	13.00	3.48	18.75	3.79	4.95
Fri, May 30, 1997	23.25	11.24	2.07	45.63	13.00	3.51	18.75	3.79	4.95
Mon, Jun 2, 1997	23.50	11.24	2.09	46.00	13.00	3.54	18.75	3.79	4.95
Tue, Jun 3, 1997	23.00	11.24	2.05	46.13	13.00	3.55	19.00	3.79	5.01
Wed, Jun 4, 1997	22.75	11.24	2.02	45.88	13.00	3.53	19.00	3.79	5.01
Thu, Jun 5, 1997	22.63	11.24	2.01	46.63	13.00	3.59	19.00	3.79	5.01
Fri, Jun 6, 1997	23.25	11.24	2.07	47.13	13.00	3.63	19.00	3.79	5.01
Mon, Jun 9, 1997	23.13	11.24	2.06	47.25	13.00	3.63	19.25	3.79	5.08
Tue, Jun 10, 1997	23.50	11.24	2.09	47.00	13.00	3.62	19.13	3.79	5.05
Wed, Jun 11, 1997	23.13	11.24	2.06	46.63	13.00	3.59	18.63	3.79	4.91
Thu, Jun 12, 1997	22.88	11.24	2.04	46.88	13.00	3.61	18.75	3.79	4.95
Fri, Jun 13, 1997	22.88	11.24	2.04	47.00	13.00	3.62	19.00	3.79	5.01
Mon, Jun 16, 1997	22.88	11.24	2.04	47.00	13.00	3.62	18.88	3.79	4.98
Tue, Jun 17, 1997	23.00	11.24	2.05	46.75	13.00	3.60	18.75	3.79	4.95
Wed, Jun 18, 1997	22.63	11.24	2.01	46.75	13.00	3.60	18.63	3.79	4.91
Thu, Jun 19, 1997	23.63	11.24	2.10	47.13	13.00	3.63	19.00	3.79	5.01
Fri, Jun 20, 1997	23.88	11.24	2.12	46.25	13.00	3.56	18.75	3.79	4.95
Mon, Jun 23, 1997	23.50	11.24	2.09	46.25	13.00	3.56	18.75	3.79	4.95
Tue, Jun 24, 1997	23.38	11.24	2.08	45.50	13.00	3.50	18.88	3.79	4.98
Wed, Jun 25, 1997	23.25	11.24	2.07	45.38	13.00	3.49	18.75	3.79	4.95
Thu, Jun 26, 1997	23.88	11.24	2.12	45.38	13.00	3.49	18.75	3.79	4.95
Fri, Jun 27, 1997	23.44	11.24	2.09	44.63	13.00	3.43	18.94	3.79	5.00
Mon, Jun 30, 1997	24.50	11.24	2.18	44.25	13.00	3.40	19.13	3.79	5.05
Tue, Jul 1, 1997	23.88	11.24	2.12	43.63	13.00	3.36	19.00	3.79	5.01
Wed, Jul 2, 1997	24.13	11.24	2.15	43.75	13.00	3.37	19.19	3.79	5.06
Thu, Jul 3, 1997	24.38	11.24	2.17	44.06	13.00	3.39	19.25	3.79	5.08
Mon, Jul 7, 1997	24.38	11.24	2.17	44.19	13.00	3.40	19.00	3.79	5.01
Tue, Jul 8, 1997	24.25	11.24	2.16	44.00	13.00	3.38	19.00	3.79	5.01
Wed, Jul 9, 1997	24.50	11.24	2.18	43.31	13.00	3.33	18.81	3.79	4.96
Thu, Jul 10, 1997	24.25	11.24	2.16	43.13	13.00	3.32	18.94	3.79	5.00
Fri, Jul 11, 1997	24.13	11.24	2.15	42.88	13.00	3.30	18.88	3.79	4.98
Mon, Jul 14, 1997	24.31	11.24	2.16	43.38	13.00	3.34	18.94	3.79	5.00
Tue, Jul 15, 1997	23.25	11.24	2.07	43.81	13.00	3.37	19.00	3.79	5.01
Wed, Jul 16, 1997	23.25	11.24	2.07	44.00	13.00	3.38	19.38	3.79	5.11
Thu, Jul 17, 1997	23.00	11.24	2.05	44.25	13.00	3.40	18.94	3.79	5.00
Fri, Jul 18, 1997	22.75	11.24	2.02	43.88	13.00	3.38	19.00	3.79	5.01
Mon, Jul 21, 1997	22.50	11.24	2.00	43.69	13.00	3.36	18.88	3.79	4.98
Tue, Jul 22, 1997	22.19	11.24	1.97	42.63	13.00	3.28	18.75	3.79	4.95
Wed, Jul 23, 1997	22.13	11.24	1.97	43.56	13.00	3.35	19.00	3.79	5.01
Thu, Jul 24, 1997	21.50	11.24	1.91	42.81	13.00	3.29	19.00	3.79	5.01
Fri, Jul 25, 1997	20.50	11.24	1.82	42.44	13.00	3.26	19.06	3.79	5.03
Mon, Jul 28, 1997	21.81	11.24	1.94	42.50	13.00	3.27	19.00	3.79	5.01
Tue, Jul 29, 1997	22.38	11.24	1.99	42.94	13.00	3.30	19.13	3.79	5.05
Wed, Jul 30, 1997	23.13	11.24	2.06	42.44	13.00	3.26	19.00	3.79	5.01
Thu, Jul 31, 1997	22.81	11.24	2.03	43.00	13.00	3.31	19.19	3.79	5.06
Fri, Aug 1, 1997	21.88	11.24	1.95	44.13	13.00	3.39	19.19	3.79	5.06
Mon, Aug 4, 1997	21.38	11.24	1.90	44.75	13.00	3.44	19.75	3.79	5.21
Tue, Aug 5, 1997	21.63	11.24	1.92	45.13	13.00	3.47	20.25	3.79	5.34
Wed, Aug 6, 1997	22.44	11.24	2.00	46.38	13.00	3.57	21.38	3.79	5.64
Thu, Aug 7, 1997	21.75	11.24	1.94	46.00	13.00	3.54	22.50	3.79	5.94
Fri, Aug 8, 1997	21.50	11.24	1.91	46.31	13.00	3.56	22.19	3.79	5.85
Mon, Aug 11, 1997	21.44	11.24	1.91	45.81	13.00	3.52	22.13	3.79	5.84
Tue, Aug 12, 1997	21.56	11.24	1.92	45.75	13.00	3.52	21.81	3.79	5.76
Wed, Aug 13, 1997	21.75	11.24	1.94	46.06	13.00	3.54	21.94	3.79	5.79
Thu, Aug 14, 1997	21.88	11.24	1.95	46.75	13.00	3.60	22.31	3.79	5.89
Fri, Aug 15, 1997	21.69	11.24	1.93	47.25	13.00	3.63	22.31	3.79	5.89
Mon, Aug 18, 1997	21.75	11.24	1.94	47.88	13.00	3.68	22.38	3.79	5.90
Tue, Aug 19, 1997	21.75	11.24	1.94	48.63	13.00	3.74	22.31	3.79	5.89
Wed, Aug 20, 1997	22.06	11.24	1.96	48.75	13.00	3.75	23.13	3.79	6.10

Thu, Aug 21, 1997	22.25	11.24	1.98	48.06	13.00	3.70	23.38	3.79	6.17
Fri, Aug 22, 1997	22.25	11.24	1.98	47.50	13.00	3.65	24.00	3.79	6.33
Mon, Aug 25, 1997	21.88	11.24	1.95	48.00	13.00	3.69	23.69	3.79	6.25
Tue, Aug 26, 1997	21.44	11.24	1.91	48.25	13.00	3.71	23.63	3.79	6.23
Wed, Aug 27, 1997	21.94	11.24	1.95	48.25	13.00	3.71	23.63	3.79	6.23
Thu, Aug 28, 1997	21.88	11.24	1.95	47.38	13.00	3.64	23.50	3.79	6.20
Fri, Aug 29, 1997	21.88	11.24	1.95	46.38	13.00	3.57	23.19	3.79	6.12
Tue, Sep 2, 1997	22.25	11.24	1.98	46.25	13.00	3.56	23.44	3.79	6.18
Wed, Sep 3, 1997	21.69	11.24	1.93	46.19	13.00	3.55	23.19	3.79	6.12
Thu, Sep 4, 1997	21.69	11.24	1.93	45.38	13.00	3.49	21.88	3.79	5.77
Fri, Sep 5, 1997	22.25	11.24	1.98	45.69	13.00	3.51	21.56	3.79	5.69
Mon, Sep 8, 1997	22.38	11.24	1.99	45.88	13.00	3.53	21.50	3.79	5.67
Tue, Sep 9, 1997	22.63	11.24	2.01	46.31	13.00	3.56	22.19	3.79	5.85
Wed, Sep 10, 1997	22.44	11.24	2.00	46.88	13.00	3.61	23.13	3.79	6.10
Thu, Sep 11, 1997	22.25	11.24	1.98	46.81	13.00	3.60	22.00	3.79	5.80
Fri, Sep 12, 1997	22.44	11.24	2.00	47.75	13.00	3.67	22.94	3.79	6.05
Mon, Sep 15, 1997	23.25	11.24	2.07	48.00	13.00	3.69	22.63	3.79	5.97
Tue, Sep 16, 1997	23.63	11.24	2.10	49.88	13.00	3.84	22.88	3.79	6.04
Wed, Sep 17, 1997	23.19	11.24	2.06	50.06	13.00	3.85	22.13	3.79	5.84
Thu, Sep 18, 1997	22.94	11.24	2.04	49.50	13.00	3.81	21.75	3.79	5.74
Fri, Sep 19, 1997	22.50	11.24	2.00	49.06	13.00	3.77	21.63	3.79	5.71
Mon, Sep 22, 1997	22.50	11.24	2.00	49.50	13.00	3.81	21.00	3.79	5.54
Tue, Sep 23, 1997	22.31	11.24	1.99	49.88	13.00	3.84	22.00	3.79	5.80
Wed, Sep 24, 1997	22.31	11.24	1.99	49.69	13.00	3.82	22.50	3.79	5.94
Thu, Sep 25, 1997	22.13	11.24	1.97	50.44	13.00	3.88	22.56	3.79	5.95
Fri, Sep 26, 1997	22.13	11.24	1.97	50.25	13.00	3.87	22.00	3.79	5.80
Mon, Sep 29, 1997	22.13	11.24	1.97	50.13	13.00	3.86	21.63	3.79	5.71
Tue, Sep 30, 1997	22.38	11.24	1.99	49.44	13.00	3.80	21.63	3.79	5.71
Wed, Oct 1, 1997	22.31	11.24	1.99	49.50	13.00	3.81	22.06	3.79	5.82
Thu, Oct 2, 1997	22.75	11.24	2.02	49.06	13.00	3.77	22.19	3.79	5.85
Fri, Oct 3, 1997	23.06	11.24	2.05	50.44	13.00	3.88	22.06	3.79	5.82
Mon, Oct 6, 1997	22.88	11.24	2.04	50.75	13.00	3.90	22.31	3.79	5.89
Tue, Oct 7, 1997	22.56	11.24	2.01	50.00	13.00	3.85	22.88	3.79	6.04
Wed, Oct 8, 1997	22.63	11.24	2.01	49.44	13.00	3.80	22.63	3.79	5.97
Thu, Oct 9, 1997	21.88	11.24	1.95	49.13	13.00	3.78	22.38	3.79	5.90
Fri, Oct 10, 1997	22.31	11.24	1.99	49.50	13.00	3.81	22.19	3.79	5.85
Mon, Oct 13, 1997	22.50	11.24	2.00	49.69	13.00	3.82	21.56	3.79	5.69
Tue, Oct 14, 1997	23.00	11.24	2.05	49.25	13.00	3.79	21.75	3.79	5.74
Wed, Oct 15, 1997	23.25	11.24	2.07	49.25	13.00	3.79	21.88	3.79	5.77
Thu, Oct 16, 1997	22.75	11.24	2.02	48.44	13.00	3.73	21.75	3.79	5.74
Fri, Oct 17, 1997	22.31	11.24	1.99	47.19	13.00	3.63	21.63	3.79	5.71
Mon, Oct 20, 1997	22.19	11.24	1.97	47.69	13.00	3.67	21.81	3.79	5.76
Tue, Oct 21, 1997	22.06	11.24	1.96	48.25	13.00	3.71	21.69	3.79	5.72
Wed, Oct 22, 1997	22.00	11.24	1.96	48.50	13.00	3.73	21.44	3.79	5.66
Thu, Oct 23, 1997	22.00	11.24	1.96	48.88	13.00	3.76	21.44	3.79	5.66
Fri, Oct 24, 1997	22.25	11.24	1.98	50.00	13.00	3.85	21.38	3.79	5.64
Mon, Oct 27, 1997	22.06	11.24	1.96	50.81	13.00	3.91	20.63	3.79	5.44
Tue, Oct 28, 1997	22.06	11.24	1.96	50.38	13.00	3.88	20.88	3.79	5.51
Wed, Oct 29, 1997	22.31	11.24	1.99	50.50	13.00	3.88	22.75	3.79	6.00
Thu, Oct 30, 1997	22.00	11.24	1.96	50.06	13.00	3.85	22.44	3.79	5.92
Fri, Oct 31, 1997	21.94	11.24	1.95	49.56	13.00	3.81	22.56	3.79	5.95
Mon, Nov 3, 1997	22.06	11.24	1.96	49.06	13.00	3.77	23.75	3.79	6.27
Tue, Nov 4, 1997	22.00	11.24	1.96	48.75	13.00	3.75	23.50	3.79	6.20
Wed, Nov 5, 1997	21.94	11.24	1.95	48.50	13.00	3.73	23.75	3.79	6.27
Thu, Nov 6, 1997	22.13	11.24	1.97	48.31	13.00	3.72	23.69	3.79	6.25
Fri, Nov 7, 1997	22.13	11.24	1.97	48.00	13.00	3.69	23.88	3.79	6.30
Mon, Nov 10, 1997	21.88	11.24	1.95	47.50	13.00	3.65	23.69	3.79	6.25
Tue, Nov 11, 1997	22.25	11.24	1.98	47.50	13.00	3.65	23.50	3.79	6.20
Wed, Nov 12, 1997	22.00	11.24	1.96	47.19	13.00	3.63	22.69	3.79	5.99
Thu, Nov 13, 1997	22.75	11.24	2.02	47.06	13.00	3.62	22.25	3.79	5.87
Fri, Nov 14, 1997	21.94	11.24	1.95	47.56	13.00	3.66	22.81	3.79	6.02
Mon, Nov 17, 1997	22.63	11.24	2.01	48.56	13.00	3.74	23.44	3.79	6.18
Tue, Nov 18, 1997	22.75	11.24	2.02	50.19	13.00	3.86	23.81	3.79	6.28
Wed, Nov 19, 1997	22.69	11.24	2.02	51.13	13.00	3.93	23.56	3.79	6.22
Thu, Nov 20, 1997	23.19	11.24	2.06	52.50	13.00	4.04	24.13	3.79	6.37
Fri, Nov 21, 1997	22.94	11.24	2.04	51.44	13.00	3.96	24.50	3.79	6.46
Mon, Nov 24, 1997	22.56	11.24	2.01	53.25	13.00	4.10	24.25	3.79	6.40
Tue, Nov 25, 1997	22.50	11.24	2.00	53.25	13.00	4.10	24.63	3.79	6.50
Wed, Nov 26, 1997	22.50	11.24	2.00	53.13	13.00	4.09	24.69	3.79	6.51
Fri, Nov 28, 1997	22.56	11.24	2.01	53.50	13.00	4.12	24.88	3.79	6.56
Mon, Dec 1, 1997	23.44	11.24	2.09	54.50	13.00	4.19	25.00	3.79	6.60
Tue, Dec 2, 1997	23.31	11.24	2.07	56.44	13.00	4.34	24.00	3.79	6.33
Wed, Dec 3, 1997	23.44	11.24	2.09	58.00	13.00	4.46	24.63	3.79	6.50
Thu, Dec 4, 1997	24.00	11.24	2.14	58.00	13.00	4.46	25.19	3.79	6.65
Fri, Dec 5, 1997	24.00	11.24	2.14	57.00	13.00	4.38	25.25	3.79	6.66
Mon, Dec 8, 1997	24.38	11.24	2.17	56.25	13.00	4.33	25.88	3.79	6.83
Tue, Dec 9, 1997	24.19	11.24	2.15	54.56	13.00	4.20	25.06	3.79	6.61
Wed, Dec 10, 1997	24.13	11.24	2.15	53.38	13.00	4.11	25.06	3.79	6.61
Thu, Dec 11, 1997	24.25	11.24	2.16	53.50	13.00	4.12	25.00	3.79	6.60
Fri, Dec 12, 1997	24.38	11.24	2.17	53.50	13.00	4.12	24.31	3.79	6.41
Mon, Dec 15, 1997	24.31	11.24	2.16	53.63	13.00	4.13	24.44	3.79	6.45
Tue, Dec 16, 1997	25.19	11.24	2.24	53.38	13.00	4.11	24.88	3.79	6.56
Wed, Dec 17, 1997	24.88	11.24	2.21	53.69	13.00	4.13	25.81	3.79	6.81
Thu, Dec 18, 1997	25.25	11.24	2.25	54.56	13.00	4.20	26.19	3.79	6.91
Fri, Dec 19, 1997	25.31	11.24	2.25	56.50	13.00	4.35	27.06	3.79	7.14
Mon, Dec 22, 1997	25.38	11.24	2.26	56.00	13.00	4.31	27.13	3.79	7.16

Tue, Dec 23, 1997	25.25	11.24	2.25	56.94	13.00	4.38	27.69	3.79	7.31
Wed, Dec 24, 1997	25.19	11.24	2.24	57.63	13.00	4.43	27.75	3.79	7.32
Fri, Dec 26, 1997	25.19	11.24	2.24	57.50	13.00	4.42	28.00	3.79	7.39
Mon, Dec 29, 1997	25.13	11.24	2.24	57.69	13.00	4.44	27.88	3.79	7.35
Tue, Dec 30, 1997	25.13	11.24	2.24	58.75	13.00	4.52	28.69	3.79	7.57
Wed, Dec 31, 1997	25.13	11.24	13.89	59.06	13.00	46.06	29.44	3.79	25.65
Average	**22.55**	**11.24**	**2.05**	**45.87**	**13.00**	**3.69**	**20.98**	**3.79**	**5.61**

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
Fri, Jan 2, 1998	24.88	11.48	2.17	59.00	13.38	4.41	30.25	4.28	7.07
Mon, Jan 5, 1998	23.88	11.48	2.08	57.38	13.38	4.29	29.19	4.28	6.82
Tue, Jan 6, 1998	23.50	11.48	2.05	57.00	13.38	4.26	28.50	4.28	6.66
Wed, Jan 7, 1998	24.69	11.48	2.15	56.88	13.38	4.25	28.38	4.28	6.63
Thu, Jan 8, 1998	24.38	11.48	2.12	57.13	13.38	4.27	28.44	4.28	6.64
Fri, Jan 9, 1998	24.06	11.48	2.10	58.00	13.38	4.33	28.25	4.28	6.60
Mon, Jan 12, 1998	24.00	11.48	2.09	58.25	13.38	4.35	28.50	4.28	6.66
Tue, Jan 13, 1998	24.25	11.48	2.11	57.13	13.38	4.27	21.19	4.28	4.95
Wed, Jan 14, 1998	24.13	11.48	2.10	56.63	13.38	4.23	21.63	4.28	5.05
Thu, Jan 15, 1998	24.06	11.48	2.10	56.13	13.38	4.19	22.13	4.28	5.17
Fri, Jan 16, 1998	24.13	11.48	2.10	55.94	13.38	4.18	22.69	4.28	5.30
Tue, Jan 20, 1998	25.13	11.48	2.19	56.13	13.38	4.19	23.38	4.28	5.46
Wed, Jan 21, 1998	25.00	11.48	2.18	55.69	13.38	4.16	24.13	4.28	5.64
Thu, Jan 22, 1998	24.81	11.48	2.16	55.88	13.38	4.18	24.50	4.28	5.72
Fri, Jan 23, 1998	24.88	11.48	2.17	55.69	13.38	4.16	25.13	4.28	5.87
Mon, Jan 26, 1998	25.56	11.48	2.23	28.06	13.38	2.10	25.25	4.28	5.90
Tue, Jan 27, 1998	24.81	11.48	2.16	28.13	13.38	2.10	24.13	4.28	5.64
Wed, Jan 28, 1998	25.19	11.48	2.19	29.56	13.38	2.21	24.31	4.28	5.68
Thu, Jan 29, 1998	25.25	11.48	2.20	29.69	13.38	2.22	23.63	4.28	5.52
Fri, Jan 30, 1998	25.31	11.48	2.20	29.25	13.38	2.19	23.06	4.28	5.39
Mon, Feb 2, 1998	25.38	11.48	2.21	27.00	13.38	2.02	20.63	4.28	4.82
Tue, Feb 3, 1998	25.38	11.48	2.21	25.13	13.38	1.88	20.19	4.28	4.72
Wed, Feb 4, 1998	25.50	11.48	2.22	26.50	13.38	1.98	21.75	4.28	5.08
Thu, Feb 5, 1998	25.06	11.48	2.18	26.25	13.38	1.96	22.50	4.28	5.26
Fri, Feb 6, 1998	25.31	11.48	2.20	26.38	13.38	1.97	22.44	4.28	5.24
Mon, Feb 9, 1998	25.50	11.48	2.22	25.38	13.38	1.90	21.63	4.28	5.05
Tue, Feb 10, 1998	25.50	11.48	2.22	26.25	13.38	1.96	21.31	4.28	4.98
Wed, Feb 11, 1998	25.63	11.48	2.23	27.00	13.38	2.02	21.31	4.28	4.98
Thu, Feb 12, 1998	25.38	11.48	2.21	28.25	13.38	2.11	21.44	4.28	5.01
Fri, Feb 13, 1998	25.50	11.48	2.22	28.81	13.38	2.15	21.44	4.28	5.01
Tue, Feb 17, 1998	25.44	11.48	2.22	28.63	13.38	2.14	21.88	4.28	5.11
Wed, Feb 18, 1998	25.44	11.48	2.22	28.38	13.38	2.12	22.13	4.28	5.17
Thu, Feb 19, 1998	25.06	11.48	2.18	28.31	13.38	2.12	22.06	4.28	5.15
Fri, Feb 20, 1998	24.75	11.48	2.16	28.50	13.38	2.13	21.75	4.28	5.08
Mon, Feb 23, 1998	24.88	11.48	2.17	28.88	13.38	2.16	21.38	4.28	4.99
Tue, Feb 24, 1998	24.94	11.48	2.17	31.50	13.38	2.35	21.44	4.28	5.01
Wed, Feb 25, 1998	24.94	11.48	2.17	32.69	13.38	2.44	21.56	4.28	5.04
Thu, Feb 26, 1998	25.38	11.48	2.21	32.06	13.38	2.40	21.69	4.28	5.07
Fri, Feb 27, 1998	25.31	11.48	2.20	30.13	13.38	2.25	21.94	4.28	5.13
Mon, Mar 2, 1998	25.69	11.48	2.24	30.56	13.38	2.28	22.31	4.28	5.21
Tue, Mar 3, 1998	25.13	11.48	2.19	30.88	13.38	2.31	22.00	4.28	5.14
Wed, Mar 4, 1998	24.44	11.48	2.13	29.81	13.38	2.23	21.75	4.28	5.08
Thu, Mar 5, 1998	24.38	11.48	2.12	27.81	13.38	2.08	21.25	4.28	4.96
Fri, Mar 6, 1998	24.63	11.48	2.15	26.56	13.38	1.99	21.31	4.28	4.98
Mon, Mar 9, 1998	25.06	11.48	2.18	27.38	13.38	2.05	21.13	4.28	4.94
Tue, Mar 10, 1998	24.94	11.48	2.17	27.81	13.38	2.08	20.81	4.28	4.86
Wed, Mar 11, 1998	25.13	11.48	2.19	28.00	13.38	2.09	20.63	4.28	4.82
Thu, Mar 12, 1998	24.94	11.48	2.17	27.44	13.38	2.05	20.50	4.28	4.79
Fri, Mar 13, 1998	24.56	11.48	2.14	27.75	13.38	2.07	20.13	4.28	4.70
Mon, Mar 16, 1998	24.44	11.48	2.13	28.19	13.38	2.11	20.31	4.28	4.75
Tue, Mar 17, 1998	25.13	11.48	2.19	28.19	13.38	2.11	19.81	4.28	4.63
Wed, Mar 18, 1998	24.63	11.48	2.15	28.00	13.38	2.09	20.50	4.28	4.79
Thu, Mar 19, 1998	25.00	11.48	2.18	28.75	13.38	2.15	20.94	4.28	4.89
Fri, Mar 20, 1998	25.19	11.48	2.19	28.94	13.38	2.16	21.19	4.28	4.95
Mon, Mar 23, 1998	25.31	11.48	2.20	28.50	13.38	2.13	20.81	4.28	4.86
Tue, Mar 24, 1998	25.69	11.48	2.24	29.13	13.38	2.18	21.19	4.28	4.95
Wed, Mar 25, 1998	25.69	11.48	2.24	29.44	13.38	2.20	21.25	4.28	4.96
Thu, Mar 26, 1998	25.94	11.48	2.26	28.31	13.38	2.12	20.63	4.28	4.82
Fri, Mar 27, 1998	25.56	11.48	2.23	27.63	13.38	2.06	21.44	4.28	5.01
Mon, Mar 30, 1998	25.75	11.48	2.24	27.94	13.38	2.09	21.56	4.28	5.04
Tue, Mar 31, 1998	26.00	11.48	2.26	27.06	13.38	2.02	21.56	4.28	5.04
Wed, Apr 1, 1998	25.81	11.48	2.25	27.56	13.38	2.06	21.81	4.28	5.10
Thu, Apr 2, 1998	26.56	11.48	2.31	28.19	13.38	2.11	22.31	4.28	5.21
Fri, Apr 3, 1998	26.00	11.48	2.26	28.06	13.38	2.10	21.88	4.28	5.11
Mon, Apr 6, 1998	25.63	11.48	2.23	28.63	13.38	2.14	21.13	4.28	4.94
Tue, Apr 7, 1998	25.19	11.48	2.19	29.75	13.38	2.22	21.13	4.28	4.94
Wed, Apr 8, 1998	24.94	11.48	2.17	30.00	13.38	2.24	20.94	4.28	4.89
Thu, Apr 9, 1998	24.94	11.48	2.17	29.81	13.38	2.23	20.81	4.28	4.86
Mon, Apr 13, 1998	24.13	11.48	2.10	29.00	13.38	2.17	21.19	4.28	4.95
Tue, Apr 14, 1998	24.31	11.48	2.12	27.94	13.38	2.09	21.63	4.28	5.05
Wed, Apr 15, 1998	24.06	11.48	2.10	27.13	13.38	2.03	21.00	4.28	4.91
Thu, Apr 16, 1998	24.06	11.48	2.10	27.06	13.38	2.02	20.25	4.28	4.73
Fri, Apr 17, 1998	24.00	11.48	2.09	27.19	13.38	2.03	20.94	4.28	4.89
Mon, Apr 20, 1998	23.94	11.48	2.09	26.81	13.38	2.00	21.00	4.28	4.91
Tue, Apr 21, 1998	23.94	11.48	2.09	26.63	13.38	1.99	20.50	4.28	4.79

Wed, Apr 22, 1998	23.88	11.48	2.08	27.19	13.38	2.03	20.63	4.28	4.82
Thu, Apr 23, 1998	23.75	11.48	2.07	26.81	13.38	2.00	20.13	4.28	4.70
Fri, Apr 24, 1998	23.69	11.48	2.06	26.38	13.38	1.97	19.50	4.28	4.56
Mon, Apr 27, 1998	23.50	11.48	2.05	26.31	13.38	1.97	19.63	4.28	4.59
Tue, Apr 28, 1998	23.25	11.48	2.03	25.38	13.38	1.90	20.00	4.28	4.67
Wed, Apr 29, 1998	23.25	11.48	2.03	25.13	13.38	1.88	20.50	4.28	4.79
Thu, Apr 30, 1998	23.25	11.48	2.03	26.81	13.38	2.00	21.13	4.28	4.94
Fri, May 1, 1998	22.94	11.48	2.00	26.81	13.38	2.00	21.38	4.28	4.99
Mon, May 4, 1998	23.00	11.48	2.00	25.88	13.38	1.93	22.00	4.28	5.14
Tue, May 5, 1998	22.69	11.48	1.98	25.31	13.38	1.89	21.56	4.28	5.04
Wed, May 6, 1998	23.00	11.48	2.00	25.06	13.38	1.87	21.75	4.28	5.08
Thu, May 7, 1998	22.56	11.48	1.97	25.56	13.38	1.91	21.94	4.28	5.13
Fri, May 8, 1998	21.94	11.48	1.91	25.13	13.38	1.88	21.69	4.28	5.07
Mon, May 11, 1998	21.94	11.48	1.91	24.56	13.38	1.84	20.94	4.28	4.89
Tue, May 12, 1998	22.38	11.48	1.95	23.44	13.38	1.75	20.88	4.28	4.88
Wed, May 13, 1998	22.44	11.48	1.95	22.19	13.38	1.66	20.88	4.28	4.88
Thu, May 14, 1998	22.50	11.48	1.96	22.63	13.38	1.69	20.88	4.28	4.88
Fri, May 15, 1998	22.31	11.48	1.94	22.94	13.38	1.71	20.56	4.28	4.80
Mon, May 18, 1998	22.25	11.48	1.94	24.06	13.38	1.80	19.50	4.28	4.56
Tue, May 19, 1998	22.38	11.48	1.95	24.38	13.38	1.82	20.00	4.28	4.67
Wed, May 20, 1998	22.25	11.48	1.94	24.00	13.38	1.79	20.06	4.28	4.69
Thu, May 21, 1998	21.94	11.48	1.91	22.44	13.38	1.68	20.31	4.28	4.75
Fri, May 22, 1998	22.00	11.48	1.92	23.00	13.38	1.72	20.06	4.28	4.69
Tue, May 26, 1998	21.88	11.48	1.91	22.13	13.38	1.65	19.13	4.28	4.47
Wed, May 27, 1998	21.94	11.48	1.91	21.88	13.38	1.63	19.13	4.28	4.47
Thu, May 28, 1998	21.75	11.48	1.89	22.00	13.38	1.64	19.31	4.28	4.51
Fri, May 29, 1998	21.81	11.48	1.90	22.19	13.38	1.66	19.69	4.28	4.60
Mon, Jun 1, 1998	21.81	11.48	1.90	22.31	13.38	1.67	19.38	4.28	4.53
Tue, Jun 2, 1998	21.94	11.48	1.91	22.44	13.38	1.68	19.19	4.28	4.48
Wed, Jun 3, 1998	22.00	11.48	1.92	22.13	13.38	1.65	19.06	4.28	4.45
Thu, Jun 4, 1998	22.44	11.48	1.95	21.81	13.38	1.63	19.06	4.28	4.45
Fri, Jun 5, 1998	22.75	11.48	1.98	21.81	13.38	1.63	19.31	4.28	4.51
Mon, Jun 8, 1998	23.06	11.48	2.01	22.44	13.38	1.68	19.75	4.28	4.61
Tue, Jun 9, 1998	23.06	11.48	2.01	21.88	13.38	1.63	19.94	4.28	4.66
Wed, Jun 10, 1998	23.06	11.48	2.01	22.13	13.38	1.65	20.00	4.28	4.67
Thu, Jun 11, 1998	22.81	11.48	1.99	22.38	13.38	1.67	19.88	4.28	4.64
Fri, Jun 12, 1998	23.00	11.48	2.00	21.94	13.38	1.64	20.50	4.28	4.79
Mon, Jun 15, 1998	22.75	11.48	1.98	21.75	13.38	1.63	20.88	4.28	4.88
Tue, Jun 16, 1998	22.63	11.48	1.97	21.69	13.38	1.62	20.69	4.28	4.83
Wed, Jun 17, 1998	22.63	11.48	1.97	22.13	13.38	1.65	20.81	4.28	4.86
Thu, Jun 18, 1998	22.63	11.48	1.97	22.38	13.38	1.67	20.56	4.28	4.80
Fri, Jun 19, 1998	22.81	11.48	1.99	22.63	13.38	1.69	20.56	4.28	4.80
Mon, Jun 22, 1998	22.88	11.48	1.99	23.00	13.38	1.72	20.25	4.28	4.73
Tue, Jun 23, 1998	24.13	11.48	2.10	22.38	13.38	1.67	20.25	4.28	4.73
Wed, Jun 24, 1998	23.38	11.48	2.04	22.25	13.38	1.66	20.75	4.28	4.85
Thu, Jun 25, 1998	24.50	11.48	2.13	22.00	13.38	1.64	21.00	4.28	4.91
Fri, Jun 26, 1998	24.44	11.48	2.13	22.44	13.38	1.68	20.88	4.28	4.88
Mon, Jun 29, 1998	25.25	11.48	2.20	22.88	13.38	1.71	20.81	4.28	4.86
Tue, Jun 30, 1998	27.13	11.48	2.36	25.13	13.38	1.88	21.88	4.28	5.11
Wed, Jul 1, 1998	26.00	11.48	2.26	25.25	13.38	1.89	21.56	4.28	5.04
Thu, Jul 2, 1998	26.75	11.48	2.33	25.63	13.38	1.92	21.75	4.28	5.08
Mon, Jul 6, 1998	26.25	11.48	2.29	25.88	13.38	1.93	21.81	4.28	5.10
Tue, Jul 7, 1998	26.25	11.48	2.29	25.94	13.38	1.94	21.38	4.28	4.99
Wed, Jul 8, 1998	25.88	11.48	2.25	26.25	13.38	1.96	21.31	4.28	4.98
Thu, Jul 9, 1998	25.81	11.48	2.25	26.75	13.38	2.00	21.94	4.28	5.13
Fri, Jul 10, 1998	25.63	11.48	2.23	26.38	13.38	1.97	21.81	4.28	5.10
Mon, Jul 13, 1998	25.38	11.48	2.21	26.06	13.38	1.95	21.94	4.28	5.13
Tue, Jul 14, 1998	25.94	11.48	2.26	27.38	13.38	2.05	21.94	4.28	5.13
Wed, Jul 15, 1998	26.00	11.48	2.26	27.13	13.38	2.03	21.81	4.28	5.10
Thu, Jul 16, 1998	25.50	11.48	2.22	27.31	13.38	2.04	21.69	4.28	5.07
Fri, Jul 17, 1998	25.31	11.48	2.20	27.06	13.38	2.02	21.75	4.28	5.08
Mon, Jul 20, 1998	25.56	11.48	2.23	27.13	13.38	2.03	21.56	4.28	5.04
Tue, Jul 21, 1998	24.75	11.48	2.16	26.69	13.38	1.99	21.38	4.28	4.99
Wed, Jul 22, 1998	24.56	11.48	2.14	25.50	13.38	1.91	21.19	4.28	4.95
Thu, Jul 23, 1998	24.94	11.48	2.17	24.13	13.38	1.80	20.75	4.28	4.85
Fri, Jul 24, 1998	24.31	11.48	2.12	23.94	13.38	1.79	21.00	4.28	4.91
Mon, Jul 27, 1998	23.50	11.48	2.05	23.56	13.38	1.76	20.94	4.28	4.89
Tue, Jul 28, 1998	24.69	11.48	2.15	24.06	13.38	1.80	20.69	4.28	4.83
Wed, Jul 29, 1998	25.31	11.48	2.20	24.44	13.38	1.83	20.94	4.28	4.89
Thu, Jul 30, 1998	25.50	11.48	2.22	24.25	13.38	1.81	21.19	4.28	4.95
Fri, Jul 31, 1998	24.75	11.48	2.16	23.44	13.38	1.75	21.38	4.28	4.99
Mon, Aug 3, 1998	24.00	11.48	2.09	22.50	13.38	1.68	21.25	4.28	4.96
Tue, Aug 4, 1998	24.38	11.48	2.12	22.13	13.38	1.65	21.38	4.28	4.99
Wed, Aug 5, 1998	24.44	11.48	2.13	21.88	13.38	1.63	21.50	4.28	5.02
Thu, Aug 6, 1998	24.25	11.48	2.11	22.63	13.38	1.69	21.94	4.28	5.13
Fri, Aug 7, 1998	24.31	11.48	2.12	23.69	13.38	1.77	22.13	4.28	5.17
Mon, Aug 10, 1998	23.69	11.48	2.06	24.06	13.38	1.80	22.31	4.28	5.21
Tue, Aug 11, 1998	24.19	11.48	2.11	23.38	13.38	1.75	21.75	4.28	5.08
Wed, Aug 12, 1998	23.94	11.48	2.09	23.25	13.38	1.74	23.44	4.28	5.48
Thu, Aug 13, 1998	24.25	11.48	2.11	22.81	13.38	1.70	23.50	4.28	5.49
Fri, Aug 14, 1998	24.50	11.48	2.13	22.75	13.38	1.70	24.00	4.28	5.61
Mon, Aug 17, 1998	24.00	11.48	2.09	22.31	13.38	1.67	24.75	4.28	5.78
Tue, Aug 18, 1998	24.25	11.48	2.11	23.75	13.38	1.78	25.38	4.28	5.93
Wed, Aug 19, 1998	24.44	11.48	2.13	22.75	13.38	1.70	24.44	4.28	5.71
Thu, Aug 20, 1998	24.50	11.48	2.13	22.56	13.38	1.69	23.56	4.28	5.51
Fri, Aug 21, 1998	24.88	11.48	2.17	22.88	13.38	1.71	23.50	4.28	5.49

Mon, Aug 24, 1998	25.44	11.48	2.22	22.44	13.38	1.68	24.44	4.28	5.71
Tue, Aug 25, 1998	25.69	11.48	2.24	22.25	13.38	1.66	25.06	4.28	5.86
Wed, Aug 26, 1998	25.38	11.48	2.21	21.94	13.38	1.64	25.50	4.28	5.96
Thu, Aug 27, 1998	24.69	11.48	2.15	21.25	13.38	1.59	25.06	4.28	5.86
Fri, Aug 28, 1998	23.94	11.48	2.09	22.13	13.38	1.65	25.75	4.28	6.02
Mon, Aug 31, 1998	23.50	11.48	2.05	21.88	13.38	1.63	25.44	4.28	5.94
Tue, Sep 1, 1998	24.88	11.48	2.17	21.94	13.38	1.64	26.94	4.28	6.29
Wed, Sep 2, 1998	24.13	11.48	2.10	21.88	13.38	1.63	26.38	4.28	6.16
Thu, Sep 3, 1998	24.06	11.48	2.10	21.38	13.38	1.60	26.13	4.28	6.10
Fri, Sep 4, 1998	24.19	11.48	2.11	21.00	13.38	1.57	26.25	4.28	6.13
Tue, Sep 8, 1998	24.13	11.48	2.10	21.25	13.38	1.59	26.81	4.28	6.26
Wed, Sep 9, 1998	24.31	11.48	2.12	21.63	13.38	1.62	26.50	4.28	6.19
Thu, Sep 10, 1998	24.44	11.48	2.13	21.19	13.38	1.58	26.13	4.28	6.10
Fri, Sep 11, 1998	24.31	11.48	2.12	21.63	13.38	1.62	26.56	4.28	6.21
Mon, Sep 14, 1998	24.75	11.48	2.16	21.25	13.38	1.59	25.81	4.28	6.03
Tue, Sep 15, 1998	24.88	11.48	2.17	21.31	13.38	1.59	26.25	4.28	6.13
Wed, Sep 16, 1998	24.38	11.48	2.12	21.44	13.38	1.60	25.81	4.28	6.03
Thu, Sep 17, 1998	24.63	11.48	2.15	21.88	13.38	1.63	25.69	4.28	6.00
Fri, Sep 18, 1998	24.50	11.48	2.13	21.94	13.38	1.64	27.13	4.28	6.34
Mon, Sep 21, 1998	24.31	11.48	2.12	21.63	13.38	1.62	26.88	4.28	6.28
Tue, Sep 22, 1998	24.56	11.48	2.14	21.50	13.38	1.61	27.69	4.28	6.47
Wed, Sep 23, 1998	24.13	11.48	2.10	22.38	13.38	1.67	27.81	4.28	6.50
Thu, Sep 24, 1998	24.38	11.48	2.12	23.19	13.38	1.73	27.13	4.28	6.34
Fri, Sep 25, 1998	24.63	11.48	2.15	21.63	13.38	1.62	27.19	4.28	6.35
Mon, Sep 28, 1998	24.88	11.48	2.17	21.50	13.38	1.61	27.50	4.28	6.43
Tue, Sep 29, 1998	25.50	11.48	2.22	22.88	13.38	1.71	27.06	4.28	6.32
Wed, Sep 30, 1998	26.50	11.48	2.31	22.63	13.38	1.69	26.81	4.28	6.26
Thu, Oct 1, 1998	25.94	11.48	2.26	22.25	13.38	1.66	26.69	4.28	6.24
Fri, Oct 2, 1998	26.25	11.48	2.29	22.00	13.38	1.64	25.94	4.28	6.06
Mon, Oct 5, 1998	26.31	11.48	2.29	23.75	13.38	1.78	26.56	4.28	6.21
Tue, Oct 6, 1998	26.31	11.48	2.29	24.44	13.38	1.83	26.81	4.28	6.26
Wed, Oct 7, 1998	26.50	11.48	2.31	25.19	13.38	1.88	25.69	4.28	6.00
Thu, Oct 8, 1998	25.75	11.48	2.24	24.25	13.38	1.81	24.25	4.28	5.67
Fri, Oct 9, 1998	25.00	11.48	2.18	23.63	13.38	1.77	23.06	4.28	5.39
Mon, Oct 12, 1998	25.13	11.48	2.19	23.75	13.38	1.78	24.06	4.28	5.62
Tue, Oct 13, 1998	25.25	11.48	2.20	23.44	13.38	1.75	24.13	4.28	5.64
Wed, Oct 14, 1998	25.56	11.48	2.23	24.50	13.38	1.83	24.06	4.28	5.62
Thu, Oct 15, 1998	25.94	11.48	2.26	23.63	13.38	1.77	23.63	4.28	5.52
Fri, Oct 16, 1998	26.25	11.48	2.29	24.13	13.38	1.80	24.06	4.28	5.62
Mon, Oct 19, 1998	26.00	11.48	2.26	24.63	13.38	1.84	24.88	4.28	5.81
Tue, Oct 20, 1998	26.63	11.48	2.32	25.25	13.38	1.89	25.31	4.28	5.91
Wed, Oct 21, 1998	27.38	11.48	2.38	25.31	13.38	1.89	24.69	4.28	5.77
Thu, Oct 22, 1998	27.00	11.48	2.35	25.06	13.38	1.87	24.63	4.28	5.75
Fri, Oct 23, 1998	26.63	11.48	2.32	25.25	13.38	1.89	24.63	4.28	5.75
Mon, Oct 26, 1998	26.00	11.48	2.26	26.88	13.38	2.01	24.31	4.28	5.68
Tue, Oct 27, 1998	25.25	11.48	2.20	26.75	13.38	2.00	24.00	4.28	5.61
Wed, Oct 28, 1998	25.56	11.48	2.23	26.50	13.38	1.98	23.88	4.28	5.58
Thu, Oct 29, 1998	25.69	11.48	2.24	26.38	13.38	1.97	23.63	4.28	5.52
Fri, Oct 30, 1998	26.25	11.48	2.29	26.38	13.38	1.97	24.56	4.28	5.74
Mon, Nov 2, 1998	26.56	11.48	2.31	26.75	13.38	2.00	25.25	4.28	5.90
Tue, Nov 3, 1998	26.63	11.48	2.32	26.44	13.38	1.98	25.88	4.28	6.05
Wed, Nov 4, 1998	27.50	11.48	2.40	25.81	13.38	1.93	26.31	4.28	6.15
Thu, Nov 5, 1998	26.94	11.48	2.35	26.56	13.38	1.99	26.69	4.28	6.24
Fri, Nov 6, 1998	27.00	11.48	2.35	26.69	13.38	1.99	26.69	4.28	6.24
Mon, Nov 9, 1998	26.63	11.48	2.32	26.75	13.38	2.00	26.31	4.28	6.15
Tue, Nov 10, 1998	27.44	11.48	2.39	26.75	13.38	2.00	27.56	4.28	6.44
Wed, Nov 11, 1998	27.31	11.48	2.38	26.88	13.38	2.01	27.50	4.28	6.43
Thu, Nov 12, 1998	27.25	11.48	2.37	26.94	13.38	2.01	27.50	4.28	6.43
Fri, Nov 13, 1998	27.25	11.48	2.37	26.75	13.38	2.00	26.63	4.28	6.22
Mon, Nov 16, 1998	27.31	11.48	2.38	26.75	13.38	2.00	26.13	4.28	6.10
Tue, Nov 17, 1998	27.25	11.48	2.37	26.88	13.38	2.01	26.25	4.28	6.13
Wed, Nov 18, 1998	27.06	11.48	2.36	26.88	13.38	2.01	25.88	4.28	6.05
Thu, Nov 19, 1998	27.31	11.48	2.38	26.88	13.38	2.01	25.56	4.28	5.97
Fri, Nov 20, 1998	27.38	11.48	2.38	26.88	13.38	2.01	25.50	4.28	5.96
Mon, Nov 23, 1998	28.50	11.48	2.48	26.88	13.38	2.01	25.44	4.28	5.94
Tue, Nov 24, 1998	28.63	11.48	2.49	26.00	13.38	1.94	25.44	4.28	5.94
Wed, Nov 25, 1998	28.56	11.48	2.49	26.00	13.38	1.94	25.38	4.28	5.93
Fri, Nov 27, 1998	28.38	11.48	2.47	26.00	13.38	1.94	25.44	4.28	5.94
Mon, Nov 30, 1998	28.25	11.48	2.46	26.06	13.38	1.95	25.31	4.28	5.91
Tue, Dec 1, 1998	28.13	11.48	2.45	27.06	13.38	2.02	25.38	4.28	5.93
Wed, Dec 2, 1998	27.06	11.48	2.36	27.38	13.38	2.05	25.19	4.28	5.88
Thu, Dec 3, 1998	27.38	11.48	2.38	27.19	13.38	2.03	25.63	4.28	5.99
Fri, Dec 4, 1998	28.25	11.48	2.46	26.63	13.38	1.99	26.31	4.28	6.15
Mon, Dec 7, 1998	28.69	11.48	2.50	26.25	13.38	1.96	26.81	4.28	6.26
Tue, Dec 8, 1998	29.13	11.48	2.54	27.13	13.38	2.03	27.69	4.28	6.47
Wed, Dec 9, 1998	28.63	11.48	2.49	27.44	13.38	2.05	28.06	4.28	6.56
Thu, Dec 10, 1998	29.00	11.48	2.53	27.69	13.38	2.07	27.81	4.28	6.50
Fri, Dec 11, 1998	28.31	11.48	2.47	27.81	13.38	2.08	27.88	4.28	6.51
Mon, Dec 14, 1998	28.56	11.48	2.49	27.44	13.38	2.05	27.56	4.28	6.44
Tue, Dec 15, 1998	28.31	11.48	2.47	27.00	13.38	2.02	27.56	4.28	6.44
Wed, Dec 16, 1998	28.13	11.48	2.45	26.88	13.38	2.01	26.69	4.28	6.24
Thu, Dec 17, 1998	27.19	11.48	2.37	27.13	13.38	2.03	26.69	4.28	6.24
Fri, Dec 18, 1998	27.19	11.48	2.37	27.25	13.38	2.04	27.75	4.28	6.48
Mon, Dec 21, 1998	26.88	11.48	2.34	28.63	13.38	2.14	27.88	4.28	6.51
Tue, Dec 22, 1998	26.50	11.48	2.31	29.50	13.38	2.20	28.25	4.28	6.60
Wed, Dec 23, 1998	26.50	11.48	2.31	32.75	13.38	2.45	28.25	4.28	6.60

Thu, Dec 24, 1998	26.63	11.48	2.32	31.50	13.38	2.35	28.25	4.28	6.60
Mon, Dec 28, 1998	26.63	11.48	2.32	31.38	13.38	2.34	28.63	4.28	6.69
Tue, Dec 29, 1998	26.63	11.48	2.32	31.13	13.38	2.33	28.94	4.28	6.76
Wed, Dec 30, 1998	26.75	11.48	2.33	30.63	13.38	2.29	29.75	4.28	6.95
Thu, Dec 31, 1998	27.25	11.48	2.37	31.31	13.38	2.34	29.56	4.28	6.91
Average	**25.04**	**11.48**	**2.18**	**27.38**	**13.38**	**2.05**	**23.32**	**4.28**	**5.45**

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
Mon, Jan 4, 1999	27.63	11.82	2.34	30.28	13.43	2.25	29.06	4.57	6.36
Tue, Jan 5, 1999	28.25	11.82	2.39	29.94	13.43	2.23	28.88	4.57	6.32
Wed, Jan 6, 1999	27.75	11.82	2.35	29.06	13.43	2.16	28.44	4.57	6.22
Thu, Jan 7, 1999	27.56	11.82	2.33	29.44	13.43	2.19	28.06	4.57	6.14
Fri, Jan 8, 1999	28.13	11.82	2.38	29.69	13.43	2.21	28.75	4.57	6.29
Mon, Jan 11, 1999	28.50	11.82	2.41	29.19	13.43	2.17	28.00	4.57	6.13
Tue, Jan 12, 1999	28.69	11.82	2.43	28.50	13.43	2.12	28.31	4.57	6.20
Wed, Jan 13, 1999	29.00	11.82	2.45	27.19	13.43	2.02	27.81	4.57	6.09
Thu, Jan 14, 1999	29.75	11.82	2.52	26.75	13.43	1.99	27.50	4.57	6.02
Fri, Jan 15, 1999	29.56	11.82	2.50	27.44	13.43	2.04	27.19	4.57	5.95
Tue, Jan 19, 1999	29.75	11.82	2.52	27.63	13.43	2.06	27.38	4.57	5.99
Wed, Jan 20, 1999	29.94	11.82	2.53	27.00	13.43	2.01	27.13	4.57	5.94
Thu, Jan 21, 1999	29.75	11.82	2.52	26.25	13.43	1.95	26.75	4.57	5.85
Fri, Jan 22, 1999	29.75	11.82	2.52	26.44	13.43	1.97	26.38	4.57	5.77
Mon, Jan 25, 1999	29.75	11.82	2.52	25.50	13.43	1.90	26.00	4.57	5.69
Tue, Jan 26, 1999	29.44	11.82	2.49	25.13	13.43	1.87	25.88	4.57	5.66
Wed, Jan 27, 1999	29.25	11.82	2.47	25.00	13.43	1.86	25.19	4.57	5.51
Thu, Jan 28, 1999	29.00	11.82	2.45	26.31	13.43	1.96	25.00	4.57	5.47
Fri, Jan 29, 1999	28.56	11.82	2.42	26.06	13.43	1.94	25.38	4.57	5.55
Mon, Feb 1, 1999	27.56	11.82	2.33	26.06	13.43	1.94	25.06	4.57	5.48
Tue, Feb 2, 1999	27.63	11.82	2.34	25.06	13.43	1.87	24.75	4.57	5.42
Wed, Feb 3, 1999	29.56	11.82	2.50	26.13	13.43	1.95	24.88	4.57	5.44
Thu, Feb 4, 1999	30.00	11.82	2.54	26.38	13.43	1.96	24.50	4.57	5.36
Fri, Feb 5, 1999	29.00	11.82	2.45	26.25	13.43	1.95	24.81	4.57	5.43
Mon, Feb 8, 1999	29.19	11.82	2.47	26.13	13.43	1.95	24.38	4.57	5.33
Tue, Feb 9, 1999	29.00	11.82	2.45	25.88	13.43	1.93	24.31	4.57	5.32
Wed, Feb 10, 1999	28.38	11.82	2.40	25.38	13.43	1.89	24.13	4.57	5.28
Thu, Feb 11, 1999	27.75	11.82	2.35	25.75	13.43	1.92	24.13	4.57	5.28
Fri, Feb 12, 1999	26.81	11.82	2.27	24.88	13.43	1.85	23.81	4.57	5.21
Tue, Feb 16, 1999	26.44	11.82	2.24	25.56	13.43	1.90	23.94	4.57	5.24
Wed, Feb 17, 1999	25.69	11.82	2.17	24.31	13.43	1.81	23.63	4.57	5.17
Thu, Feb 18, 1999	23.88	11.82	2.02	24.06	13.43	1.79	23.63	4.57	5.17
Fri, Feb 19, 1999	24.44	11.82	2.07	23.81	13.43	1.77	23.75	4.57	5.20
Mon, Feb 22, 1999	24.50	11.82	2.07	23.63	13.43	1.76	23.69	4.57	5.18
Tue, Feb 23, 1999	26.00	11.82	2.20	24.25	13.43	1.81	22.50	4.57	4.92
Wed, Feb 24, 1999	25.75	11.82	2.18	24.25	13.43	1.81	21.81	4.57	4.77
Thu, Feb 25, 1999	27.56	11.82	2.33	24.31	13.43	1.81	21.75	4.57	4.76
Fri, Feb 26, 1999	28.19	11.82	2.38	24.50	13.43	1.82	21.56	4.57	4.72
Mon, Mar 1, 1999	28.44	11.82	2.41	24.63	13.43	1.83	21.25	4.57	4.65
Tue, Mar 2, 1999	28.38	11.82	2.40	25.75	13.43	1.92	21.25	4.57	4.65
Wed, Mar 3, 1999	27.56	11.82	2.33	25.50	13.43	1.90	21.75	4.57	4.76
Thu, Mar 4, 1999	27.88	11.82	2.36	25.13	13.43	1.87	21.94	4.57	4.80
Fri, Mar 5, 1999	28.44	11.82	2.41	24.81	13.43	1.85	22.00	4.57	4.81
Mon, Mar 8, 1999	27.94	11.82	2.36	24.75	13.43	1.84	22.44	4.57	4.91
Tue, Mar 9, 1999	27.50	11.82	2.33	24.50	13.43	1.82	22.44	4.57	4.91
Wed, Mar 10, 1999	27.38	11.82	2.32	24.19	13.43	1.80	22.38	4.57	4.90
Thu, Mar 11, 1999	26.56	11.82	2.25	24.50	13.43	1.82	21.25	4.57	4.65
Fri, Mar 12, 1999	26.75	11.82	2.26	24.81	13.43	1.85	21.19	4.57	4.64
Mon, Mar 15, 1999	27.69	11.82	2.34	24.88	13.43	1.85	20.81	4.57	4.55
Tue, Mar 16, 1999	28.06	11.82	2.37	24.38	13.43	1.81	20.13	4.57	4.40
Wed, Mar 17, 1999	26.50	11.82	2.24	24.63	13.43	1.83	20.88	4.57	4.57
Thu, Mar 18, 1999	25.88	11.82	2.19	24.56	13.43	1.83	21.31	4.57	4.66
Fri, Mar 19, 1999	25.44	11.82	2.15	24.38	13.43	1.81	21.94	4.57	4.80
Mon, Mar 22, 1999	24.81	11.82	2.10	24.44	13.43	1.82	23.00	4.57	5.03
Tue, Mar 23, 1999	24.81	11.82	2.10	24.44	13.43	1.82	22.75	4.57	4.98
Wed, Mar 24, 1999	25.19	11.82	2.13	24.44	13.43	1.82	21.94	4.57	4.80
Thu, Mar 25, 1999	25.31	11.82	2.14	24.50	13.43	1.82	21.75	4.57	4.76
Fri, Mar 26, 1999	25.31	11.82	2.14	25.19	13.43	1.88	22.19	4.57	4.86
Mon, Mar 29, 1999	25.13	11.82	2.13	25.25	13.43	1.88	21.31	4.57	4.66
Tue, Mar 30, 1999	25.13	11.82	2.13	26.31	13.43	1.96	21.88	4.57	4.79
Wed, Mar 31, 1999	24.25	11.82	2.05	24.50	13.43	1.82	22.69	4.57	4.96
Thu, Apr 1, 1999	24.94	11.82	2.11	24.63	13.43	1.83	22.63	4.57	4.95
Mon, Apr 5, 1999	25.06	11.82	2.12	24.56	13.43	1.83	22.81	4.57	4.99
Tue, Apr 6, 1999	25.19	11.82	2.13	24.56	13.43	1.83	22.75	4.57	4.98
Wed, Apr 7, 1999	24.56	11.82	2.08	24.63	13.43	1.83	23.00	4.57	5.03
Thu, Apr 8, 1999	24.06	11.82	2.04	24.94	13.43	1.86	23.13	4.57	5.06
Fri, Apr 9, 1999	24.06	11.82	2.04	24.94	13.43	1.86	24.81	4.57	5.43
Mon, Apr 12, 1999	22.31	11.82	1.89	25.13	13.43	1.87	24.25	4.57	5.31
Tue, Apr 13, 1999	24.13	11.82	2.04	25.13	13.43	1.87	24.00	4.57	5.25
Wed, Apr 14, 1999	24.44	11.82	2.07	25.31	13.43	1.88	25.06	4.57	5.48
Thu, Apr 15, 1999	23.63	11.82	2.00	24.56	13.43	1.83	25.25	4.57	5.53
Fri, Apr 16, 1999	24.69	11.82	2.09	24.44	13.43	1.82	25.75	4.57	5.63
Mon, Apr 19, 1999	24.63	11.82	2.08	24.50	13.43	1.82	24.94	4.57	5.46
Tue, Apr 20, 1999	24.44	11.82	2.07	24.13	13.43	1.80	25.13	4.57	5.50
Wed, Apr 21, 1999	24.31	11.82	2.06	24.00	13.43	1.79	25.19	4.57	5.51

Thu, Apr 22, 1999	24.44	11.82	2.07	24.13	13.43	1.80	25.00	4.57	5.47
Fri, Apr 23, 1999	24.31	11.82	2.06	23.88	13.43	1.78	24.50	4.57	5.36
Mon, Apr 26, 1999	24.75	11.82	2.09	23.19	13.43	1.73	23.75	4.57	5.20
Tue, Apr 27, 1999	25.25	11.82	2.14	23.31	13.43	1.74	23.50	4.57	5.14
Wed, Apr 28, 1999	26.31	11.82	2.23	23.38	13.43	1.74	22.75	4.57	4.98
Thu, Apr 29, 1999	26.00	11.82	2.20	23.13	13.43	1.72	22.94	4.57	5.02
Fri, Apr 30, 1999	25.44	11.82	2.15	22.94	13.43	1.71	22.56	4.57	4.94
Mon, May 3, 1999	25.06	11.82	2.12	23.44	13.43	1.75	23.00	4.57	5.03
Tue, May 4, 1999	25.63	11.82	2.17	23.00	13.43	1.71	23.13	4.57	5.06
Wed, May 5, 1999	26.13	11.82	2.21	23.06	13.43	1.72	22.50	4.57	4.92
Thu, May 6, 1999	26.00	11.82	2.20	23.31	13.43	1.74	22.00	4.57	4.81
Fri, May 7, 1999	26.25	11.82	2.22	23.50	13.43	1.75	22.06	4.57	4.83
Mon, May 10, 1999	26.25	11.82	2.22	24.75	13.43	1.84	23.25	4.57	5.09
Tue, May 11, 1999	26.25	11.82	2.22	26.00	13.43	1.94	22.88	4.57	5.01
Wed, May 12, 1999	25.88	11.82	2.19	24.44	13.43	1.82	22.63	4.57	4.95
Thu, May 13, 1999	26.50	11.82	2.24	23.19	13.43	1.73	22.88	4.57	5.01
Fri, May 14, 1999	26.63	11.82	2.25	23.06	13.43	1.72	22.81	4.57	4.99
Mon, May 17, 1999	26.19	11.82	2.22	23.50	13.43	1.75	22.75	4.57	4.98
Tue, May 18, 1999	25.81	11.82	2.18	23.50	13.43	1.75	22.88	4.57	5.01
Wed, May 19, 1999	25.50	11.82	2.16	23.19	13.43	1.73	23.06	4.57	5.05
Thu, May 20, 1999	25.75	11.82	2.18	23.69	13.43	1.76	24.44	4.57	5.35
Fri, May 21, 1999	25.13	11.82	2.13	24.06	13.43	1.79	23.56	4.57	5.16
Mon, May 24, 1999	26.00	11.82	2.20	24.00	13.43	1.79	23.38	4.57	5.11
Tue, May 25, 1999	26.13	11.82	2.21	24.25	13.43	1.81	22.88	4.57	5.01
Wed, May 26, 1999	26.38	11.82	2.23	25.19	13.43	1.88	22.44	4.57	4.91
Thu, May 27, 1999	26.19	11.82	2.22	25.25	13.43	1.88	21.88	4.57	4.79
Fri, May 28, 1999	26.69	11.82	2.26	26.00	13.43	1.94	22.00	4.57	4.81
Tue, Jun 1, 1999	27.13	11.82	2.29	25.50	13.43	1.90	22.94	4.57	5.02
Wed, Jun 2, 1999	28.81	11.82	2.44	26.25	13.43	1.95	22.94	4.57	5.02
Thu, Jun 3, 1999	27.88	11.82	2.36	26.88	13.43	2.00	22.50	4.57	4.92
Fri, Jun 4, 1999	27.88	11.82	2.36	26.94	13.43	2.01	22.69	4.57	4.96
Mon, Jun 7, 1999	27.44	11.82	2.32	26.13	13.43	1.95	22.88	4.57	5.01
Tue, Jun 8, 1999	27.69	11.82	2.34	25.56	13.43	1.90	22.88	4.57	5.01
Wed, Jun 9, 1999	27.94	11.82	2.36	25.31	13.43	1.88	22.75	4.57	4.98
Thu, Jun 10, 1999	27.94	11.82	2.36	25.44	13.43	1.89	22.44	4.57	4.91
Fri, Jun 11, 1999	27.75	11.82	2.35	25.69	13.43	1.91	22.00	4.57	4.81
Mon, Jun 14, 1999	27.69	11.82	2.34	25.63	13.43	1.91	21.75	4.57	4.76
Tue, Jun 15, 1999	27.88	11.82	2.36	25.63	13.43	1.91	22.25	4.57	4.87
Wed, Jun 16, 1999	27.50	11.82	2.33	25.50	13.43	1.90	22.75	4.57	4.98
Thu, Jun 17, 1999	28.38	11.82	2.40	25.19	13.43	1.88	23.00	4.57	5.03
Fri, Jun 18, 1999	28.31	11.82	2.40	24.81	13.43	1.85	23.25	4.57	5.09
Mon, Jun 21, 1999	28.81	11.82	2.44	24.81	13.43	1.85	23.44	4.57	5.13
Tue, Jun 22, 1999	28.75	11.82	2.43	24.81	13.43	1.85	23.19	4.57	5.07
Wed, Jun 23, 1999	29.19	11.82	2.47	25.88	13.43	1.93	23.31	4.57	5.10
Thu, Jun 24, 1999	28.31	11.82	2.40	26.19	13.43	1.95	23.19	4.57	5.07
Fri, Jun 25, 1999	28.00	11.82	2.37	26.06	13.43	1.94	23.13	4.57	5.06
Mon, Jun 28, 1999	27.75	11.82	2.35	26.69	13.43	1.99	23.13	4.57	5.06
Tue, Jun 29, 1999	27.88	11.82	2.36	27.13	13.43	2.02	23.00	4.57	5.03
Wed, Jun 30, 1999	28.38	11.82	2.40	26.13	13.43	1.95	23.06	4.57	5.05
Thu, Jul 1, 1999	28.81	11.82	2.44	26.31	13.43	1.96	23.00	4.57	5.03
Fri, Jul 2, 1999	29.00	11.82	2.45	26.13	13.43	1.95	23.38	4.57	5.11
Tue, Jul 6, 1999	30.13	11.82	2.55	27.00	13.43	2.01	22.63	4.57	4.95
Wed, Jul 7, 1999	30.94	11.82	2.62	27.06	13.43	2.02	22.31	4.57	4.88
Thu, Jul 8, 1999	30.38	11.82	2.57	27.13	13.43	2.02	22.06	4.57	4.83
Fri, Jul 9, 1999	30.81	11.82	2.61	27.25	13.43	2.03	22.44	4.57	4.91
Mon, Jul 12, 1999	31.31	11.82	2.65	27.19	13.43	2.02	23.06	4.57	5.05
Tue, Jul 13, 1999	31.13	11.82	2.63	27.19	13.43	2.02	23.13	4.57	5.06
Wed, Jul 14, 1999	31.31	11.82	2.65	27.25	13.43	2.03	23.69	4.57	5.18
Thu, Jul 15, 1999	32.00	11.82	2.71	27.25	13.43	2.03	24.38	4.57	5.33
Fri, Jul 16, 1999	32.31	11.82	2.73	27.13	13.43	2.02	24.56	4.57	5.37
Mon, Jul 19, 1999	32.00	11.82	2.71	27.25	13.43	2.03	23.50	4.57	5.14
Tue, Jul 20, 1999	31.69	11.82	2.68	27.06	13.43	2.02	23.00	4.57	5.03
Wed, Jul 21, 1999	31.25	11.82	2.64	27.25	13.43	2.03	22.69	4.57	4.96
Thu, Jul 22, 1999	30.75	11.82	2.60	27.13	13.43	2.02	22.63	4.57	4.95
Fri, Jul 23, 1999	30.81	11.82	2.61	27.06	13.43	2.02	22.63	4.57	4.95
Mon, Jul 26, 1999	30.25	11.82	2.56	27.13	13.43	2.02	21.88	4.57	4.79
Tue, Jul 27, 1999	29.81	11.82	2.52	27.19	13.43	2.02	21.44	4.57	4.69
Wed, Jul 28, 1999	30.06	11.82	2.54	27.06	13.43	2.02	22.75	4.57	4.98
Thu, Jul 29, 1999	30.00	11.82	2.54	27.75	13.43	2.07	22.94	4.57	5.02
Fri, Jul 30, 1999	30.06	11.82	2.54	27.75	13.43	2.07	22.88	4.57	5.01
Mon, Aug 2, 1999	30.13	11.82	2.55	28.31	13.43	2.11	23.00	4.57	5.03
Tue, Aug 3, 1999	30.50	11.82	2.58	27.81	13.43	2.07	23.06	4.57	5.05
Wed, Aug 4, 1999	32.06	11.82	2.71	28.00	13.43	2.08	22.75	4.57	4.98
Thu, Aug 5, 1999	31.88	11.82	2.70	27.63	13.43	2.06	22.69	4.57	4.96
Fri, Aug 6, 1999	32.38	11.82	2.74	27.56	13.43	2.05	22.69	4.57	4.96
Mon, Aug 9, 1999	32.13	11.82	2.72	27.88	13.43	2.08	22.13	4.57	4.84
Tue, Aug 10, 1999	31.50	11.82	2.66	28.06	13.43	2.09	22.63	4.57	4.95
Wed, Aug 11, 1999	31.25	11.82	2.64	28.00	13.43	2.08	22.19	4.57	4.86
Thu, Aug 12, 1999	30.81	11.82	2.61	27.94	13.43	2.08	22.25	4.57	4.87
Fri, Aug 13, 1999	30.94	11.82	2.62	27.75	13.43	2.07	21.88	4.57	4.79
Mon, Aug 16, 1999	31.25	11.82	2.64	28.38	13.43	2.11	21.56	4.57	4.72
Tue, Aug 17, 1999	31.34	11.82	2.65	29.81	13.43	2.22	21.47	4.57	4.70
Wed, Aug 18, 1999	32.13	11.82	2.72	30.88	13.43	2.30	22.00	4.57	4.81
Thu, Aug 19, 1999	31.88	11.82	2.70	31.00	13.43	2.31	23.25	4.57	5.09
Fri, Aug 20, 1999	32.00	11.82	2.71	31.25	13.43	2.33	24.38	4.57	5.33
Mon, Aug 23, 1999	33.25	11.82	2.81	30.63	13.43	2.28	25.00	4.57	5.47

Tue, Aug 24, 1999	33.38	11.82	2.82	30.38	13.43	2.26	25.00	4.57	5.47
Wed, Aug 25, 1999	33.50	11.82	2.83	30.13	13.43	2.24	25.06	4.57	5.48
Thu, Aug 26, 1999	34.06	11.82	2.88	30.13	13.43	2.24	24.75	4.57	5.42
Fri, Aug 27, 1999	34.13	11.82	2.89	29.50	13.43	2.20	24.25	4.57	5.31
Mon, Aug 30, 1999	35.13	11.82	2.97	29.63	13.43	2.21	24.06	4.57	5.27
Tue, Aug 31, 1999	35.25	11.82	2.98	29.88	13.43	2.22	23.19	4.57	5.07
Wed, Sep 1, 1999	35.13	11.82	2.97	30.31	13.43	2.26	23.69	4.57	5.18
Thu, Sep 2, 1999	34.50	11.82	2.92	30.00	13.43	2.23	24.13	4.57	5.28
Fri, Sep 3, 1999	35.13	11.82	2.97	29.75	13.43	2.22	24.31	4.57	5.32
Tue, Sep 7, 1999	35.50	11.82	3.00	30.25	13.43	2.25	24.56	4.57	5.37
Wed, Sep 8, 1999	36.50	11.82	3.09	30.38	13.43	2.26	24.31	4.57	5.32
Thu, Sep 9, 1999	37.06	11.82	3.14	30.13	13.43	2.24	24.06	4.57	5.27
Fri, Sep 10, 1999	36.50	11.82	3.09	30.38	13.43	2.26	24.63	4.57	5.39
Mon, Sep 13, 1999	36.06	11.82	3.05	30.38	13.43	2.26	24.19	4.57	5.29
Tue, Sep 14, 1999	35.00	11.82	2.96	30.19	13.43	2.25	23.38	4.57	5.11
Wed, Sep 15, 1999	35.50	11.82	3.00	30.00	13.43	2.23	23.44	4.57	5.13
Thu, Sep 16, 1999	34.81	11.82	2.95	28.81	13.43	2.15	23.63	4.57	5.17
Fri, Sep 17, 1999	34.19	11.82	2.89	28.56	13.43	2.13	23.25	4.57	5.09
Mon, Sep 20, 1999	32.63	11.82	2.76	29.00	13.43	2.16	23.25	4.57	5.09
Tue, Sep 21, 1999	31.94	11.82	2.70	28.25	13.43	2.10	23.38	4.57	5.11
Wed, Sep 22, 1999	31.00	11.82	2.62	28.00	13.43	2.08	23.13	4.57	5.06
Thu, Sep 23, 1999	30.13	11.82	2.55	27.63	13.43	2.06	23.25	4.57	5.09
Fri, Sep 24, 1999	30.50	11.82	2.58	27.63	13.43	2.06	22.81	4.57	4.99
Mon, Sep 27, 1999	31.38	11.82	2.65	27.56	13.43	2.05	23.38	4.57	5.11
Tue, Sep 28, 1999	31.94	11.82	2.70	27.75	13.43	2.07	23.44	4.57	5.13
Wed, Sep 29, 1999	33.31	11.82	2.82	27.75	13.43	2.07	23.31	4.57	5.10
Thu, Sep 30, 1999	33.13	11.82	2.80	27.38	13.43	2.04	23.56	4.57	5.16
Fri, Oct 1, 1999	32.44	11.82	2.74	26.56	13.43	1.98	22.88	4.57	5.01
Mon, Oct 4, 1999	33.13	11.82	2.80	26.56	13.43	1.98	22.63	4.57	4.95
Tue, Oct 5, 1999	33.50	11.82	2.83	26.50	13.43	1.97	22.00	4.57	4.81
Wed, Oct 6, 1999	34.25	11.82	2.90	26.56	13.43	1.98	22.69	4.57	4.96
Thu, Oct 7, 1999	33.56	11.82	2.84	26.50	13.43	1.97	22.81	4.57	4.99
Fri, Oct 8, 1999	33.50	11.82	2.83	27.00	13.43	2.01	23.00	4.57	5.03
Mon, Oct 11, 1999	33.06	11.82	2.80	27.00	13.43	2.01	22.75	4.57	4.98
Tue, Oct 12, 1999	32.31	11.82	2.73	26.25	13.43	1.95	22.56	4.57	4.94
Wed, Oct 13, 1999	31.94	11.82	2.70	26.38	13.43	1.96	22.13	4.57	4.84
Thu, Oct 14, 1999	32.38	11.82	2.74	25.88	13.43	1.93	21.63	4.57	4.73
Fri, Oct 15, 1999	32.44	11.82	2.74	26.25	13.43	1.95	22.00	4.57	4.81
Mon, Oct 18, 1999	32.75	11.82	2.77	26.13	13.43	1.95	21.88	4.57	4.79
Tue, Oct 19, 1999	33.00	11.82	2.79	25.63	13.43	1.91	21.56	4.57	4.72
Wed, Oct 20, 1999	32.88	11.82	2.78	25.63	13.43	1.91	22.13	4.57	4.84
Thu, Oct 21, 1999	33.94	11.82	2.87	24.75	13.43	1.84	22.00	4.57	4.81
Fri, Oct 22, 1999	34.25	11.82	2.90	26.31	13.43	1.96	22.00	4.57	4.81
Mon, Oct 25, 1999	33.81	11.82	2.86	26.25	13.43	1.95	21.88	4.57	4.79
Tue, Oct 26, 1999	32.94	11.82	2.79	27.69	13.43	2.06	21.44	4.57	4.69
Wed, Oct 27, 1999	34.31	11.82	2.90	29.25	13.43	2.18	22.06	4.57	4.83
Thu, Oct 28, 1999	34.56	11.82	2.92	28.88	13.43	2.15	23.00	4.57	5.03
Fri, Oct 29, 1999	34.31	11.82	2.90	29.00	13.43	2.16	23.00	4.57	5.03
Mon, Nov 1, 1999	34.88	11.82	2.95	30.00	13.43	2.23	23.06	4.57	5.05
Tue, Nov 2, 1999	35.69	11.82	3.02	30.75	13.43	2.29	23.06	4.57	5.05
Wed, Nov 3, 1999	35.75	11.82	3.02	30.44	13.43	2.27	23.50	4.57	5.14
Thu, Nov 4, 1999	35.75	11.82	3.02	30.88	13.43	2.30	23.81	4.57	5.21
Fri, Nov 5, 1999	37.88	11.82	3.20	30.63	13.43	2.28	24.06	4.57	5.27
Mon, Nov 8, 1999	37.50	11.82	3.17	30.75	13.43	2.29	23.75	4.57	5.20
Tue, Nov 9, 1999	37.06	11.82	3.14	31.19	13.43	2.32	23.19	4.57	5.07
Wed, Nov 10, 1999	36.19	11.82	3.06	31.13	13.43	2.32	23.13	4.57	5.06
Thu, Nov 11, 1999	36.50	11.82	3.09	31.19	13.43	2.32	22.69	4.57	4.96
Fri, Nov 12, 1999	36.06	11.82	3.05	31.81	13.43	2.37	22.75	4.57	4.98
Mon, Nov 15, 1999	35.63	11.82	3.01	31.50	13.43	2.35	22.94	4.57	5.02
Tue, Nov 16, 1999	35.00	11.82	2.96	31.69	13.43	2.36	22.63	4.57	4.95
Wed, Nov 17, 1999	35.00	11.82	2.96	31.06	13.43	2.31	22.56	4.57	4.94
Thu, Nov 18, 1999	35.19	11.82	2.98	31.63	13.43	2.35	22.31	4.57	4.88
Fri, Nov 19, 1999	34.31	11.82	2.90	30.88	13.43	2.30	21.94	4.57	4.80
Mon, Nov 22, 1999	36.50	11.82	3.09	30.94	13.43	2.30	22.06	4.57	4.83
Tue, Nov 23, 1999	37.38	11.82	3.16	31.13	13.43	2.32	21.75	4.57	4.76
Wed, Nov 24, 1999	37.19	11.82	3.15	31.50	13.43	2.35	21.88	4.57	4.79
Fri, Nov 26, 1999	37.06	11.82	3.14	31.75	13.43	2.36	22.50	4.57	4.92
Mon, Nov 29, 1999	37.94	11.82	3.21	31.38	13.43	2.34	23.25	4.57	5.09
Tue, Nov 30, 1999	37.94	11.82	3.21	31.63	13.43	2.35	23.13	4.57	5.06
Wed, Dec 1, 1999	38.88	11.82	3.29	31.25	13.43	2.33	23.13	4.57	5.06
Thu, Dec 2, 1999	39.00	11.82	3.30	31.25	13.43	2.33	22.31	4.57	4.88
Fri, Dec 3, 1999	39.13	11.82	3.31	31.63	13.43	2.35	22.56	4.57	4.94
Mon, Dec 6, 1999	38.88	11.82	3.29	31.00	13.43	2.31	22.13	4.57	4.84
Tue, Dec 7, 1999	38.75	11.82	3.28	30.50	13.43	2.27	21.56	4.57	4.72
Wed, Dec 8, 1999	38.06	11.82	3.22	30.00	13.43	2.23	21.56	4.57	4.72
Thu, Dec 9, 1999	37.31	11.82	3.16	30.25	13.43	2.25	20.88	4.57	4.57
Fri, Dec 10, 1999	39.75	11.82	3.36	30.44	13.43	2.27	21.50	4.57	4.70
Mon, Dec 13, 1999	38.75	11.82	3.28	30.44	13.43	2.27	21.88	4.57	4.79
Tue, Dec 14, 1999	38.88	11.82	3.29	30.75	13.43	2.29	22.19	4.57	4.86
Wed, Dec 15, 1999	38.13	11.82	3.23	31.50	13.43	2.35	22.19	4.57	4.86
Thu, Dec 16, 1999	37.00	11.82	3.13	30.88	13.43	2.30	21.44	4.57	4.69
Fri, Dec 17, 1999	36.81	11.82	3.11	31.25	13.43	2.33	21.00	4.57	4.60
Mon, Dec 20, 1999	36.13	11.82	3.06	31.13	13.43	2.32	20.69	4.57	4.53
Tue, Dec 21, 1999	36.38	11.82	3.08	31.38	13.43	2.34	21.31	4.57	4.66
Wed, Dec 22, 1999	36.19	11.82	3.06	31.69	13.43	2.36	21.25	4.57	4.65
Thu, Dec 23, 1999	35.75	11.82	3.02	31.69	13.43	2.36	20.25	4.57	4.43

Mon, Dec 27, 1999	35.31	11.82	2.99	31.88	13.43	2.37	20.94	4.57	4.58
Tue, Dec 28, 1999	35.50	11.82	3.00	31.13	13.43	2.32	20.69	4.57	4.53
Wed, Dec 29, 1999	35.88	11.82	3.04	31.19	13.43	2.32	20.69	4.57	4.53
Thu, Dec 30, 1999	35.94	11.82	3.04	31.13	13.43	2.32	20.38	4.57	4.46
Fri, Dec 31, 1999	36.00	11.82	3.05	30.31	13.43	2.26	20.69	4.57	4.53
Average	**30.49**	**11.82**	**2.58**	**27.16**	**13.43**	**2.02**	**23.16**	**4.57**	**5.07**

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
Mon, Jan 3, 2000	35.94	12.74	2.82	28.06	12.90	2.18	20.13	5.13	3.92
Tue, Jan 4, 2000	35.31	12.74	2.77	28.63	12.90	2.22	19.94	5.13	3.89
Wed, Jan 5, 2000	35.38	12.74	2.78	28.25	12.90	2.19	19.94	5.13	3.89
Thu, Jan 6, 2000	35.50	12.74	2.79	28.13	12.90	2.18	19.88	5.13	3.87
Fri, Jan 7, 2000	35.69	12.74	2.80	28.69	12.90	2.22	20.50	5.13	4.00
Mon, Jan 10, 2000	35.69	12.74	2.80	28.00	12.90	2.17	20.25	5.13	3.95
Tue, Jan 11, 2000	36.00	12.74	2.83	29.13	12.90	2.26	20.88	5.13	4.07
Wed, Jan 12, 2000	35.56	12.74	2.79	28.13	12.90	2.18	20.88	5.13	4.07
Thu, Jan 13, 2000	36.13	12.74	2.84	27.88	12.90	2.16	21.44	5.13	4.18
Fri, Jan 14, 2000	35.75	12.74	2.81	27.94	12.90	2.17	21.13	5.13	4.12
Tue, Jan 18, 2000	35.50	12.74	2.79	26.69	12.90	2.07	21.25	5.13	4.14
Wed, Jan 19, 2000	35.38	12.74	2.78	27.00	12.90	2.09	21.38	5.13	4.17
Thu, Jan 20, 2000	35.50	12.74	2.79	27.50	12.90	2.13	21.50	5.13	4.19
Fri, Jan 21, 2000	35.50	12.74	2.79	28.38	12.90	2.20	21.38	5.13	4.17
Mon, Jan 24, 2000	34.88	12.74	2.74	27.38	12.90	2.12	21.31	5.13	4.15
Tue, Jan 25, 2000	34.19	12.74	2.68	26.88	12.90	2.08	21.56	5.13	4.20
Wed, Jan 26, 2000	33.69	12.74	2.64	26.69	12.90	2.07	20.94	5.13	4.08
Thu, Jan 27, 2000	33.56	12.74	2.63	26.88	12.90	2.08	20.63	5.13	4.02
Fri, Jan 28, 2000	33.69	12.74	2.64	27.50	12.90	2.13	20.56	5.13	4.01
Mon, Jan 31, 2000	33.25	12.74	2.61	26.63	12.90	2.06	20.06	5.13	3.91
Tue, Feb 1, 2000	33.25	12.74	2.61	27.75	12.90	2.15	20.00	5.13	3.90
Wed, Feb 2, 2000	33.25	12.74	2.61	28.25	12.90	2.19	19.69	5.13	3.84
Thu, Feb 3, 2000	33.19	12.74	2.60	29.50	12.90	2.29	19.63	5.13	3.83
Fri, Feb 4, 2000	32.69	12.74	2.57	30.88	12.90	2.39	19.19	5.13	3.74
Mon, Feb 7, 2000	32.31	12.74	2.54	30.94	12.90	2.40	18.81	5.13	3.67
Tue, Feb 8, 2000	31.94	12.74	2.51	30.13	12.90	2.34	19.19	5.13	3.74
Wed, Feb 9, 2000	31.31	12.74	2.46	29.31	12.90	2.27	19.13	5.13	3.73
Thu, Feb 10, 2000	30.81	12.74	2.42	28.75	12.90	2.23	18.63	5.13	3.63
Fri, Feb 11, 2000	29.31	12.74	2.30	28.00	12.90	2.17	18.13	5.13	3.53
Mon, Feb 14, 2000	30.50	12.74	2.39	27.00	12.90	2.09	17.56	5.13	3.42
Tue, Feb 15, 2000	30.13	12.74	2.36	27.81	12.90	2.16	18.00	5.13	3.51
Wed, Feb 16, 2000	29.50	12.74	2.32	29.19	12.90	2.26	18.31	5.13	3.57
Thu, Feb 17, 2000	29.44	12.74	2.31	29.94	12.90	2.32	18.13	5.13	3.53
Fri, Feb 18, 2000	29.00	12.74	2.28	29.00	12.90	2.25	18.00	5.13	3.51
Tue, Feb 22, 2000	28.13	12.74	2.21	28.69	12.90	2.22	18.31	5.13	3.57
Wed, Feb 23, 2000	27.44	12.74	2.15	28.44	12.90	2.20	18.13	5.13	3.53
Thu, Feb 24, 2000	26.50	12.74	2.08	27.94	12.90	2.17	17.31	5.13	3.37
Fri, Feb 25, 2000	26.50	12.74	2.08	27.25	12.90	2.11	17.81	5.13	3.47
Mon, Feb 28, 2000	26.38	12.74	2.07	26.38	12.90	2.04	17.75	5.13	3.46
Tue, Feb 29, 2000	26.94	12.74	2.11	26.88	12.90	2.08	18.50	5.13	3.61
Wed, Mar 1, 2000	27.56	12.74	2.16	26.81	12.90	2.08	18.13	5.13	3.53
Thu, Mar 2, 2000	26.00	12.74	2.04	25.38	12.90	1.97	18.44	5.13	3.59
Fri, Mar 3, 2000	26.25	12.74	2.06	26.25	12.90	2.03	18.31	5.13	3.57
Mon, Mar 6, 2000	26.13	12.74	2.05	26.31	12.90	2.04	18.38	5.13	3.58
Tue, Mar 7, 2000	26.50	12.74	2.08	26.38	12.90	2.04	17.69	5.13	3.45
Wed, Mar 8, 2000	27.13	12.74	2.13	26.00	12.90	2.02	17.13	5.13	3.34
Thu, Mar 9, 2000	28.38	12.74	2.23	26.00	12.90	2.02	16.88	5.13	3.29
Fri, Mar 10, 2000	28.50	12.74	2.24	25.13	12.90	1.95	16.88	5.13	3.29
Mon, Mar 13, 2000	29.00	12.74	2.28	25.88	12.90	2.01	16.88	5.13	3.29
Tue, Mar 14, 2000	29.00	12.74	2.28	25.00	12.90	1.94	17.75	5.13	3.46
Wed, Mar 15, 2000	29.25	12.74	2.30	23.69	12.90	1.84	18.88	5.13	3.68
Thu, Mar 16, 2000	29.06	12.74	2.28	25.06	12.90	1.94	18.88	5.13	3.68
Fri, Mar 17, 2000	29.38	12.74	2.31	24.63	12.90	1.91	18.88	5.13	3.68
Mon, Mar 20, 2000	29.38	12.74	2.31	24.63	12.90	1.91	18.81	5.13	3.67
Tue, Mar 21, 2000	31.00	12.74	2.43	25.25	12.90	1.96	18.81	5.13	3.67
Wed, Mar 22, 2000	30.81	12.74	2.42	25.38	12.90	1.97	18.00	5.13	3.51
Thu, Mar 23, 2000	30.88	12.74	2.42	24.81	12.90	1.92	18.00	5.13	3.51
Fri, Mar 24, 2000	31.13	12.74	2.44	25.13	12.90	1.95	18.63	5.13	3.63
Mon, Mar 27, 2000	31.63	12.74	2.48	24.63	12.90	1.91	18.44	5.13	3.59
Tue, Mar 28, 2000	31.38	12.74	2.46	23.88	12.90	1.85	18.44	5.13	3.59
Wed, Mar 29, 2000	30.38	12.74	2.38	23.25	12.90	1.80	18.00	5.13	3.51
Thu, Mar 30, 2000	29.50	12.74	2.32	22.81	12.90	1.77	18.25	5.13	3.56
Fri, Mar 31, 2000	29.75	12.74	2.34	22.81	12.90	1.77	18.13	5.13	3.53
Mon, Apr 3, 2000	29.88	12.74	2.34	23.25	12.90	1.80	18.13	5.13	3.53
Tue, Apr 4, 2000	30.00	12.74	2.35	23.00	12.90	1.78	20.38	5.13	3.97
Wed, Apr 5, 2000	31.00	12.74	2.43	23.25	12.90	1.80	21.44	5.13	4.18
Thu, Apr 6, 2000	31.44	12.74	2.47	23.63	12.90	1.83	20.81	5.13	4.06
Fri, Apr 7, 2000	32.00	12.74	2.51	23.56	12.90	1.83	22.50	5.13	4.39
Mon, Apr 10, 2000	31.56	12.74	2.48	23.00	12.90	1.78	22.75	5.13	4.43
Tue, Apr 11, 2000	30.50	12.74	2.39	23.25	12.90	1.80	23.19	5.13	4.52
Wed, Apr 12, 2000	30.88	12.74	2.42	21.69	12.90	1.68	23.13	5.13	4.51
Thu, Apr 13, 2000	30.56	12.74	2.40	22.44	12.90	1.74	22.75	5.13	4.43
Fri, Apr 14, 2000	29.81	12.74	2.34	22.25	12.90	1.72	23.31	5.13	4.54
Mon, Apr 17, 2000	29.56	12.74	2.32	23.25	12.90	1.80	23.50	5.13	4.58
Tue, Apr 18, 2000	29.94	12.74	2.35	23.00	12.90	1.78	23.88	5.13	4.65

Wed, Apr 19, 2000	29.25	12.74	2.30	22.31	12.90	1.73	24.00	5.13	4.68
Thu, Apr 20, 2000	28.81	12.74	2.26	22.63	12.90	1.75	23.69	5.13	4.62
Mon, Apr 24, 2000	28.50	12.74	2.24	23.50	12.90	1.82	23.63	5.13	4.61
Tue, Apr 25, 2000	28.69	12.74	2.25	24.00	12.90	1.86	23.88	5.13	4.65
Wed, Apr 26, 2000	29.38	12.74	2.31	24.44	12.90	1.89	24.06	5.13	4.69
Thu, Apr 27, 2000	29.44	12.74	2.31	23.50	12.90	1.82	23.63	5.13	4.61
Fri, Apr 28, 2000	30.13	12.74	2.36	23.31	12.90	1.81	24.00	5.13	4.68
Mon, May 1, 2000	31.25	12.74	2.45	23.75	12.90	1.84	24.63	5.13	4.80
Tue, May 2, 2000	31.88	12.74	2.50	23.69	12.90	1.84	24.94	5.13	4.86
Wed, May 3, 2000	31.31	12.74	2.46	24.25	12.90	1.88	23.56	5.13	4.59
Thu, May 4, 2000	30.44	12.74	2.39	24.50	12.90	1.90	23.69	5.13	4.62
Fri, May 5, 2000	29.69	12.74	2.33	24.63	12.90	1.91	24.38	5.13	4.75
Mon, May 8, 2000	29.38	12.74	2.31	25.75	12.90	2.00	23.38	5.13	4.56
Tue, May 9, 2000	29.44	12.74	2.31	25.00	12.90	1.94	23.00	5.13	4.48
Wed, May 10, 2000	28.56	12.74	2.24	25.25	12.90	1.96	22.38	5.13	4.36
Thu, May 11, 2000	29.00	12.74	2.28	25.00	12.90	1.94	23.94	5.13	4.67
Fri, May 12, 2000	29.00	12.74	2.28	24.75	12.90	1.92	23.94	5.13	4.67
Mon, May 15, 2000	28.81	12.74	2.26	24.75	12.90	1.92	23.56	5.13	4.59
Tue, May 16, 2000	29.00	12.74	2.28	25.94	12.90	2.01	23.75	5.13	4.63
Wed, May 17, 2000	28.88	12.74	2.27	25.88	12.90	2.01	22.50	5.13	4.39
Thu, May 18, 2000	28.38	12.74	2.23	24.75	12.90	1.92	22.56	5.13	4.40
Fri, May 19, 2000	28.31	12.74	2.22	25.00	12.90	1.94	22.13	5.13	4.31
Mon, May 22, 2000	28.31	12.74	2.22	24.63	12.90	1.91	22.31	5.13	4.35
Tue, May 23, 2000	28.50	12.74	2.24	24.00	12.90	1.86	22.19	5.13	4.33
Wed, May 24, 2000	28.00	12.74	2.20	24.00	12.90	1.86	22.38	5.13	4.36
Thu, May 25, 2000	27.88	12.74	2.19	23.38	12.90	1.81	22.44	5.13	4.37
Fri, May 26, 2000	28.44	12.74	2.23	23.25	12.90	1.80	23.44	5.13	4.57
Tue, May 30, 2000	29.00	12.74	2.28	23.06	12.90	1.79	24.13	5.13	4.70
Wed, May 31, 2000	29.81	12.74	2.34	23.31	12.90	1.81	24.75	5.13	4.82
Thu, Jun 1, 2000	29.88	12.74	2.34	24.31	12.90	1.88	23.88	5.13	4.65
Fri, Jun 2, 2000	30.69	12.74	2.41	24.75	12.90	1.92	24.44	5.13	4.76
Mon, Jun 5, 2000	29.75	12.74	2.34	24.13	12.90	1.87	23.63	5.13	4.61
Tue, Jun 6, 2000	29.69	12.74	2.33	24.25	12.90	1.88	23.63	5.13	4.61
Wed, Jun 7, 2000	29.81	12.74	2.34	24.38	12.90	1.89	23.44	5.13	4.57
Thu, Jun 8, 2000	29.56	12.74	2.32	24.44	12.90	1.89	22.94	5.13	4.47
Fri, Jun 9, 2000	29.69	12.74	2.33	24.88	12.90	1.93	23.38	5.13	4.56
Mon, Jun 12, 2000	29.38	12.74	2.31	24.13	12.90	1.87	22.69	5.13	4.42
Tue, Jun 13, 2000	29.31	12.74	2.30	23.63	12.90	1.83	22.88	5.13	4.46
Wed, Jun 14, 2000	28.56	12.74	2.24	23.88	12.90	1.85	22.50	5.13	4.39
Thu, Jun 15, 2000	28.56	12.74	2.24	24.00	12.90	1.86	23.44	5.13	4.57
Fri, Jun 16, 2000	28.63	12.74	2.25	24.25	12.90	1.88	22.19	5.13	4.33
Mon, Jun 19, 2000	29.06	12.74	2.28	25.00	12.90	1.94	20.94	5.13	4.08
Tue, Jun 20, 2000	29.00	12.74	2.28	24.50	12.90	1.90	21.00	5.13	4.09
Wed, Jun 21, 2000	29.06	12.74	2.28	23.88	12.90	1.85	21.00	5.13	4.09
Thu, Jun 22, 2000	28.88	12.74	2.27	23.25	12.90	1.80	20.63	5.13	4.02
Fri, Jun 23, 2000	28.94	12.74	2.27	23.25	12.90	1.80	21.50	5.13	4.19
Mon, Jun 26, 2000	28.94	12.74	2.27	23.25	12.90	1.80	21.00	5.13	4.09
Tue, Jun 27, 2000	29.06	12.74	2.28	23.00	12.90	1.78	21.25	5.13	4.14
Wed, Jun 28, 2000	29.94	12.74	2.35	23.06	12.90	1.79	22.00	5.13	4.29
Thu, Jun 29, 2000	30.38	12.74	2.38	24.50	12.90	1.90	21.88	5.13	4.26
Fri, Jun 30, 2000	29.73	12.74	2.33	24.25	12.90	1.88	20.48	5.13	3.99
Mon, Jul 3, 2000	30.00	12.74	2.35	23.75	12.90	1.84	20.19	5.13	3.94
Wed, Jul 5, 2000	29.63	12.74	2.33	23.00	12.90	1.78	20.50	5.13	4.00
Thu, Jul 6, 2000	30.13	12.74	2.36	23.88	12.90	1.85	21.69	5.13	4.23
Fri, Jul 7, 2000	30.25	12.74	2.37	24.00	12.90	1.86	21.13	5.13	4.12
Mon, Jul 10, 2000	30.44	12.74	2.39	24.13	12.90	1.87	21.13	5.13	4.12
Tue, Jul 11, 2000	30.19	12.74	2.37	23.31	12.90	1.81	21.56	5.13	4.20
Wed, Jul 12, 2000	30.13	12.74	2.36	23.63	12.90	1.83	21.63	5.13	4.22
Thu, Jul 13, 2000	30.38	12.74	2.38	24.00	12.90	1.86	21.94	5.13	4.28
Fri, Jul 14, 2000	31.38	12.74	2.46	24.75	12.90	1.92	21.75	5.13	4.24
Mon, Jul 17, 2000	31.75	12.74	2.49	24.88	12.90	1.93	22.50	5.13	4.39
Tue, Jul 18, 2000	31.38	12.74	2.46	24.63	12.90	1.91	22.25	5.13	4.34
Wed, Jul 19, 2000	31.13	12.74	2.44	24.00	12.90	1.86	21.56	5.13	4.20
Thu, Jul 20, 2000	31.06	12.74	2.44	23.88	12.90	1.85	20.50	5.13	4.00
Fri, Jul 21, 2000	30.63	12.74	2.40	23.63	12.90	1.83	21.31	5.13	4.15
Mon, Jul 24, 2000	30.69	12.74	2.41	23.00	12.90	1.78	21.63	5.13	4.22
Tue, Jul 25, 2000	31.00	12.74	2.43	23.63	12.90	1.83	20.88	5.13	4.07
Wed, Jul 26, 2000	30.13	12.74	2.36	23.50	12.90	1.82	21.44	5.13	4.18
Thu, Jul 27, 2000	29.94	12.74	2.35	23.13	12.90	1.79	20.94	5.13	4.08
Fri, Jul 28, 2000	29.75	12.74	2.34	23.13	12.90	1.79	20.63	5.13	4.02
Mon, Jul 31, 2000	30.13	12.74	2.36	23.88	12.90	1.85	22.19	5.13	4.33
Tue, Aug 1, 2000	30.50	12.74	2.39	24.00	12.90	1.86	22.19	5.13	4.33
Wed, Aug 2, 2000	30.50	12.74	2.39	24.38	12.90	1.89	23.00	5.13	4.48
Thu, Aug 3, 2000	30.31	12.74	2.38	24.88	12.90	1.93	23.75	5.13	4.63
Fri, Aug 4, 2000	29.81	12.74	2.34	25.19	12.90	1.95	23.25	5.13	4.53
Mon, Aug 7, 2000	29.31	12.74	2.30	25.13	12.90	1.95	23.08	5.13	4.50
Tue, Aug 8, 2000	27.44	12.74	2.15	25.00	12.90	1.94	23.13	5.13	4.51
Wed, Aug 9, 2000	27.00	12.74	2.12	24.75	12.90	1.92	22.88	5.13	4.46
Thu, Aug 10, 2000	26.13	12.74	2.05	24.19	12.90	1.88	22.83	5.13	4.45
Fri, Aug 11, 2000	26.19	12.74	2.06	24.88	12.90	1.93	23.50	5.13	4.58
Mon, Aug 14, 2000	26.31	12.74	2.07	25.38	12.90	1.97	22.81	5.13	4.45
Tue, Aug 15, 2000	26.25	12.74	2.06	25.13	12.90	1.95	22.94	5.13	4.47
Wed, Aug 16, 2000	26.25	12.74	2.06	25.63	12.90	1.99	23.00	5.13	4.48
Thu, Aug 17, 2000	26.31	12.74	2.07	26.00	12.90	2.02	22.88	5.13	4.46
Fri, Aug 18, 2000	26.25	12.74	2.06	26.06	12.90	2.02	22.63	5.13	4.41
Mon, Aug 21, 2000	26.19	12.74	2.06	26.38	12.90	2.04	22.63	5.13	4.41

Tue, Aug 22, 2000	26.25	12.74	2.06	26.06	12.90	2.02	22.50	5.13	4.39
Wed, Aug 23, 2000	25.94	12.74	2.04	26.56	12.90	2.06	22.25	5.13	4.34
Thu, Aug 24, 2000	25.50	12.74	2.00	26.00	12.90	2.02	22.19	5.13	4.33
Fri, Aug 25, 2000	25.63	12.74	2.01	25.63	12.90	1.99	22.06	5.13	4.30
Mon, Aug 28, 2000	25.88	12.74	2.03	25.44	12.90	1.97	21.69	5.13	4.23
Tue, Aug 29, 2000	25.81	12.74	2.03	25.06	12.90	1.94	22.38	5.13	4.36
Wed, Aug 30, 2000	25.69	12.74	2.02	25.63	12.90	1.99	22.75	5.13	4.43
Thu, Aug 31, 2000	26.06	12.74	2.05	26.25	12.90	2.03	23.44	5.13	4.57
Fri, Sep 1, 2000	26.06	12.74	2.05	25.31	12.90	1.96	23.94	5.13	4.67
Tue, Sep 5, 2000	26.13	12.74	2.05	26.00	12.90	2.02	23.88	5.13	4.65
Wed, Sep 6, 2000	27.25	12.74	2.14	25.44	12.90	1.97	23.94	5.13	4.67
Thu, Sep 7, 2000	27.31	12.74	2.14	25.75	12.90	2.00	24.13	5.13	4.70
Fri, Sep 8, 2000	27.94	12.74	2.19	26.00	12.90	2.02	23.91	5.13	4.66
Mon, Sep 11, 2000	28.38	12.74	2.23	25.88	12.90	2.01	23.64	5.13	4.61
Tue, Sep 12, 2000	29.00	12.74	2.28	26.88	12.90	2.08	23.56	5.13	4.59
Wed, Sep 13, 2000	29.63	12.74	2.33	26.63	12.90	2.06	23.69	5.13	4.62
Thu, Sep 14, 2000	30.00	12.74	2.35	26.88	12.90	2.08	23.31	5.13	4.54
Fri, Sep 15, 2000	29.88	12.74	2.34	26.38	12.90	2.04	23.39	5.13	4.56
Mon, Sep 18, 2000	29.50	12.74	2.32	25.94	12.90	2.01	22.94	5.13	4.47
Tue, Sep 19, 2000	28.88	12.74	2.27	26.25	12.90	2.03	22.50	5.13	4.39
Wed, Sep 20, 2000	29.38	12.74	2.31	26.19	12.90	2.03	22.61	5.13	4.41
Thu, Sep 21, 2000	29.94	12.74	2.35	25.75	12.90	2.00	22.50	5.13	4.39
Fri, Sep 22, 2000	29.63	12.74	2.33	26.19	12.90	2.03	22.94	5.13	4.47
Mon, Sep 25, 2000	29.31	12.74	2.30	26.13	12.90	2.03	22.44	5.13	4.37
Tue, Sep 26, 2000	29.50	12.74	2.32	26.06	12.90	2.02	22.69	5.13	4.42
Wed, Sep 27, 2000	29.00	12.74	2.28	26.44	12.90	2.05	23.38	5.13	4.56
Thu, Sep 28, 2000	29.13	12.74	2.29	26.75	12.90	2.07	23.38	5.13	4.56
Fri, Sep 29, 2000	30.25	12.74	2.37	26.75	12.90	2.07	23.19	5.13	4.52
Mon, Oct 2, 2000	31.75	12.74	2.49	27.13	12.90	2.10	23.06	5.13	4.50
Tue, Oct 3, 2000	31.75	12.74	2.49	27.00	12.90	2.09	23.19	5.13	4.52
Wed, Oct 4, 2000	31.50	12.74	2.47	27.31	12.90	2.12	23.13	5.13	4.51
Thu, Oct 5, 2000	31.81	12.74	2.50	27.31	12.90	2.12	22.31	5.13	4.35
Fri, Oct 6, 2000	31.69	12.74	2.49	27.50	12.90	2.13	21.94	5.13	4.28
Mon, Oct 9, 2000	30.50	12.74	2.39	27.19	12.90	2.11	22.13	5.13	4.31
Tue, Oct 10, 2000	30.56	12.74	2.40	26.81	12.90	2.08	21.94	5.13	4.28
Wed, Oct 11, 2000	30.19	12.74	2.37	26.94	12.90	2.09	21.75	5.13	4.24
Thu, Oct 12, 2000	30.00	12.74	2.35	26.50	12.90	2.05	21.94	5.13	4.28
Fri, Oct 13, 2000	29.88	12.74	2.34	26.63	12.90	2.06	22.00	5.13	4.29
Mon, Oct 16, 2000	30.13	12.74	2.36	26.25	12.90	2.03	21.88	5.13	4.26
Tue, Oct 17, 2000	29.63	12.74	2.33	25.50	12.90	1.98	21.75	5.13	4.24
Wed, Oct 18, 2000	29.38	12.74	2.31	25.50	12.90	1.98	22.31	5.13	4.35
Thu, Oct 19, 2000	29.75	12.74	2.34	25.38	12.90	1.97	22.19	5.13	4.33
Fri, Oct 20, 2000	30.25	12.74	2.37	25.81	12.90	2.00	21.44	5.13	4.18
Mon, Oct 23, 2000	30.25	12.74	2.37	25.63	12.90	1.99	21.56	5.13	4.20
Tue, Oct 24, 2000	30.31	12.74	2.38	25.75	12.90	2.00	21.69	5.13	4.23
Wed, Oct 25, 2000	30.38	12.74	2.38	25.56	12.90	1.98	21.38	5.13	4.17
Thu, Oct 26, 2000	30.81	12.74	2.42	25.94	12.90	2.01	21.56	5.13	4.20
Fri, Oct 27, 2000	30.81	12.74	2.42	25.88	12.90	2.01	22.00	5.13	4.29
Mon, Oct 30, 2000	31.13	12.74	2.44	26.38	12.90	2.04	23.00	5.13	4.48
Tue, Oct 31, 2000	31.19	12.74	2.45	26.94	12.90	2.09	23.44	5.13	4.57
Wed, Nov 1, 2000	31.19	12.74	2.45	27.13	12.90	2.10	23.56	5.13	4.59
Thu, Nov 2, 2000	31.38	12.74	2.46	27.75	12.90	2.15	23.00	5.13	4.48
Fri, Nov 3, 2000	31.44	12.74	2.47	27.81	12.90	2.16	23.06	5.13	4.50
Mon, Nov 6, 2000	31.31	12.74	2.46	27.81	12.90	2.16	23.19	5.13	4.52
Tue, Nov 7, 2000	32.75	12.74	2.57	27.56	12.90	2.14	23.94	5.13	4.67
Wed, Nov 8, 2000	32.88	12.74	2.58	27.69	12.90	2.15	23.63	5.13	4.61
Thu, Nov 9, 2000	32.75	12.74	2.57	27.19	12.90	2.11	23.94	5.13	4.67
Fri, Nov 10, 2000	31.25	12.74	2.45	26.00	12.90	2.02	23.75	5.13	4.63
Mon, Nov 13, 2000	31.88	12.74	2.50	26.50	12.90	2.05	24.13	5.13	4.70
Tue, Nov 14, 2000	32.13	12.74	2.52	27.13	12.90	2.10	24.06	5.13	4.69
Wed, Nov 15, 2000	31.81	12.74	2.50	26.94	12.90	2.09	23.81	5.13	4.64
Thu, Nov 16, 2000	32.56	12.74	2.56	27.06	12.90	2.10	23.50	5.13	4.58
Fri, Nov 17, 2000	32.56	12.74	2.56	27.19	12.90	2.11	24.13	5.13	4.70
Mon, Nov 20, 2000	32.75	12.74	2.57	27.00	12.90	2.09	24.00	5.13	4.68
Tue, Nov 21, 2000	33.38	12.74	2.62	27.13	12.90	2.10	24.25	5.13	4.73
Wed, Nov 22, 2000	33.31	12.74	2.61	26.63	12.90	2.06	24.13	5.13	4.70
Fri, Nov 24, 2000	34.44	12.74	2.70	27.25	12.90	2.11	24.00	5.13	4.68
Mon, Nov 27, 2000	33.69	12.74	2.64	27.88	12.90	2.16	23.75	5.13	4.63
Tue, Nov 28, 2000	33.44	12.74	2.62	27.00	12.90	2.09	23.50	5.13	4.58
Wed, Nov 29, 2000	33.25	12.74	2.61	27.25	12.90	2.11	23.38	5.13	4.56
Thu, Nov 30, 2000	33.69	12.74	2.64	26.94	12.90	2.09	23.44	5.13	4.57
Fri, Dec 1, 2000	34.31	12.74	2.69	27.00	12.90	2.09	24.00	5.13	4.68
Mon, Dec 4, 2000	34.25	12.74	2.69	26.38	12.90	2.04	19.31	5.13	3.76
Tue, Dec 5, 2000	34.50	12.74	2.71	27.06	12.90	2.10	18.75	5.13	3.65
Wed, Dec 6, 2000	33.13	12.74	2.60	26.88	12.90	2.08	18.94	5.13	3.69
Thu, Dec 7, 2000	33.94	12.74	2.66	27.25	12.90	2.11	18.31	5.13	3.57
Fri, Dec 8, 2000	34.50	12.74	2.71	26.88	12.90	2.08	18.94	5.13	3.69
Mon, Dec 11, 2000	35.19	12.74	2.76	26.94	12.90	2.09	19.88	5.13	3.87
Tue, Dec 12, 2000	35.31	12.74	2.77	25.94	12.90	2.01	19.38	5.13	3.78
Wed, Dec 13, 2000	35.19	12.74	2.76	26.38	12.90	2.04	19.31	5.13	3.76
Thu, Dec 14, 2000	35.25	12.74	2.77	26.19	12.90	2.03	19.88	5.13	3.87
Fri, Dec 15, 2000	35.88	12.74	2.82	25.94	12.90	2.01	20.00	5.13	3.90
Mon, Dec 18, 2000	35.38	12.74	2.78	26.06	12.90	2.02	21.38	5.13	4.17
Tue, Dec 19, 2000	35.50	12.74	2.79	26.81	12.90	2.08	21.00	5.13	4.09
Wed, Dec 20, 2000	34.00	12.74	2.67	25.63	12.90	1.99	21.00	5.13	4.09
Thu, Dec 21, 2000	34.13	12.74	2.68	25.25	12.90	1.96	21.31	5.13	4.15

Fri, Dec 22, 2000	35.25	12.74	2.77	25.94	12.90	2.01	22.19	5.13	4.33
Tue, Dec 26, 2000	34.81	12.74	2.73	26.88	12.90	2.08	22.38	5.13	4.36
Wed, Dec 27, 2000	35.94	12.74	2.82	26.75	12.90	2.07	23.88	5.13	4.65
Thu, Dec 28, 2000	37.13	12.74	2.91	27.00	12.90	2.09	24.81	5.13	4.84
Fri, Dec 29, 2000	36.88	12.74	2.89	27.00	12.90	2.09	24.50	5.13	4.78
Average	**30.54**	**12.74**	**2.40**	**25.69**	**12.90**	**1.99**	**21.67**	**5.13**	**4.22**

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
Tue, Jan 2, 2001	34.81	13.22	2.63	25.94	12.95	2.00	22.88	5.53	4.14
Wed, Jan 3, 2001	34.69	13.22	2.62	26.63	12.95	2.06	22.69	5.53	4.10
Thu, Jan 4, 2001	33.94	13.22	2.57	26.19	12.95	2.02	22.56	5.53	4.08
Fri, Jan 5, 2001	32.88	13.22	2.49	25.75	12.95	1.99	21.44	5.53	3.88
Mon, Jan 8, 2001	33.63	13.22	2.54	24.50	12.95	1.89	20.94	5.53	3.79
Tue, Jan 9, 2001	33.06	13.22	2.50	24.75	12.95	1.91	20.75	5.53	3.75
Wed, Jan 10, 2001	33.31	13.22	2.52	23.94	12.95	1.85	20.38	5.53	3.68
Thu, Jan 11, 2001	33.56	13.22	2.54	23.44	12.95	1.81	20.00	5.53	3.62
Fri, Jan 12, 2001	34.00	13.22	2.57	23.69	12.95	1.83	20.13	5.53	3.64
Tue, Jan 16, 2001	32.81	13.22	2.48	23.88	12.95	1.84	20.94	5.53	3.79
Wed, Jan 17, 2001	32.63	13.22	2.47	23.88	12.95	1.84	20.19	5.53	3.65
Thu, Jan 18, 2001	33.50	13.22	2.53	23.38	12.95	1.81	20.63	5.53	3.73
Fri, Jan 19, 2001	33.19	13.22	2.51	23.38	12.95	1.81	21.19	5.53	3.83
Mon, Jan 22, 2001	33.06	13.22	2.50	23.69	12.95	1.83	22.00	5.53	3.98
Tue, Jan 23, 2001	32.25	13.22	2.44	24.88	12.95	1.92	22.31	5.53	4.03
Wed, Jan 24, 2001	31.75	13.22	2.40	24.63	12.95	1.90	21.88	5.53	3.96
Thu, Jan 25, 2001	31.81	13.22	2.41	24.06	12.95	1.86	20.75	5.53	3.75
Fri, Jan 26, 2001	32.13	13.22	2.43	24.06	12.95	1.86	21.50	5.53	3.89
Mon, Jan 29, 2001	32.35	13.22	2.45	24.50	12.95	1.89	21.75	5.53	3.93
Tue, Jan 30, 2001	31.40	13.22	2.38	24.50	12.95	1.89	21.73	5.53	3.93
Wed, Jan 31, 2001	31.39	13.22	2.37	23.70	12.95	1.83	21.20	5.53	3.83
Thu, Feb 1, 2001	31.79	13.22	2.40	24.01	12.95	1.85	21.50	5.53	3.89
Fri, Feb 2, 2001	31.90	13.22	2.41	23.88	12.95	1.84	21.20	5.53	3.83
Mon, Feb 5, 2001	32.06	13.22	2.43	24.06	12.95	1.86	21.58	5.53	3.90
Tue, Feb 6, 2001	32.60	13.22	2.47	24.19	12.95	1.87	22.36	5.53	4.04
Wed, Feb 7, 2001	33.95	13.22	2.57	24.33	12.95	1.88	22.09	5.53	3.99
Thu, Feb 8, 2001	33.20	13.22	2.51	24.32	12.95	1.88	21.75	5.53	3.93
Fri, Feb 9, 2001	32.70	13.22	2.47	24.04	12.95	1.86	22.02	5.53	3.98
Mon, Feb 12, 2001	33.95	13.22	2.57	24.76	12.95	1.91	23.00	5.53	4.16
Tue, Feb 13, 2001	34.45	13.22	2.61	25.07	12.95	1.94	23.41	5.53	4.23
Wed, Feb 14, 2001	34.20	13.22	2.59	25.02	12.95	1.93	23.57	5.53	4.26
Thu, Feb 15, 2001	33.70	13.22	2.55	25.65	12.95	1.98	23.38	5.53	4.23
Fri, Feb 16, 2001	32.60	13.22	2.47	25.08	12.95	1.94	23.00	5.53	4.16
Tue, Feb 20, 2001	32.10	13.22	2.43	24.41	12.95	1.88	22.81	5.53	4.12
Wed, Feb 21, 2001	31.44	13.22	2.38	24.86	12.95	1.92	22.20	5.53	4.01
Thu, Feb 22, 2001	30.00	13.22	2.27	25.20	12.95	1.95	22.35	5.53	4.04
Fri, Feb 23, 2001	30.00	13.22	2.27	25.15	12.95	1.94	22.62	5.53	4.09
Mon, Feb 26, 2001	31.10	13.22	2.35	24.75	12.95	1.91	23.00	5.53	4.16
Tue, Feb 27, 2001	31.00	13.22	2.34	24.25	12.95	1.87	23.03	5.53	4.16
Wed, Feb 28, 2001	30.60	13.22	2.31	24.25	12.95	1.87	23.00	5.53	4.16
Thu, Mar 1, 2001	31.20	13.22	2.36	25.00	12.95	1.93	23.30	5.53	4.21
Fri, Mar 2, 2001	31.90	13.22	2.41	25.60	12.95	1.98	23.37	5.53	4.23
Mon, Mar 5, 2001	32.77	13.22	2.48	26.20	12.95	2.02	23.83	5.53	4.31
Tue, Mar 6, 2001	32.65	13.22	2.47	26.17	12.95	2.02	23.90	5.53	4.32
Wed, Mar 7, 2001	32.84	13.22	2.48	26.20	12.95	2.02	23.96	5.53	4.33
Thu, Mar 8, 2001	32.53	13.22	2.46	26.00	12.95	2.01	24.00	5.53	4.34
Fri, Mar 9, 2001	32.30	13.22	2.44	25.37	12.95	1.96	23.66	5.53	4.28
Mon, Mar 12, 2001	31.18	13.22	2.36	24.95	12.95	1.93	23.77	5.53	4.30
Tue, Mar 13, 2001	31.30	13.22	2.37	25.15	12.95	1.94	23.17	5.53	4.19
Wed, Mar 14, 2001	31.40	13.22	2.38	24.90	12.95	1.92	23.60	5.53	4.27
Thu, Mar 15, 2001	30.90	13.22	2.34	24.70	12.95	1.91	23.00	5.53	4.16
Fri, Mar 16, 2001	30.80	13.22	2.33	24.40	12.95	1.88	23.01	5.53	4.16
Mon, Mar 19, 2001	31.80	13.22	2.41	25.00	12.95	1.93	23.60	5.53	4.27
Tue, Mar 20, 2001	31.40	13.22	2.38	25.00	12.95	1.93	23.07	5.53	4.17
Wed, Mar 21, 2001	30.30	13.22	2.29	24.61	12.95	1.90	22.20	5.53	4.01
Thu, Mar 22, 2001	30.00	13.22	2.27	24.55	12.95	1.90	22.05	5.53	3.99
Fri, Mar 23, 2001	30.30	13.22	2.29	24.64	12.95	1.90	21.76	5.53	3.93
Mon, Mar 26, 2001	31.10	13.22	2.35	26.05	12.95	2.01	22.16	5.53	4.01
Tue, Mar 27, 2001	32.00	13.22	2.42	27.25	12.95	2.10	22.60	5.53	4.09
Wed, Mar 28, 2001	32.25	13.22	2.44	26.10	12.95	2.02	21.28	5.53	3.85
Thu, Mar 29, 2001	32.95	13.22	2.49	26.40	12.95	2.04	22.95	5.53	4.15
Fri, Mar 30, 2001	33.11	13.22	2.50	28.60	12.95	2.21	23.56	5.53	4.26
Mon, Apr 2, 2001	32.95	13.22	2.49	27.70	12.95	2.14	23.65	5.53	4.28
Tue, Apr 3, 2001	32.27	13.22	2.44	27.00	12.95	2.08	23.40	5.53	4.23
Wed, Apr 4, 2001	32.12	13.22	2.43	27.05	12.95	2.09	23.10	5.53	4.18
Thu, Apr 5, 2001	32.56	13.22	2.46	27.00	12.95	2.08	24.10	5.53	4.36
Fri, Apr 6, 2001	31.86	13.22	2.41	26.40	12.95	2.04	23.30	5.53	4.21
Mon, Apr 9, 2001	32.07	13.22	2.43	26.00	12.95	2.01	23.50	5.53	4.25
Tue, Apr 10, 2001	32.32	13.22	2.44	26.12	12.95	2.02	24.00	5.53	4.34
Wed, Apr 11, 2001	32.95	13.22	2.49	25.90	12.95	2.00	23.31	5.53	4.22
Thu, Apr 12, 2001	33.02	13.22	2.50	26.40	12.95	2.04	23.19	5.53	4.19
Mon, Apr 16, 2001	33.30	13.22	2.52	26.05	12.95	2.01	23.06	5.53	4.17
Tue, Apr 17, 2001	33.60	13.22	2.54	25.99	12.95	2.01	23.00	5.53	4.16
Wed, Apr 18, 2001	32.60	13.22	2.47	25.70	12.95	1.98	22.12	5.53	4.00
Thu, Apr 19, 2001	33.16	13.22	2.51	25.70	12.95	1.98	21.94	5.53	3.97

Fri, Apr 20, 2001	33.10	13.22	2.50	24.80	12.95	1.92	21.30	5.53	3.85
Mon, Apr 23, 2001	33.10	13.22	2.50	24.80	12.95	1.92	21.45	5.53	3.88
Tue, Apr 24, 2001	33.15	13.22	2.51	25.20	12.95	1.95	21.96	5.53	3.97
Wed, Apr 25, 2001	33.85	13.22	2.56	25.99	12.95	2.01	22.75	5.53	4.11
Thu, Apr 26, 2001	33.30	13.22	2.52	26.50	12.95	2.05	23.29	5.53	4.21
Fri, Apr 27, 2001	33.10	13.22	2.50	26.40	12.95	2.04	23.71	5.53	4.29
Mon, Apr 30, 2001	32.90	13.22	2.49	25.81	12.95	1.99	23.30	5.53	4.21
Tue, May 1, 2001	32.95	13.22	2.49	26.00	12.95	2.01	23.79	5.53	4.30
Wed, May 2, 2001	32.00	13.22	2.42	25.60	12.95	1.98	23.60	5.53	4.27
Thu, May 3, 2001	31.15	13.22	2.36	24.90	12.95	1.92	23.11	5.53	4.18
Fri, May 4, 2001	31.10	13.22	2.35	25.70	12.95	1.98	23.15	5.53	4.19
Mon, May 7, 2001	30.90	13.22	2.34	25.55	12.95	1.97	22.70	5.53	4.10
Tue, May 8, 2001	30.45	13.22	2.30	25.69	12.95	1.98	23.06	5.53	4.17
Wed, May 9, 2001	30.20	13.22	2.28	25.51	12.95	1.97	23.16	5.53	4.19
Thu, May 10, 2001	29.60	13.22	2.24	25.85	12.95	2.00	23.84	5.53	4.31
Fri, May 11, 2001	29.03	13.22	2.20	25.55	12.95	1.97	23.94	5.53	4.33
Mon, May 14, 2001	29.75	13.22	2.25	25.60	12.95	1.98	24.14	5.53	4.37
Tue, May 15, 2001	30.69	13.22	2.32	26.40	12.95	2.04	24.15	5.53	4.37
Wed, May 16, 2001	31.20	13.22	2.36	26.35	12.95	2.03	24.08	5.53	4.35
Thu, May 17, 2001	30.95	13.22	2.34	26.49	12.95	2.05	24.10	5.53	4.36
Fri, May 18, 2001	30.84	13.22	2.33	26.15	12.95	2.02	24.44	5.53	4.42
Mon, May 21, 2001	31.15	13.22	2.36	26.45	12.95	2.04	24.13	5.53	4.36
Tue, May 22, 2001	31.75	13.22	2.40	26.30	12.95	2.03	23.94	5.53	4.33
Wed, May 23, 2001	31.95	13.22	2.42	25.90	12.95	2.00	23.35	5.53	4.22
Thu, May 24, 2001	31.30	13.22	2.37	26.00	12.95	2.01	23.95	5.53	4.33
Fri, May 25, 2001	31.60	13.22	2.39	26.00	12.95	2.01	24.25	5.53	4.39
Tue, May 29, 2001	30.75	13.22	2.33	25.20	12.95	1.95	24.05	5.53	4.35
Wed, May 30, 2001	30.45	13.22	2.30	24.80	12.95	1.92	23.38	5.53	4.23
Thu, May 31, 2001	30.40	13.22	2.30	24.75	12.95	1.91	22.82	5.53	4.13
Fri, Jun 1, 2001	30.10	13.22	2.28	24.85	12.95	1.92	22.50	5.53	4.07
Mon, Jun 4, 2001	30.50	13.22	2.31	24.90	12.95	1.92	22.55	5.53	4.08
Tue, Jun 5, 2001	31.30	13.22	2.37	24.95	12.95	1.93	23.66	5.53	4.28
Wed, Jun 6, 2001	31.36	13.22	2.37	24.60	12.95	1.90	23.40	5.53	4.23
Thu, Jun 7, 2001	31.55	13.22	2.39	24.65	12.95	1.90	23.18	5.53	4.19
Fri, Jun 8, 2001	31.91	13.22	2.41	24.10	12.95	1.86	23.08	5.53	4.17
Mon, Jun 11, 2001	32.31	13.22	2.44	24.05	12.95	1.86	23.20	5.53	4.20
Tue, Jun 12, 2001	32.89	13.22	2.49	24.85	12.95	1.92	23.85	5.53	4.31
Wed, Jun 13, 2001	32.51	13.22	2.46	24.81	12.95	1.92	23.35	5.53	4.22
Thu, Jun 14, 2001	31.79	13.22	2.40	25.10	12.95	1.94	22.91	5.53	4.14
Fri, Jun 15, 2001	32.60	13.22	2.47	25.50	12.95	1.97	23.42	5.53	4.24
Mon, Jun 18, 2001	31.95	13.22	2.42	24.60	12.95	1.90	23.70	5.53	4.29
Tue, Jun 19, 2001	31.75	13.22	2.40	25.00	12.95	1.93	23.64	5.53	4.27
Wed, Jun 20, 2001	32.10	13.22	2.43	25.55	12.95	1.97	24.50	5.53	4.43
Thu, Jun 21, 2001	32.00	13.22	2.42	25.55	12.95	1.97	22.00	5.53	3.98
Fri, Jun 22, 2001	31.55	13.22	2.39	25.10	12.95	1.94	22.70	5.53	4.10
Mon, Jun 25, 2001	31.10	13.22	2.35	24.40	12.95	1.88	22.37	5.53	4.05
Tue, Jun 26, 2001	31.60	13.22	2.39	25.20	12.95	1.95	23.55	5.53	4.26
Wed, Jun 27, 2001	32.30	13.22	2.44	25.90	12.95	2.00	24.20	5.53	4.38
Thu, Jun 28, 2001	33.04	13.22	2.50	25.90	12.95	2.00	24.30	5.53	4.39
Fri, Jun 29, 2001	34.00	13.22	2.57	25.65	12.95	1.98	25.50	5.53	4.61
Mon, Jul 2, 2001	33.55	13.22	2.54	25.30	12.95	1.95	24.55	5.53	4.44
Tue, Jul 3, 2001	33.20	13.22	2.51	25.27	12.95	1.95	24.62	5.53	4.45
Thu, Jul 5, 2001	33.20	13.22	2.51	25.75	12.95	1.99	24.61	5.53	4.45
Fri, Jul 6, 2001	33.20	13.22	2.51	25.30	12.95	1.95	25.05	5.53	4.53
Mon, Jul 9, 2001	33.19	13.22	2.51	25.40	12.95	1.96	24.65	5.53	4.46
Tue, Jul 10, 2001	33.11	13.22	2.50	25.12	12.95	1.94	24.01	5.53	4.34
Wed, Jul 11, 2001	33.00	13.22	2.50	24.70	12.95	1.91	23.32	5.53	4.22
Thu, Jul 12, 2001	33.50	13.22	2.53	25.25	12.95	1.95	23.72	5.53	4.29
Fri, Jul 13, 2001	33.83	13.22	2.56	25.25	12.95	1.95	24.40	5.53	4.41
Mon, Jul 16, 2001	32.80	13.22	2.48	25.40	12.95	1.96	24.47	5.53	4.42
Tue, Jul 17, 2001	32.90	13.22	2.49	25.65	12.95	1.98	24.74	5.53	4.47
Wed, Jul 18, 2001	33.65	13.22	2.55	25.25	12.95	1.95	24.80	5.53	4.48
Thu, Jul 19, 2001	33.84	13.22	2.56	25.25	12.95	1.95	25.09	5.53	4.54
Fri, Jul 20, 2001	34.24	13.22	2.59	25.37	12.95	1.96	24.85	5.53	4.49
Mon, Jul 23, 2001	34.88	13.22	2.64	24.75	12.95	1.91	24.80	5.53	4.48
Tue, Jul 24, 2001	35.50	13.22	2.69	24.11	12.95	1.86	24.90	5.53	4.50
Wed, Jul 25, 2001	35.25	13.22	2.67	24.35	12.95	1.88	25.25	5.53	4.57
Thu, Jul 26, 2001	36.10	13.22	2.73	24.60	12.95	1.90	25.67	5.53	4.64
Fri, Jul 27, 2001	34.90	13.22	2.64	24.26	12.95	1.87	25.40	5.53	4.59
Mon, Jul 30, 2001	34.71	13.22	2.63	23.98	12.95	1.85	25.60	5.53	4.63
Tue, Jul 31, 2001	34.28	13.22	2.59	23.95	12.95	1.85	25.54	5.53	4.62
Wed, Aug 1, 2001	33.98	13.22	2.57	24.10	12.95	1.86	25.60	5.53	4.63
Thu, Aug 2, 2001	34.00	13.22	2.57	24.12	12.95	1.86	25.62	5.53	4.63
Fri, Aug 3, 2001	34.80	13.22	2.63	24.00	12.95	1.85	26.00	5.53	4.70
Mon, Aug 6, 2001	35.10	13.22	2.66	23.95	12.95	1.85	25.85	5.53	4.67
Tue, Aug 7, 2001	35.30	13.22	2.67	23.96	12.95	1.85	26.02	5.53	4.71
Wed, Aug 8, 2001	35.15	13.22	2.66	23.77	12.95	1.84	25.88	5.53	4.68
Thu, Aug 9, 2001	35.50	13.22	2.69	23.78	12.95	1.84	26.17	5.53	4.73
Fri, Aug 10, 2001	35.70	13.22	2.70	24.00	12.95	1.85	26.27	5.53	4.75
Mon, Aug 13, 2001	36.70	13.22	2.78	24.05	12.95	1.86	27.13	5.53	4.91
Tue, Aug 14, 2001	37.45	13.22	2.83	24.00	12.95	1.85	28.19	5.53	5.10
Wed, Aug 15, 2001	37.35	13.22	2.83	24.55	12.95	1.90	28.09	5.53	5.08
Thu, Aug 16, 2001	36.75	13.22	2.78	25.20	12.95	1.95	28.85	5.53	5.22
Fri, Aug 17, 2001	37.01	13.22	2.80	25.25	12.95	1.95	28.35	5.53	5.13
Mon, Aug 20, 2001	37.35	13.22	2.83	25.55	12.95	1.97	28.87	5.53	5.22
Tue, Aug 21, 2001	36.90	13.22	2.79	25.25	12.95	1.95	28.80	5.53	5.21

Wed, Aug 22, 2001	37.30	13.22	2.82	25.66	12.95	1.98	28.40	5.53	5.14
Thu, Aug 23, 2001	36.75	13.22	2.78	25.45	12.95	1.97	27.99	5.53	5.06
Fri, Aug 24, 2001	36.85	13.22	2.79	25.65	12.95	1.98	28.70	5.53	5.19
Mon, Aug 27, 2001	37.25	13.22	2.82	26.20	12.95	2.02	28.80	5.53	5.21
Tue, Aug 28, 2001	37.30	13.22	2.82	26.26	12.95	2.03	28.10	5.53	5.08
Wed, Aug 29, 2001	37.79	13.22	2.86	26.40	12.95	2.04	28.34	5.53	5.12
Thu, Aug 30, 2001	37.98	13.22	2.87	25.80	12.95	1.99	28.17	5.53	5.09
Fri, Aug 31, 2001	37.85	13.22	2.86	26.00	12.95	2.01	27.60	5.53	4.99
Tue, Sep 4, 2001	37.70	13.22	2.85	26.21	12.95	2.02	27.57	5.53	4.99
Wed, Sep 5, 2001	37.00	13.22	2.80	26.26	12.95	2.03	27.66	5.53	5.00
Thu, Sep 6, 2001	34.70	13.22	2.62	25.80	12.95	1.99	26.62	5.53	4.81
Fri, Sep 7, 2001	33.50	13.22	2.53	25.15	12.95	1.94	26.90	5.53	4.86
Mon, Sep 10, 2001	33.15	13.22	2.51	24.60	12.95	1.90	26.05	5.53	4.71
Mon, Sep 17, 2001	34.60	13.22	2.62	25.60	12.95	1.98	27.03	5.53	4.89
Tue, Sep 18, 2001	36.10	13.22	2.73	26.40	12.95	2.04	27.06	5.53	4.89
Wed, Sep 19, 2001	35.95	13.22	2.72	26.80	12.95	2.07	25.94	5.53	4.69
Thu, Sep 20, 2001	34.95	13.22	2.64	24.93	12.95	1.93	24.55	5.53	4.44
Fri, Sep 21, 2001	35.00	13.22	2.65	24.95	12.95	1.93	25.58	5.53	4.63
Mon, Sep 24, 2001	36.00	13.22	2.72	26.40	12.95	2.04	26.09	5.53	4.72
Tue, Sep 25, 2001	35.80	13.22	2.71	26.90	12.95	2.08	27.14	5.53	4.91
Wed, Sep 26, 2001	35.60	13.22	2.69	26.90	12.95	2.08	26.27	5.53	4.75
Thu, Sep 27, 2001	36.58	13.22	2.77	26.95	12.95	2.08	26.30	5.53	4.76
Fri, Sep 28, 2001	37.00	13.22	2.80	27.00	12.95	2.08	26.26	5.53	4.75
Mon, Oct 1, 2001	35.75	13.22	2.70	26.21	12.95	2.02	26.27	5.53	4.75
Tue, Oct 2, 2001	36.10	13.22	2.73	26.35	12.95	2.03	26.80	5.53	4.85
Wed, Oct 3, 2001	36.50	13.22	2.76	26.85	12.95	2.07	26.82	5.53	4.85
Thu, Oct 4, 2001	36.25	13.22	2.74	26.45	12.95	2.04	27.35	5.53	4.95
Fri, Oct 5, 2001	35.95	13.22	2.72	26.60	12.95	2.05	27.01	5.53	4.88
Mon, Oct 8, 2001	35.50	13.22	2.69	27.35	12.95	2.11	26.93	5.53	4.87
Tue, Oct 9, 2001	35.00	13.22	2.65	26.50	12.95	2.05	27.10	5.53	4.90
Wed, Oct 10, 2001	35.85	13.22	2.71	26.80	12.95	2.07	28.87	5.53	5.22
Thu, Oct 11, 2001	35.30	13.22	2.67	26.54	12.95	2.05	28.50	5.53	5.15
Fri, Oct 12, 2001	34.35	13.22	2.60	26.80	12.95	2.07	27.80	5.53	5.03
Mon, Oct 15, 2001	33.70	13.22	2.55	27.00	12.95	2.08	28.45	5.53	5.14
Tue, Oct 16, 2001	33.30	13.22	2.52	27.40	12.95	2.12	28.34	5.53	5.12
Wed, Oct 17, 2001	32.80	13.22	2.48	27.50	12.95	2.12	27.40	5.53	4.95
Thu, Oct 18, 2001	32.80	13.22	2.48	27.07	12.95	2.09	27.20	5.53	4.92
Fri, Oct 19, 2001	33.15	13.22	2.51	26.98	12.95	2.08	28.25	5.53	5.11
Mon, Oct 22, 2001	34.30	13.22	2.59	27.10	12.95	2.09	28.41	5.53	5.14
Tue, Oct 23, 2001	34.00	13.22	2.57	26.89	12.95	2.08	27.77	5.53	5.02
Wed, Oct 24, 2001	34.10	13.22	2.58	26.58	12.95	2.05	27.50	5.53	4.97
Thu, Oct 25, 2001	34.48	13.22	2.61	26.66	12.95	2.06	28.25	5.53	5.11
Fri, Oct 26, 2001	34.45	13.22	2.61	26.62	12.95	2.06	28.87	5.53	5.22
Mon, Oct 29, 2001	33.90	13.22	2.56	26.35	12.95	2.03	28.55	5.53	5.16
Tue, Oct 30, 2001	34.10	13.22	2.58	25.60	12.95	1.98	28.33	5.53	5.12
Wed, Oct 31, 2001	33.40	13.22	2.53	25.26	12.95	1.95	28.50	5.53	5.15
Thu, Nov 1, 2001	33.85	13.22	2.56	25.80	12.95	1.99	28.15	5.53	5.09
Fri, Nov 2, 2001	33.80	13.22	2.56	26.30	12.95	2.03	27.85	5.53	5.04
Mon, Nov 5, 2001	33.70	13.22	2.55	25.90	12.95	2.00	28.33	5.53	5.12
Tue, Nov 6, 2001	34.10	13.22	2.58	25.85	12.95	2.00	28.50	5.53	5.15
Wed, Nov 7, 2001	34.28	13.22	2.59	25.40	12.95	1.96	28.75	5.53	5.20
Thu, Nov 8, 2001	33.40	13.22	2.53	25.10	12.95	1.94	29.28	5.53	5.29
Fri, Nov 9, 2001	33.16	13.22	2.51	24.00	12.95	1.85	29.20	5.53	5.28
Mon, Nov 12, 2001	33.87	13.22	2.56	24.40	12.95	1.88	29.25	5.53	5.29
Tue, Nov 13, 2001	33.95	13.22	2.57	25.00	12.95	1.93	29.47	5.53	5.33
Wed, Nov 14, 2001	34.25	13.22	2.59	25.95	12.95	2.00	29.27	5.53	5.29
Thu, Nov 15, 2001	34.60	13.22	2.62	26.07	12.95	2.01	29.15	5.53	5.27
Fri, Nov 16, 2001	35.00	13.22	2.65	26.44	12.95	2.04	29.04	5.53	5.25
Mon, Nov 19, 2001	35.10	13.22	2.66	25.70	12.95	1.98	29.24	5.53	5.29
Tue, Nov 20, 2001	35.25	13.22	2.67	26.75	12.95	2.07	29.07	5.53	5.26
Wed, Nov 21, 2001	35.24	13.22	2.67	26.55	12.95	2.05	29.29	5.53	5.30
Fri, Nov 23, 2001	35.35	13.22	2.67	26.80	12.95	2.07	29.60	5.53	5.35
Mon, Nov 26, 2001	35.45	13.22	2.68	27.00	12.95	2.08	30.29	5.53	5.48
Tue, Nov 27, 2001	35.10	13.22	2.66	26.80	12.95	2.07	30.05	5.53	5.43
Wed, Nov 28, 2001	34.80	13.22	2.63	26.50	12.95	2.05	30.00	5.53	5.42
Thu, Nov 29, 2001	35.60	13.22	2.69	27.50	12.95	2.12	30.00	5.53	5.42
Fri, Nov 30, 2001	35.49	13.22	2.68	26.50	12.95	2.05	29.97	5.53	5.42
Mon, Dec 3, 2001	36.02	13.22	2.72	26.45	12.95	2.04	23.77	5.53	4.30
Tue, Dec 4, 2001	36.42	13.22	2.75	26.92	12.95	2.08	24.00	5.53	4.34
Wed, Dec 5, 2001	36.81	13.22	2.78	26.89	12.95	2.08	24.05	5.53	4.35
Thu, Dec 6, 2001	37.25	13.22	2.82	26.70	12.95	2.06	23.45	5.53	4.24
Fri, Dec 7, 2001	37.65	13.22	2.85	26.77	12.95	2.07	23.98	5.53	4.34
Mon, Dec 10, 2001	36.24	13.22	2.74	25.35	12.95	1.96	22.88	5.53	4.14
Tue, Dec 11, 2001	35.10	13.22	2.66	25.25	12.95	1.95	22.00	5.53	3.98
Wed, Dec 12, 2001	35.10	13.22	2.66	24.95	12.95	1.93	22.12	5.53	4.00
Thu, Dec 13, 2001	35.05	13.22	2.65	24.60	12.95	1.90	21.99	5.53	3.98
Fri, Dec 14, 2001	35.20	13.22	2.66	25.17	12.95	1.94	22.14	5.53	4.00
Mon, Dec 17, 2001	37.10	13.22	2.81	25.90	12.95	2.00	23.59	5.53	4.27
Tue, Dec 18, 2001	37.24	13.22	2.82	26.00	12.95	2.01	23.53	5.53	4.25
Wed, Dec 19, 2001	37.00	13.22	2.80	25.70	12.95	1.98	23.30	5.53	4.21
Thu, Dec 20, 2001	36.50	13.22	2.76	25.50	12.95	1.97	23.07	5.53	4.17
Fri, Dec 21, 2001	36.96	13.22	2.80	26.00	12.95	2.01	23.85	5.53	4.31
Mon, Dec 24, 2001	37.00	13.22	2.80	25.85	12.95	2.00	23.49	5.53	4.25
Wed, Dec 26, 2001	37.25	13.22	2.82	25.85	12.95	2.00	23.45	5.53	4.24
Thu, Dec 27, 2001	37.11	13.22	2.81	26.00	12.95	2.01	23.47	5.53	4.24
Fri, Dec 28, 2001	36.10	13.22	2.73	25.42	12.95	1.96	23.25	5.53	4.20

Mon, Dec 31, 2001	34.95	13.22	2.64	25.75	12.95	1.99	22.55	5.53	4.08
Average	**33.64**	**13.22**	**2.54**	**25.49**	**12.95**	**1.97**	**24.68**	**5.53**	**4.46**

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
Wed, Jan 2, 2002	35.38	14.05	2.52	25.15	13.12	1.92	22.72	5.81	3.91
Thu, Jan 3, 2002	35.85	14.05	2.55	25.60	13.12	1.95	22.93	5.81	3.95
Fri, Jan 4, 2002	36.75	14.05	2.62	25.78	13.12	1.96	22.82	5.81	3.93
Mon, Jan 7, 2002	36.25	14.05	2.58	24.70	13.12	1.88	22.71	5.81	3.91
Tue, Jan 8, 2002	36.60	14.05	2.60	25.40	13.12	1.94	22.70	5.81	3.91
Wed, Jan 9, 2002	36.60	14.05	2.60	25.00	13.12	1.91	22.50	5.81	3.87
Thu, Jan 10, 2002	37.15	14.05	2.64	24.97	13.12	1.90	22.60	5.81	3.89
Fri, Jan 11, 2002	36.85	14.05	2.62	24.75	13.12	1.89	22.55	5.81	3.88
Mon, Jan 14, 2002	36.60	14.05	2.60	24.55	13.12	1.87	21.42	5.81	3.69
Tue, Jan 15, 2002	36.70	14.05	2.61	24.64	13.12	1.88	21.80	5.81	3.75
Wed, Jan 16, 2002	36.30	14.05	2.58	24.05	13.12	1.83	22.20	5.81	3.82
Thu, Jan 17, 2002	36.40	14.05	2.59	24.41	13.12	1.86	22.47	5.81	3.87
Fri, Jan 18, 2002	35.80	14.05	2.55	23.80	13.12	1.81	21.81	5.81	3.75
Tue, Jan 22, 2002	35.20	14.05	2.51	23.20	13.12	1.77	22.11	5.81	3.81
Wed, Jan 23, 2002	36.40	14.05	2.59	23.50	13.12	1.79	22.45	5.81	3.86
Thu, Jan 24, 2002	36.65	14.05	2.61	23.76	13.12	1.81	22.60	5.81	3.89
Fri, Jan 25, 2002	36.11	14.05	2.57	23.51	13.12	1.79	22.65	5.81	3.90
Mon, Jan 28, 2002	36.20	14.05	2.58	23.25	13.12	1.77	22.74	5.81	3.91
Tue, Jan 29, 2002	36.45	14.05	2.59	23.60	13.12	1.80	22.75	5.81	3.92
Wed, Jan 30, 2002	36.00	14.05	2.56	24.20	13.12	1.84	23.24	5.81	4.00
Thu, Jan 31, 2002	36.20	14.05	2.58	24.28	13.12	1.85	23.40	5.81	4.03
Fri, Feb 1, 2002	35.85	14.05	2.55	24.12	13.12	1.84	22.80	5.81	3.92
Mon, Feb 4, 2002	35.15	14.05	2.50	24.03	13.12	1.83	22.10	5.81	3.80
Tue, Feb 5, 2002	35.25	14.05	2.51	24.30	13.12	1.85	22.71	5.81	3.91
Wed, Feb 6, 2002	34.90	14.05	2.48	23.90	13.12	1.82	22.75	5.81	3.92
Thu, Feb 7, 2002	34.75	14.05	2.47	23.40	13.12	1.78	22.70	5.81	3.91
Fri, Feb 8, 2002	35.00	14.05	2.49	24.22	13.12	1.85	22.80	5.81	3.92
Mon, Feb 11, 2002	35.15	14.05	2.50	24.30	13.12	1.85	22.98	5.81	3.96
Tue, Feb 12, 2002	34.99	14.05	2.49	24.71	13.12	1.88	23.14	5.81	3.98
Wed, Feb 13, 2002	35.00	14.05	2.49	24.70	13.12	1.88	23.25	5.81	4.00
Thu, Feb 14, 2002	34.25	14.05	2.44	24.15	13.12	1.84	23.13	5.81	3.98
Fri, Feb 15, 2002	33.80	14.05	2.41	24.63	13.12	1.88	23.33	5.81	4.02
Tue, Feb 19, 2002	33.55	14.05	2.39	24.20	13.12	1.84	22.76	5.81	3.92
Wed, Feb 20, 2002	33.85	14.05	2.41	24.75	13.12	1.89	23.29	5.81	4.01
Thu, Feb 21, 2002	34.00	14.05	2.42	23.73	13.12	1.81	22.75	5.81	3.92
Fri, Feb 22, 2002	34.90	14.05	2.48	24.50	13.12	1.87	23.25	5.81	4.00
Mon, Feb 25, 2002	34.50	14.05	2.46	24.65	13.12	1.88	23.25	5.81	4.00
Tue, Feb 26, 2002	34.15	14.05	2.43	24.50	13.12	1.87	23.27	5.81	4.01
Wed, Feb 27, 2002	34.40	14.05	2.45	24.64	13.12	1.88	23.45	5.81	4.04
Thu, Feb 28, 2002	34.95	14.05	2.49	24.73	13.12	1.88	23.22	5.81	4.00
Fri, Mar 1, 2002	34.35	14.05	2.44	24.86	13.12	1.89	23.83	5.81	4.10
Mon, Mar 4, 2002	34.75	14.05	2.47	24.60	13.12	1.88	24.45	5.81	4.21
Tue, Mar 5, 2002	34.95	14.05	2.49	25.03	13.12	1.91	24.15	5.81	4.16
Wed, Mar 6, 2002	34.95	14.05	2.49	25.03	13.12	1.91	24.33	5.81	4.19
Thu, Mar 7, 2002	35.00	14.05	2.49	25.25	13.12	1.92	23.99	5.81	4.13
Fri, Mar 8, 2002	35.00	14.05	2.49	25.40	13.12	1.94	24.00	5.81	4.13
Mon, Mar 11, 2002	35.00	14.05	2.49	25.40	13.12	1.94	23.60	5.81	4.06
Tue, Mar 12, 2002	34.97	14.05	2.49	25.45	13.12	1.94	23.81	5.81	4.10
Wed, Mar 13, 2002	34.75	14.05	2.47	25.25	13.12	1.92	23.66	5.81	4.07
Thu, Mar 14, 2002	34.90	14.05	2.48	25.65	13.12	1.96	23.72	5.81	4.08
Fri, Mar 15, 2002	34.85	14.05	2.48	25.50	13.12	1.94	23.59	5.81	4.06
Mon, Mar 18, 2002	35.00	14.05	2.49	25.98	13.12	1.98	24.20	5.81	4.17
Tue, Mar 19, 2002	35.90	14.05	2.56	25.97	13.12	1.98	24.30	5.81	4.18
Wed, Mar 20, 2002	35.70	14.05	2.54	25.80	13.12	1.97	23.88	5.81	4.11
Thu, Mar 21, 2002	35.75	14.05	2.54	26.20	13.12	2.00	23.94	5.81	4.12
Fri, Mar 22, 2002	35.67	14.05	2.54	26.25	13.12	2.00	24.13	5.81	4.15
Mon, Mar 25, 2002	35.20	14.05	2.51	26.05	13.12	1.99	24.01	5.81	4.13
Tue, Mar 26, 2002	35.00	14.05	2.49	25.80	13.12	1.97	24.10	5.81	4.15
Wed, Mar 27, 2002	35.49	14.05	2.53	26.25	13.12	2.00	24.00	5.81	4.13
Thu, Mar 28, 2002	35.25	14.05	2.51	25.60	13.12	1.95	23.50	5.81	4.04
Mon, Apr 1, 2002	35.60	14.05	2.53	25.01	13.12	1.91	23.60	5.81	4.06
Tue, Apr 2, 2002	35.48	14.05	2.53	24.50	13.12	1.87	23.80	5.81	4.10
Wed, Apr 3, 2002	35.40	14.05	2.52	23.75	13.12	1.81	23.05	5.81	3.97
Thu, Apr 4, 2002	35.70	14.05	2.54	23.45	13.12	1.79	23.27	5.81	4.01
Fri, Apr 5, 2002	35.40	14.05	2.52	23.40	13.12	1.78	23.01	5.81	3.96
Mon, Apr 8, 2002	35.56	14.05	2.53	23.40	13.12	1.78	23.33	5.81	4.02
Tue, Apr 9, 2002	35.60	14.05	2.53	24.40	13.12	1.86	23.52	5.81	4.05
Wed, Apr 10, 2002	36.40	14.05	2.59	24.80	13.12	1.89	23.80	5.81	4.10
Thu, Apr 11, 2002	37.10	14.05	2.64	24.70	13.12	1.88	23.80	5.81	4.10
Fri, Apr 12, 2002	38.20	14.05	2.72	25.90	13.12	1.97	24.43	5.81	4.20
Mon, Apr 15, 2002	37.09	14.05	2.64	26.00	13.12	1.98	23.95	5.81	4.12
Tue, Apr 16, 2002	38.00	14.05	2.70	26.55	13.12	2.02	24.40	5.81	4.20
Wed, Apr 17, 2002	37.23	14.05	2.65	26.69	13.12	2.03	23.95	5.81	4.12
Thu, Apr 18, 2002	37.75	14.05	2.69	26.30	13.12	2.00	24.17	5.81	4.16
Fri, Apr 19, 2002	37.70	14.05	2.68	26.69	13.12	2.03	24.25	5.81	4.17

Mon, Apr 22, 2002	38.30	14.05	2.73	26.30	13.12	2.00	24.26	5.81	4.18
Tue, Apr 23, 2002	38.40	14.05	2.73	26.15	13.12	1.99	24.25	5.81	4.17
Wed, Apr 24, 2002	38.18	14.05	2.72	25.95	13.12	1.98	23.99	5.81	4.13
Thu, Apr 25, 2002	38.55	14.05	2.74	26.15	13.12	1.99	23.93	5.81	4.12
Fri, Apr 26, 2002	38.78	14.05	2.76	25.88	13.12	1.97	23.80	5.81	4.10
Mon, Apr 29, 2002	39.26	14.05	2.79	25.24	13.12	1.92	23.78	5.81	4.09
Tue, Apr 30, 2002	38.90	14.05	2.77	24.90	13.12	1.90	24.10	5.81	4.15
Wed, May 1, 2002	39.40	14.05	2.80	25.00	13.12	1.91	24.00	5.81	4.13
Thu, May 2, 2002	40.80	14.05	2.90	25.00	13.12	1.91	24.55	5.81	4.23
Fri, May 3, 2002	41.95	14.05	2.99	24.85	13.12	1.89	24.80	5.81	4.27
Mon, May 6, 2002	40.28	14.05	2.87	24.60	13.12	1.88	24.11	5.81	4.15
Tue, May 7, 2002	40.30	14.05	2.87	24.50	13.12	1.87	24.52	5.81	4.22
Wed, May 8, 2002	40.09	14.05	2.85	24.74	13.12	1.89	24.98	5.81	4.30
Thu, May 9, 2002	38.53	14.05	2.74	24.50	13.12	1.87	24.61	5.81	4.24
Fri, May 10, 2002	37.94	14.05	2.70	24.40	13.12	1.86	23.90	5.81	4.11
Mon, May 13, 2002	37.50	14.05	2.67	25.10	13.12	1.91	22.80	5.81	3.92
Tue, May 14, 2002	37.50	14.05	2.67	24.45	13.12	1.86	22.08	5.81	3.80
Wed, May 15, 2002	38.00	14.05	2.70	24.48	13.12	1.87	22.00	5.81	3.79
Thu, May 16, 2002	37.60	14.05	2.68	24.42	13.12	1.86	21.80	5.81	3.75
Fri, May 17, 2002	38.05	14.05	2.71	24.47	13.12	1.87	21.98	5.81	3.78
Mon, May 20, 2002	37.95	14.05	2.70	24.27	13.12	1.85	22.19	5.81	3.82
Tue, May 21, 2002	38.55	14.05	2.74	24.12	13.12	1.84	21.64	5.81	3.72
Wed, May 22, 2002	38.20	14.05	2.72	24.26	13.12	1.85	21.98	5.81	3.78
Thu, May 23, 2002	38.45	14.05	2.74	24.50	13.12	1.87	21.92	5.81	3.77
Fri, May 24, 2002	37.70	14.05	2.68	24.18	13.12	1.84	21.80	5.81	3.75
Tue, May 28, 2002	37.75	14.05	2.69	24.09	13.12	1.84	21.49	5.81	3.70
Wed, May 29, 2002	37.95	14.05	2.70	24.10	13.12	1.84	21.17	5.81	3.64
Thu, May 30, 2002	37.90	14.05	2.70	24.44	13.12	1.86	20.80	5.81	3.58
Fri, May 31, 2002	37.99	14.05	2.70	23.90	13.12	1.82	20.70	5.81	3.56
Mon, Jun 3, 2002	36.70	14.05	2.61	23.57	13.12	1.80	19.41	5.81	3.34
Tue, Jun 4, 2002	36.20	14.05	2.58	24.15	13.12	1.84	19.19	5.81	3.30
Wed, Jun 5, 2002	36.20	14.05	2.58	24.52	13.12	1.87	19.50	5.81	3.36
Thu, Jun 6, 2002	35.50	14.05	2.53	24.62	13.12	1.88	19.01	5.81	3.27
Fri, Jun 7, 2002	35.90	14.05	2.56	24.32	13.12	1.85	20.15	5.81	3.47
Mon, Jun 10, 2002	24.10	14.05	1.72	24.46	13.12	1.86	19.86	5.81	3.42
Tue, Jun 11, 2002	24.05	14.05	1.71	24.04	13.12	1.83	19.51	5.81	3.36
Wed, Jun 12, 2002	25.05	14.05	1.78	23.71	13.12	1.81	19.94	5.81	3.43
Thu, Jun 13, 2002	25.95	14.05	1.85	23.61	13.12	1.80	19.46	5.81	3.35
Fri, Jun 14, 2002	25.55	14.05	1.82	23.80	13.12	1.81	19.80	5.81	3.41
Mon, Jun 17, 2002	26.98	14.05	1.92	24.50	13.12	1.87	21.08	5.81	3.63
Tue, Jun 18, 2002	26.80	14.05	1.91	24.35	13.12	1.86	20.95	5.81	3.61
Wed, Jun 19, 2002	27.90	14.05	1.99	23.85	13.12	1.82	20.55	5.81	3.54
Thu, Jun 20, 2002	28.30	14.05	2.01	23.70	13.12	1.81	19.87	5.81	3.42
Fri, Jun 21, 2002	28.85	14.05	2.05	24.00	13.12	1.83	19.95	5.81	3.43
Mon, Jun 24, 2002	28.60	14.05	2.04	24.61	13.12	1.88	19.34	5.81	3.33
Tue, Jun 25, 2002	26.90	14.05	1.91	24.20	13.12	1.84	19.35	5.81	3.33
Wed, Jun 26, 2002	27.41	14.05	1.95	24.70	13.12	1.88	18.80	5.81	3.24
Thu, Jun 27, 2002	27.25	14.05	1.94	24.67	13.12	1.88	19.74	5.81	3.40
Fri, Jun 28, 2002	26.50	14.05	1.89	25.20	13.12	1.92	20.20	5.81	3.48
Mon, Jul 1, 2002	25.30	14.05	1.80	25.65	13.12	1.96	19.90	5.81	3.43
Tue, Jul 2, 2002	24.90	14.05	1.77	24.90	13.12	1.90	19.35	5.81	3.33
Wed, Jul 3, 2002	24.49	14.05	1.74	24.20	13.12	1.84	18.59	5.81	3.20
Fri, Jul 5, 2002	24.45	14.05	1.74	24.30	13.12	1.85	18.52	5.81	3.19
Mon, Jul 8, 2002	24.05	14.05	1.71	23.90	13.12	1.82	18.91	5.81	3.25
Tue, Jul 9, 2002	23.30	14.05	1.66	24.12	13.12	1.84	18.55	5.81	3.19
Wed, Jul 10, 2002	23.50	14.05	1.67	24.20	13.12	1.84	18.12	5.81	3.12
Thu, Jul 11, 2002	23.40	14.05	1.67	23.90	13.12	1.82	18.01	5.81	3.10
Fri, Jul 12, 2002	22.90	14.05	1.63	23.60	13.12	1.80	18.22	5.81	3.14
Mon, Jul 15, 2002	22.00	14.05	1.57	23.85	13.12	1.82	18.10	5.81	3.12
Tue, Jul 16, 2002	21.60	14.05	1.54	23.73	13.12	1.81	17.51	5.81	3.01
Wed, Jul 17, 2002	21.50	14.05	1.53	24.05	13.12	1.83	17.70	5.81	3.05
Thu, Jul 18, 2002	22.56	14.05	1.61	23.30	13.12	1.78	16.80	5.81	2.89
Fri, Jul 19, 2002	21.45	14.05	1.53	22.85	13.12	1.74	16.28	5.81	2.80
Mon, Jul 22, 2002	22.91	14.05	1.63	22.90	13.12	1.75	16.70	5.81	2.87
Tue, Jul 23, 2002	21.01	14.05	1.50	21.60	13.12	1.65	16.46	5.81	2.83
Wed, Jul 24, 2002	21.30	14.05	1.52	21.96	13.12	1.67	17.18	5.81	2.96
Thu, Jul 25, 2002	22.10	14.05	1.57	22.42	13.12	1.71	17.74	5.81	3.05
Fri, Jul 26, 2002	23.15	14.05	1.65	23.60	13.12	1.80	18.35	5.81	3.16
Mon, Jul 29, 2002	23.20	14.05	1.65	24.19	13.12	1.84	19.55	5.81	3.36
Tue, Jul 30, 2002	22.94	14.05	1.63	24.35	13.12	1.86	19.81	5.81	3.41
Wed, Jul 31, 2002	22.00	14.05	1.57	24.25	13.12	1.85	19.80	5.81	3.41
Thu, Aug 1, 2002	22.05	14.05	1.57	24.25	13.12	1.85	19.45	5.81	3.35
Fri, Aug 2, 2002	21.80	14.05	1.55	23.95	13.12	1.83	19.32	5.81	3.33
Mon, Aug 5, 2002	21.97	14.05	1.56	24.20	13.12	1.84	19.01	5.81	3.27
Tue, Aug 6, 2002	23.65	14.05	1.68	24.45	13.12	1.86	19.30	5.81	3.32
Wed, Aug 7, 2002	24.65	14.05	1.75	24.70	13.12	1.88	19.54	5.81	3.36
Thu, Aug 8, 2002	25.25	14.05	1.80	25.30	13.12	1.93	19.43	5.81	3.34
Fri, Aug 9, 2002	24.85	14.05	1.77	25.35	13.12	1.93	19.55	5.81	3.36
Mon, Aug 12, 2002	25.00	14.05	1.78	25.50	13.12	1.94	19.95	5.81	3.43
Tue, Aug 13, 2002	24.45	14.05	1.74	25.11	13.12	1.91	19.58	5.81	3.37
Wed, Aug 14, 2002	24.40	14.05	1.74	25.93	13.12	1.98	19.70	5.81	3.39
Thu, Aug 15, 2002	23.85	14.05	1.70	25.82	13.12	1.97	19.67	5.81	3.39
Fri, Aug 16, 2002	25.02	14.05	1.78	25.95	13.12	1.98	19.66	5.81	3.38
Mon, Aug 19, 2002	25.00	14.05	1.78	26.06	13.12	1.99	19.77	5.81	3.40
Tue, Aug 20, 2002	24.05	14.05	1.71	26.00	13.12	1.98	19.68	5.81	3.39
Wed, Aug 21, 2002	24.90	14.05	1.77	26.45	13.12	2.02	20.07	5.81	3.45

Thu, Aug 22, 2002	25.35	14.05	1.80	26.39	13.12	2.01	19.95	5.81	3.43
Fri, Aug 23, 2002	24.00	14.05	1.71	26.22	13.12	2.00	19.73	5.81	3.40
Mon, Aug 26, 2002	25.30	14.05	1.80	26.25	13.12	2.00	19.86	5.81	3.42
Tue, Aug 27, 2002	24.75	14.05	1.76	25.00	13.12	1.91	19.74	5.81	3.40
Wed, Aug 28, 2002	24.80	14.05	1.77	24.51	13.12	1.87	19.55	5.81	3.36
Thu, Aug 29, 2002	24.50	14.05	1.74	25.30	13.12	1.93	19.38	5.81	3.34
Fri, Aug 30, 2002	24.00	14.05	1.71	25.30	13.12	1.93	18.86	5.81	3.25
Tue, Sep 3, 2002	23.00	14.05	1.64	24.60	13.12	1.88	18.10	5.81	3.12
Wed, Sep 4, 2002	24.10	14.05	1.72	25.75	13.12	1.96	18.53	5.81	3.19
Thu, Sep 5, 2002	23.50	14.05	1.67	25.57	13.12	1.95	18.48	5.81	3.18
Fri, Sep 6, 2002	25.60	14.05	1.82	25.30	13.12	1.93	18.89	5.81	3.25
Mon, Sep 9, 2002	26.80	14.05	1.91	24.85	13.12	1.89	18.78	5.81	3.23
Tue, Sep 10, 2002	26.51	14.05	1.89	24.65	13.12	1.88	18.90	5.81	3.25
Wed, Sep 11, 2002	26.58	14.05	1.89	24.92	13.12	1.90	19.32	5.81	3.33
Thu, Sep 12, 2002	25.83	14.05	1.84	24.40	13.12	1.86	19.04	5.81	3.28
Fri, Sep 13, 2002	26.18	14.05	1.86	24.54	13.12	1.87	18.75	5.81	3.23
Mon, Sep 16, 2002	26.31	14.05	1.87	24.45	13.12	1.86	18.10	5.81	3.12
Tue, Sep 17, 2002	26.00	14.05	1.85	24.10	13.12	1.84	18.05	5.81	3.11
Wed, Sep 18, 2002	26.30	14.05	1.87	24.49	13.12	1.87	18.22	5.81	3.14
Thu, Sep 19, 2002	25.10	14.05	1.79	24.00	13.12	1.83	18.78	5.81	3.23
Fri, Sep 20, 2002	25.50	14.05	1.81	24.14	13.12	1.84	19.01	5.81	3.27
Mon, Sep 23, 2002	25.30	14.05	1.80	23.37	13.12	1.78	19.05	5.81	3.28
Tue, Sep 24, 2002	25.36	14.05	1.80	23.75	13.12	1.81	19.16	5.81	3.30
Wed, Sep 25, 2002	25.85	14.05	1.84	24.10	13.12	1.84	19.85	5.81	3.42
Thu, Sep 26, 2002	27.00	14.05	1.92	25.17	13.12	1.92	20.20	5.81	3.48
Fri, Sep 27, 2002	25.91	14.05	1.84	24.85	13.12	1.89	19.95	5.81	3.43
Mon, Sep 30, 2002	26.22	14.05	1.87	25.53	13.12	1.95	20.30	5.81	3.49
Tue, Oct 1, 2002	26.80	14.05	1.91	25.60	13.12	1.95	20.73	5.81	3.57
Wed, Oct 2, 2002	26.26	14.05	1.87	25.15	13.12	1.92	20.87	5.81	3.59
Thu, Oct 3, 2002	25.90	14.05	1.84	25.55	13.12	1.95	21.01	5.81	3.62
Fri, Oct 4, 2002	25.69	14.05	1.83	25.05	13.12	1.91	20.33	5.81	3.50
Mon, Oct 7, 2002	25.02	14.05	1.78	24.89	13.12	1.90	19.86	5.81	3.42
Tue, Oct 8, 2002	25.30	14.05	1.80	24.89	13.12	1.90	20.24	5.81	3.48
Wed, Oct 9, 2002	24.41	14.05	1.74	24.40	13.12	1.86	19.61	5.81	3.38
Thu, Oct 10, 2002	25.35	14.05	1.80	24.69	13.12	1.88	20.17	5.81	3.47
Fri, Oct 11, 2002	25.13	14.05	1.79	24.50	13.12	1.87	19.78	5.81	3.40
Mon, Oct 14, 2002	24.70	14.05	1.76	24.45	13.12	1.86	20.20	5.81	3.48
Tue, Oct 15, 2002	24.91	14.05	1.77	24.59	13.12	1.87	20.33	5.81	3.50
Wed, Oct 16, 2002	24.85	14.05	1.77	24.10	13.12	1.84	20.21	5.81	3.48
Thu, Oct 17, 2002	25.29	14.05	1.80	24.30	13.12	1.85	20.17	5.81	3.47
Fri, Oct 18, 2002	25.10	14.05	1.79	24.49	13.12	1.87	20.28	5.81	3.49
Mon, Oct 21, 2002	25.27	14.05	1.80	24.53	13.12	1.87	20.15	5.81	3.47
Tue, Oct 22, 2002	25.20	14.05	1.79	24.25	13.12	1.85	20.03	5.81	3.45
Wed, Oct 23, 2002	25.30	14.05	1.80	24.59	13.12	1.87	20.23	5.81	3.48
Thu, Oct 24, 2002	25.60	14.05	1.82	24.39	13.12	1.86	20.30	5.81	3.49
Fri, Oct 25, 2002	26.00	14.05	1.85	24.63	13.12	1.88	20.46	5.81	3.52
Mon, Oct 28, 2002	25.90	14.05	1.84	24.35	13.12	1.86	20.23	5.81	3.48
Tue, Oct 29, 2002	26.70	14.05	1.90	24.70	13.12	1.88	20.48	5.81	3.52
Wed, Oct 30, 2002	26.88	14.05	1.91	25.09	13.12	1.91	20.98	5.81	3.61
Thu, Oct 31, 2002	26.80	14.05	1.91	24.86	13.12	1.89	21.49	5.81	3.70
Fri, Nov 1, 2002	26.95	14.05	1.92	25.45	13.12	1.94	21.56	5.81	3.71
Mon, Nov 4, 2002	26.30	14.05	1.87	25.40	13.12	1.94	21.50	5.81	3.70
Tue, Nov 5, 2002	26.10	14.05	1.86	25.40	13.12	1.94	21.60	5.81	3.72
Wed, Nov 6, 2002	26.52	14.05	1.89	25.70	13.12	1.96	21.40	5.81	3.68
Thu, Nov 7, 2002	26.08	14.05	1.86	25.40	13.12	1.94	20.96	5.81	3.61
Fri, Nov 8, 2002	26.18	14.05	1.86	25.19	13.12	1.92	21.14	5.81	3.64
Mon, Nov 11, 2002	26.35	14.05	1.88	24.79	13.12	1.89	21.08	5.81	3.63
Tue, Nov 12, 2002	26.55	14.05	1.89	24.85	13.12	1.89	20.96	5.81	3.61
Wed, Nov 13, 2002	26.75	14.05	1.90	25.05	13.12	1.91	20.89	5.81	3.60
Thu, Nov 14, 2002	26.45	14.05	1.88	25.50	13.12	1.94	20.85	5.81	3.59
Fri, Nov 15, 2002	26.07	14.05	1.86	25.39	13.12	1.94	20.75	5.81	3.57
Mon, Nov 18, 2002	25.98	14.05	1.85	25.32	13.12	1.93	20.55	5.81	3.54
Tue, Nov 19, 2002	25.70	14.05	1.83	25.55	13.12	1.95	20.60	5.81	3.55
Wed, Nov 20, 2002	25.30	14.05	1.80	25.85	13.12	1.97	20.39	5.81	3.51
Thu, Nov 21, 2002	25.15	14.05	1.79	25.95	13.12	1.98	20.11	5.81	3.46
Fri, Nov 22, 2002	25.30	14.05	1.80	25.80	13.12	1.97	20.27	5.81	3.49
Mon, Nov 25, 2002	24.11	14.05	1.72	25.85	13.12	1.97	20.35	5.81	3.50
Tue, Nov 26, 2002	23.75	14.05	1.69	24.76	13.12	1.89	19.97	5.81	3.44
Wed, Nov 27, 2002	24.12	14.05	1.72	25.38	13.12	1.93	20.08	5.81	3.46
Fri, Nov 29, 2002	23.90	14.05	1.70	25.60	13.12	1.95	19.99	5.81	3.44
Mon, Dec 2, 2002	23.95	14.05	1.70	25.76	13.12	1.96	20.95	5.81	3.61
Tue, Dec 3, 2002	23.94	14.05	1.70	25.40	13.12	1.94	20.76	5.81	3.57
Wed, Dec 4, 2002	23.90	14.05	1.70	25.15	13.12	1.92	20.79	5.81	3.58
Thu, Dec 5, 2002	24.10	14.05	1.72	25.18	13.12	1.92	20.72	5.81	3.57
Fri, Dec 6, 2002	23.97	14.05	1.71	25.40	13.12	1.94	20.58	5.81	3.54
Mon, Dec 9, 2002	23.80	14.05	1.69	25.20	13.12	1.92	20.57	5.81	3.54
Tue, Dec 10, 2002	23.85	14.05	1.70	24.85	13.12	1.89	20.68	5.81	3.56
Wed, Dec 11, 2002	23.85	14.05	1.70	24.55	13.12	1.87	20.55	5.81	3.54
Thu, Dec 12, 2002	24.30	14.05	1.73	24.65	13.12	1.88	21.04	5.81	3.62
Fri, Dec 13, 2002	23.91	14.05	1.70	24.05	13.12	1.83	20.54	5.81	3.54
Mon, Dec 16, 2002	24.40	14.05	1.74	24.30	13.12	1.85	21.15	5.81	3.64
Tue, Dec 17, 2002	24.45	14.05	1.74	24.21	13.12	1.85	21.07	5.81	3.63
Wed, Dec 18, 2002	24.40	14.05	1.74	24.35	13.12	1.86	20.81	5.81	3.58
Thu, Dec 19, 2002	24.25	14.05	1.73	23.80	13.12	1.81	20.63	5.81	3.55
Fri, Dec 20, 2002	23.55	14.05	1.68	23.99	13.12	1.83	20.70	5.81	3.56
Mon, Dec 23, 2002	23.90	14.05	1.70	24.00	13.12	1.83	20.71	5.81	3.56

Tue, Dec 24, 2002	23.91	14.05	1.70	24.23	13.12	1.85	20.75	5.81	3.57
Thu, Dec 26, 2002	23.80	14.05	1.69	24.00	13.12	1.83	20.74	5.81	3.57
Fri, Dec 27, 2002	*23.00*	*14.05*	*1.64*	*23.76*	*13.12*	*1.81*	*20.40*	*5.81*	*3.51*
Mon, Dec 30, 2002	23.05	14.05	1.64	24.18	13.12	1.84	20.43	5.81	3.52
Tue, Dec 31, 2002	23.15	14.05	1.65	23.65	13.12	1.80	20.60	5.81	3.55
Average	**29.87**	**14.05**	**2.13**	**24.71**	**13.12**	**1.88**	**21.18**	**5.81**	**3.65**

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
Thu, Jan 2, 2003	23.45	13.97	1.68	24.10	14.44	1.67	20.68	7.12	2.90
Fri, Jan 3, 2003	23.05	13.97	1.65	23.92	14.44	1.66	20.65	7.12	2.90
Mon, Jan 6, 2003	23.55	13.97	1.69	24.77	14.44	1.72	20.72	7.12	2.91
Tue, Jan 7, 2003	23.33	13.97	1.67	24.81	14.44	1.72	20.49	7.12	2.88
Wed, Jan 8, 2003	23.01	13.97	1.65	24.82	14.44	1.72	20.67	7.12	2.90
Thu, Jan 9, 2003	23.15	13.97	1.66	25.04	14.44	1.73	20.35	7.12	2.86
Fri, Jan 10, 2003	23.05	13.97	1.65	24.85	14.44	1.72	20.22	7.12	2.84
Mon, Jan 13, 2003	23.00	13.97	1.65	25.20	14.44	1.75	20.58	7.12	2.89
Tue, Jan 14, 2003	23.02	13.97	1.65	25.58	14.44	1.77	20.69	7.12	2.91
Wed, Jan 15, 2003	23.12	13.97	1.65	25.35	14.44	1.76	20.80	7.12	2.92
Thu, Jan 16, 2003	23.49	13.97	1.68	25.43	14.44	1.76	20.68	7.12	2.90
Fri, Jan 17, 2003	23.50	13.97	1.68	25.40	14.44	1.76	20.55	7.12	2.89
Tue, Jan 21, 2003	24.23	13.97	1.73	25.51	14.44	1.77	20.21	7.12	2.84
Wed, Jan 22, 2003	24.10	13.97	1.73	25.60	14.44	1.77	20.18	7.12	2.83
Thu, Jan 23, 2003	23.40	13.97	1.68	25.44	14.44	1.76	20.24	7.12	2.84
Fri, Jan 24, 2003	23.05	13.97	1.65	24.65	14.44	1.71	20.10	7.12	2.82
Mon, Jan 27, 2003	23.01	13.97	1.65	24.20	14.44	1.68	19.71	7.12	2.77
Tue, Jan 28, 2003	23.40	13.97	1.68	24.65	14.44	1.71	20.19	7.12	2.84
Wed, Jan 29, 2003	23.30	13.97	1.67	24.62	14.44	1.70	20.00	7.12	2.81
Thu, Jan 30, 2003	22.40	13.97	1.60	24.13	14.44	1.67	20.10	7.12	2.82
Fri, Jan 31, 2003	22.89	13.97	1.64	24.35	14.44	1.69	20.10	7.12	2.82
Mon, Feb 3, 2003	22.70	13.97	1.62	24.54	14.44	1.70	20.09	7.12	2.82
Tue, Feb 4, 2003	22.15	13.97	1.59	24.60	14.44	1.70	20.03	7.12	2.81
Wed, Feb 5, 2003	22.05	13.97	1.58	24.41	14.44	1.69	20.17	7.12	2.83
Thu, Feb 6, 2003	22.13	13.97	1.58	24.30	14.44	1.68	20.05	7.12	2.82
Fri, Feb 7, 2003	21.80	13.97	1.56	24.17	14.44	1.67	20.44	7.12	2.87
Mon, Feb 10, 2003	22.25	13.97	1.59	24.31	14.44	1.68	20.59	7.12	2.89
Tue, Feb 11, 2003	22.77	13.97	1.63	24.30	14.44	1.68	20.56	7.12	2.89
Wed, Feb 12, 2003	22.45	13.97	1.61	24.22	14.44	1.68	20.10	7.12	2.82
Thu, Feb 13, 2003	22.66	13.97	1.62	24.38	14.44	1.69	20.45	7.12	2.87
Fri, Feb 14, 2003	22.60	13.97	1.62	24.41	14.44	1.69	20.75	7.12	2.91
Tue, Feb 18, 2003	22.50	13.97	1.61	24.50	14.44	1.70	20.89	7.12	2.93
Wed, Feb 19, 2003	22.60	13.97	1.62	24.11	14.44	1.67	20.86	7.12	2.93
Thu, Feb 20, 2003	22.50	13.97	1.61	24.21	14.44	1.68	20.98	7.12	2.95
Fri, Feb 21, 2003	22.51	13.97	1.61	24.49	14.44	1.70	20.80	7.12	2.92
Mon, Feb 24, 2003	22.17	13.97	1.59	24.21	14.44	1.68	20.79	7.12	2.92
Tue, Feb 25, 2003	22.45	13.97	1.61	25.36	14.44	1.76	20.87	7.12	2.93
Wed, Feb 26, 2003	23.50	13.97	1.68	25.10	14.44	1.74	20.50	7.12	2.88
Thu, Feb 27, 2003	24.02	13.97	1.72	25.47	14.44	1.76	20.60	7.12	2.89
Fri, Feb 28, 2003	23.48	13.97	1.68	25.41	14.44	1.76	20.93	7.12	2.94
Mon, Mar 3, 2003	23.45	13.97	1.68	25.05	14.44	1.73	20.78	7.12	2.92
Tue, Mar 4, 2003	24.00	13.97	1.72	24.75	14.44	1.71	20.53	7.12	2.88
Wed, Mar 5, 2003	24.39	13.97	1.75	25.10	14.44	1.74	20.81	7.12	2.92
Thu, Mar 6, 2003	23.75	13.97	1.70	24.90	14.44	1.72	20.65	7.12	2.90
Fri, Mar 7, 2003	23.51	13.97	1.68	25.00	14.44	1.73	20.78	7.12	2.92
Mon, Mar 10, 2003	23.05	13.97	1.65	24.80	14.44	1.72	20.63	7.12	2.90
Tue, Mar 11, 2003	23.15	13.97	1.66	25.08	14.44	1.74	20.72	7.12	2.91
Wed, Mar 12, 2003	22.85	13.97	1.64	24.89	14.44	1.72	20.55	7.12	2.89
Thu, Mar 13, 2003	22.80	13.97	1.63	25.07	14.44	1.74	20.67	7.12	2.90
Fri, Mar 14, 2003	22.75	13.97	1.63	25.15	14.44	1.74	20.87	7.12	2.93
Mon, Mar 17, 2003	23.69	13.97	1.70	25.61	14.44	1.77	21.10	7.12	2.96
Tue, Mar 18, 2003	23.30	13.97	1.67	25.61	14.44	1.77	21.08	7.12	2.96
Wed, Mar 19, 2003	23.25	13.97	1.66	25.68	14.44	1.78	21.12	7.12	2.97
Thu, Mar 20, 2003	24.05	13.97	1.72	26.00	14.44	1.80	21.05	7.12	2.96
Fri, Mar 21, 2003	24.10	13.97	1.73	26.27	14.44	1.82	21.72	7.12	3.05
Mon, Mar 24, 2003	24.01	13.97	1.72	25.65	14.44	1.78	21.28	7.12	2.99
Tue, Mar 25, 2003	24.20	13.97	1.73	26.10	14.44	1.81	21.59	7.12	3.03
Wed, Mar 26, 2003	23.85	13.97	1.71	25.50	14.44	1.77	21.52	7.12	3.02
Thu, Mar 27, 2003	23.90	13.97	1.71	26.10	14.44	1.81	21.63	7.12	3.04
Fri, Mar 28, 2003	23.85	13.97	1.71	25.80	14.44	1.79	22.15	7.12	3.11
Mon, Mar 31, 2003	23.90	13.97	1.71	25.75	14.44	1.78	21.95	7.12	3.08
Tue, Apr 1, 2003	24.20	13.97	1.73	25.79	14.44	1.79	22.27	7.12	3.13
Wed, Apr 2, 2003	24.58	13.97	1.76	26.06	14.44	1.80	22.32	7.12	3.13
Thu, Apr 3, 2003	24.21	13.97	1.73	25.66	14.44	1.78	22.25	7.12	3.13
Fri, Apr 4, 2003	24.35	13.97	1.74	25.88	14.44	1.79	22.47	7.12	3.16
Mon, Apr 7, 2003	24.95	13.97	1.79	25.90	14.44	1.79	21.76	7.12	3.06
Tue, Apr 8, 2003	24.90	13.97	1.78	26.20	14.44	1.81	21.92	7.12	3.08
Wed, Apr 9, 2003	24.60	13.97	1.76	26.30	14.44	1.82	21.70	7.12	3.05
Thu, Apr 10, 2003	24.40	13.97	1.75	26.40	14.44	1.83	21.82	7.12	3.06
Fri, Apr 11, 2003	24.28	13.97	1.74	26.18	14.44	1.81	21.85	7.12	3.07
Mon, Apr 14, 2003	24.17	13.97	1.73	26.21	14.44	1.82	21.83	7.12	3.07
Tue, Apr 15, 2003	24.45	13.97	1.75	26.27	14.44	1.82	21.99	7.12	3.09
Wed, Apr 16, 2003	24.13	13.97	1.73	26.29	14.44	1.82	22.06	7.12	3.10
Thu, Apr 17, 2003	24.81	13.97	1.78	26.48	14.44	1.83	22.01	7.12	3.09
Mon, Apr 21, 2003	25.30	13.97	1.81	26.70	14.44	1.85	21.93	7.12	3.08

Tue, Apr 22, 2003	25.85	13.97	1.85	27.35	14.44	1.89	22.20	7.12	3.12
Wed, Apr 23, 2003	25.63	13.97	1.83	27.25	14.44	1.89	21.95	7.12	3.08
Thu, Apr 24, 2003	25.51	13.97	1.83	26.90	14.44	1.86	22.15	7.12	3.11
Fri, Apr 25, 2003	25.49	13.97	1.82	27.08	14.44	1.88	22.46	7.12	3.15
Mon, Apr 28, 2003	25.98	13.97	1.86	27.42	14.44	1.90	22.86	7.12	3.21
Tue, Apr 29, 2003	25.45	13.97	1.82	27.25	14.44	1.89	22.80	7.12	3.20
Wed, Apr 30, 2003	25.84	13.97	1.85	27.35	14.44	1.89	22.65	7.12	3.18
Thu, May 1, 2003	25.94	13.97	1.86	27.30	14.44	1.89	22.55	7.12	3.17
Fri, May 2, 2003	26.13	13.97	1.87	27.17	14.44	1.88	22.44	7.12	3.15
Mon, May 5, 2003	25.98	13.97	1.86	26.75	14.44	1.85	22.62	7.12	3.18
Tue, May 6, 2003	26.00	13.97	1.86	26.90	14.44	1.86	23.15	7.12	3.25
Wed, May 7, 2003	25.85	13.97	1.85	26.40	14.44	1.83	22.60	7.12	3.17
Thu, May 8, 2003	25.73	13.97	1.84	26.33	14.44	1.82	22.56	7.12	3.17
Fri, May 9, 2003	26.65	13.97	1.91	26.33	14.44	1.82	22.99	7.12	3.23
Mon, May 12, 2003	26.73	13.97	1.91	26.65	14.44	1.85	23.11	7.12	3.25
Tue, May 13, 2003	25.65	13.97	1.84	27.00	14.44	1.87	23.08	7.12	3.24
Wed, May 14, 2003	25.62	13.97	1.83	27.01	14.44	1.87	22.67	7.12	3.18
Thu, May 15, 2003	25.75	13.97	1.84	27.30	14.44	1.89	23.10	7.12	3.24
Fri, May 16, 2003	25.10	13.97	1.80	27.75	14.44	1.92	23.09	7.12	3.24
Mon, May 19, 2003	25.15	13.97	1.80	27.51	14.44	1.91	22.80	7.12	3.20
Tue, May 20, 2003	25.40	13.97	1.82	27.70	14.44	1.92	23.00	7.12	3.23
Wed, May 21, 2003	25.15	13.97	1.80	27.80	14.44	1.93	22.90	7.12	3.22
Thu, May 22, 2003	25.18	13.97	1.80	27.91	14.44	1.93	22.85	7.12	3.21
Fri, May 23, 2003	25.40	13.97	1.82	27.98	14.44	1.94	23.48	7.12	3.30
Tue, May 27, 2003	25.65	13.97	1.84	28.60	14.44	1.98	23.25	7.12	3.27
Wed, May 28, 2003	25.70	13.97	1.84	28.40	14.44	1.97	23.47	7.12	3.30
Thu, May 29, 2003	25.71	13.97	1.84	28.59	14.44	1.98	23.26	7.12	3.27
Fri, May 30, 2003	25.50	13.97	1.83	28.20	14.44	1.95	23.52	7.12	3.30
Mon, Jun 2, 2003	26.15	13.97	1.87	28.50	14.44	1.97	23.21	7.12	3.26
Tue, Jun 3, 2003	26.05	13.97	1.86	28.94	14.44	2.00	23.40	7.12	3.29
Wed, Jun 4, 2003	26.25	13.97	1.88	29.18	14.44	2.02	23.83	7.12	3.35
Thu, Jun 5, 2003	27.10	13.97	1.94	29.32	14.44	2.03	24.00	7.12	3.37
Fri, Jun 6, 2003	26.74	13.97	1.91	28.88	14.44	2.00	24.02	7.12	3.37
Mon, Jun 9, 2003	26.07	13.97	1.87	29.05	14.44	2.01	23.56	7.12	3.31
Tue, Jun 10, 2003	27.15	13.97	1.94	30.57	14.44	2.12	24.14	7.12	3.39
Wed, Jun 11, 2003	27.35	13.97	1.96	30.31	14.44	2.10	24.10	7.12	3.38
Thu, Jun 12, 2003	27.60	13.97	1.98	30.49	14.44	2.11	24.44	7.12	3.43
Fri, Jun 13, 2003	27.00	13.97	1.93	30.40	14.44	2.11	24.00	7.12	3.37
Mon, Jun 16, 2003	28.25	13.97	2.02	30.72	14.44	2.13	24.40	7.12	3.43
Tue, Jun 17, 2003	28.71	13.97	2.06	30.75	14.44	2.13	24.10	7.12	3.38
Wed, Jun 18, 2003	28.05	13.97	2.01	30.97	14.44	2.14	24.25	7.12	3.41
Thu, Jun 19, 2003	27.70	13.97	1.98	30.75	14.44	2.13	24.50	7.12	3.44
Fri, Jun 20, 2003	27.75	13.97	1.99	29.60	14.44	2.05	24.70	7.12	3.47
Mon, Jun 23, 2003	26.85	13.97	1.92	28.00	14.44	1.94	24.70	7.12	3.47
Tue, Jun 24, 2003	27.00	13.97	1.93	28.20	14.44	1.95	24.65	7.12	3.46
Wed, Jun 25, 2003	27.15	13.97	1.94	29.10	14.44	2.02	24.70	7.12	3.47
Thu, Jun 26, 2003	27.35	13.97	1.96	29.23	14.44	2.02	24.60	7.12	3.46
Fri, Jun 27, 2003	27.79	13.97	1.99	29.02	14.44	2.01	24.40	7.12	3.43
Mon, Jun 30, 2003	27.30	13.97	1.95	28.12	14.44	1.95	24.38	7.12	3.42
Tue, Jul 1, 2003	26.80	13.97	1.92	27.76	14.44	1.92	24.44	7.12	3.43
Wed, Jul 2, 2003	27.70	13.97	1.98	28.88	14.44	2.00	24.30	7.12	3.41
Thu, Jul 3, 2003	27.57	13.97	1.97	29.18	14.44	2.02	24.27	7.12	3.41
Mon, Jul 7, 2003	27.75	13.97	1.99	29.70	14.44	2.06	24.30	7.12	3.41
Tue, Jul 8, 2003	28.06	13.97	2.01	29.30	14.44	2.03	24.03	7.12	3.38
Wed, Jul 9, 2003	27.80	13.97	1.99	28.73	14.44	1.99	23.92	7.12	3.36
Thu, Jul 10, 2003	27.26	13.97	1.95	28.57	14.44	1.98	23.95	7.12	3.36
Fri, Jul 11, 2003	27.40	13.97	1.96	29.05	14.44	2.01	24.09	7.12	3.38
Mon, Jul 14, 2003	28.08	13.97	2.01	29.86	14.44	2.07	24.40	7.12	3.43
Tue, Jul 15, 2003	27.25	13.97	1.95	29.83	14.44	2.07	24.13	7.12	3.39
Wed, Jul 16, 2003	27.07	13.97	1.94	29.66	14.44	2.05	24.00	7.12	3.37
Thu, Jul 17, 2003	26.70	13.97	1.91	29.60	14.44	2.05	23.80	7.12	3.34
Fri, Jul 18, 2003	26.79	13.97	1.92	29.72	14.44	2.06	23.97	7.12	3.37
Mon, Jul 21, 2003	26.60	13.97	1.90	29.62	14.44	2.05	23.64	7.12	3.32
Tue, Jul 22, 2003	26.60	13.97	1.90	29.70	14.44	2.06	23.70	7.12	3.33
Wed, Jul 23, 2003	26.30	13.97	1.88	29.88	14.44	2.07	23.67	7.12	3.32
Thu, Jul 24, 2003	26.26	13.97	1.88	29.28	14.44	2.03	23.69	7.12	3.33
Fri, Jul 25, 2003	26.55	13.97	1.90	28.75	14.44	1.99	23.42	7.12	3.29
Mon, Jul 28, 2003	26.42	13.97	1.89	28.94	14.44	2.00	23.21	7.12	3.26
Tue, Jul 29, 2003	26.78	13.97	1.92	28.98	14.44	2.01	23.32	7.12	3.28
Wed, Jul 30, 2003	26.75	13.97	1.91	28.60	14.44	1.98	23.50	7.12	3.30
Thu, Jul 31, 2003	26.69	13.97	1.91	27.97	14.44	1.94	23.94	7.12	3.36
Fri, Aug 1, 2003	26.08	13.97	1.87	27.77	14.44	1.92	23.35	7.12	3.28
Mon, Aug 4, 2003	25.19	13.97	1.80	26.25	14.44	1.82	23.40	7.12	3.29
Tue, Aug 5, 2003	24.80	13.97	1.78	26.15	14.44	1.81	23.15	7.12	3.25
Wed, Aug 6, 2003	24.65	13.97	1.76	26.11	14.44	1.81	23.41	7.12	3.29
Thu, Aug 7, 2003	24.26	13.97	1.74	26.02	14.44	1.80	23.26	7.12	3.27
Fri, Aug 8, 2003	24.15	13.97	1.73	25.80	14.44	1.79	23.04	7.12	3.24
Mon, Aug 11, 2003	23.80	13.97	1.70	25.79	14.44	1.79	23.27	7.12	3.27
Tue, Aug 12, 2003	24.95	13.97	1.79	26.00	14.44	1.80	23.50	7.12	3.30
Wed, Aug 13, 2003	24.99	13.97	1.79	26.07	14.44	1.81	23.35	7.12	3.28
Thu, Aug 14, 2003	25.10	13.97	1.80	26.00	14.44	1.80	23.46	7.12	3.29
Fri, Aug 15, 2003	25.45	13.97	1.82	26.20	14.44	1.81	23.76	7.12	3.34
Mon, Aug 18, 2003	25.50	13.97	1.83	26.22	14.44	1.82	23.80	7.12	3.34
Tue, Aug 19, 2003	25.89	13.97	1.85	26.10	14.44	1.81	23.47	7.12	3.30
Wed, Aug 20, 2003	25.87	13.97	1.85	26.31	14.44	1.82	23.57	7.12	3.31
Thu, Aug 21, 2003	26.40	13.97	1.89	26.29	14.44	1.82	23.49	7.12	3.30

Fri, Aug 22, 2003	25.44	13.97	1.82	25.76	14.44	1.78	23.40	7.12	3.29
Mon, Aug 25, 2003	25.05	13.97	1.79	25.60	14.44	1.77	23.41	7.12	3.29
Tue, Aug 26, 2003	25.40	13.97	1.82	25.73	14.44	1.78	23.25	7.12	3.27
Wed, Aug 27, 2003	25.25	13.97	1.81	25.97	14.44	1.80	23.35	7.12	3.28
Thu, Aug 28, 2003	25.20	13.97	1.80	25.96	14.44	1.80	23.45	7.12	3.29
Fri, Aug 29, 2003	25.02	13.97	1.79	25.20	14.44	1.75	23.65	7.12	3.32
Tue, Sep 2, 2003	24.90	13.97	1.78	25.65	14.44	1.78	23.87	7.12	3.35
Wed, Sep 3, 2003	25.45	13.97	1.82	26.24	14.44	1.82	23.80	7.12	3.34
Thu, Sep 4, 2003	26.00	13.97	1.86	26.06	14.44	1.80	23.97	7.12	3.37
Fri, Sep 5, 2003	25.15	13.97	1.80	25.97	14.44	1.80	23.89	7.12	3.36
Mon, Sep 8, 2003	24.40	13.97	1.75	25.95	14.44	1.80	24.17	7.12	3.39
Tue, Sep 9, 2003	24.53	13.97	1.76	26.24	14.44	1.82	24.20	7.12	3.40
Wed, Sep 10, 2003	24.45	13.97	1.75	25.80	14.44	1.79	24.08	7.12	3.38
Thu, Sep 11, 2003	24.69	13.97	1.77	26.18	14.44	1.81	24.07	7.12	3.38
Fri, Sep 12, 2003	24.65	13.97	1.76	26.00	14.44	1.80	24.03	7.12	3.38
Mon, Sep 15, 2003	24.90	13.97	1.78	25.79	14.44	1.79	23.98	7.12	3.37
Tue, Sep 16, 2003	25.15	13.97	1.80	26.20	14.44	1.81	24.10	7.12	3.38
Wed, Sep 17, 2003	24.59	13.97	1.76	26.03	14.44	1.80	24.18	7.12	3.40
Thu, Sep 18, 2003	24.33	13.97	1.74	26.15	14.44	1.81	24.31	7.12	3.41
Fri, Sep 19, 2003	24.13	13.97	1.73	26.31	14.44	1.82	24.55	7.12	3.45
Mon, Sep 22, 2003	24.05	13.97	1.72	26.19	14.44	1.81	24.38	7.12	3.42
Tue, Sep 23, 2003	24.40	13.97	1.75	26.25	14.44	1.82	24.38	7.12	3.42
Wed, Sep 24, 2003	23.75	13.97	1.70	26.15	14.44	1.81	23.96	7.12	3.37
Thu, Sep 25, 2003	23.53	13.97	1.68	25.68	14.44	1.78	24.06	7.12	3.38
Fri, Sep 26, 2003	23.37	13.97	1.67	25.55	14.44	1.77	24.20	7.12	3.40
Mon, Sep 29, 2003	23.50	13.97	1.68	25.95	14.44	1.80	24.41	7.12	3.43
Tue, Sep 30, 2003	23.57	13.97	1.69	25.81	14.44	1.79	24.08	7.12	3.38
Wed, Oct 1, 2003	24.84	13.97	1.78	26.41	14.44	1.83	24.30	7.12	3.41
Thu, Oct 2, 2003	24.10	13.97	1.73	26.35	14.44	1.82	24.49	7.12	3.44
Fri, Oct 3, 2003	24.70	13.97	1.77	26.90	14.44	1.86	24.73	7.12	3.47
Mon, Oct 6, 2003	24.39	13.97	1.75	27.13	14.44	1.88	24.95	7.12	3.50
Tue, Oct 7, 2003	25.00	13.97	1.79	27.75	14.44	1.92	25.00	7.12	3.51
Wed, Oct 8, 2003	24.80	13.97	1.78	27.90	14.44	1.93	24.91	7.12	3.50
Thu, Oct 9, 2003	24.90	13.97	1.78	26.92	14.44	1.86	24.80	7.12	3.48
Fri, Oct 10, 2003	24.65	13.97	1.76	26.95	14.44	1.87	24.84	7.12	3.49
Mon, Oct 13, 2003	25.07	13.97	1.79	27.60	14.44	1.91	24.85	7.12	3.49
Tue, Oct 14, 2003	25.55	13.97	1.83	27.40	14.44	1.90	24.89	7.12	3.50
Wed, Oct 15, 2003	25.10	13.97	1.80	27.35	14.44	1.89	24.54	7.12	3.45
Thu, Oct 16, 2003	25.22	13.97	1.81	27.15	14.44	1.88	24.50	7.12	3.44
Fri, Oct 17, 2003	24.79	13.97	1.77	26.91	14.44	1.86	24.32	7.12	3.42
Mon, Oct 20, 2003	24.41	13.97	1.75	27.06	14.44	1.87	24.44	7.12	3.43
Tue, Oct 21, 2003	24.58	13.97	1.76	26.57	14.44	1.84	24.50	7.12	3.44
Wed, Oct 22, 2003	24.00	13.97	1.72	25.75	14.44	1.78	24.06	7.12	3.38
Thu, Oct 23, 2003	24.20	13.97	1.73	26.17	14.44	1.81	24.01	7.12	3.37
Fri, Oct 24, 2003	24.25	13.97	1.74	26.16	14.44	1.81	23.93	7.12	3.36
Mon, Oct 27, 2003	24.27	13.97	1.74	26.20	14.44	1.81	23.99	7.12	3.37
Tue, Oct 28, 2003	25.10	13.97	1.80	26.80	14.44	1.86	24.10	7.12	3.38
Wed, Oct 29, 2003	25.30	13.97	1.81	27.02	14.44	1.87	24.14	7.12	3.39
Thu, Oct 30, 2003	24.90	13.97	1.78	27.25	14.44	1.89	24.04	7.12	3.38
Fri, Oct 31, 2003	24.50	13.97	1.75	27.35	14.44	1.89	23.62	7.12	3.32
Mon, Nov 3, 2003	24.84	13.97	1.78	27.30	14.44	1.89	24.21	7.12	3.40
Tue, Nov 4, 2003	25.09	13.97	1.80	27.20	14.44	1.88	23.75	7.12	3.34
Wed, Nov 5, 2003	25.12	13.97	1.80	27.13	14.44	1.88	23.94	7.12	3.36
Thu, Nov 6, 2003	25.22	13.97	1.81	27.00	14.44	1.87	23.90	7.12	3.36
Fri, Nov 7, 2003	25.16	13.97	1.80	27.10	14.44	1.88	23.72	7.12	3.33
Mon, Nov 10, 2003	24.78	13.97	1.77	26.55	14.44	1.84	23.86	7.12	3.35
Tue, Nov 11, 2003	24.83	13.97	1.78	26.66	14.44	1.85	23.92	7.12	3.36
Wed, Nov 12, 2003	25.30	13.97	1.81	26.75	14.44	1.85	24.16	7.12	3.39
Thu, Nov 13, 2003	25.40	13.97	1.82	26.65	14.44	1.85	24.22	7.12	3.40
Fri, Nov 14, 2003	24.58	13.97	1.76	26.20	14.44	1.81	24.24	7.12	3.40
Mon, Nov 17, 2003	24.05	13.97	1.72	25.81	14.44	1.79	24.32	7.12	3.42
Tue, Nov 18, 2003	24.00	13.97	1.72	25.64	14.44	1.78	24.40	7.12	3.43
Wed, Nov 19, 2003	24.34	13.97	1.74	25.63	14.44	1.77	24.91	7.12	3.50
Thu, Nov 20, 2003	24.20	13.97	1.73	25.57	14.44	1.77	24.90	7.12	3.50
Fri, Nov 21, 2003	24.40	13.97	1.75	25.85	14.44	1.79	25.15	7.12	3.53
Mon, Nov 24, 2003	24.49	13.97	1.75	25.82	14.44	1.79	25.90	7.12	3.64
Tue, Nov 25, 2003	24.05	13.97	1.72	25.70	14.44	1.78	26.00	7.12	3.65
Wed, Nov 26, 2003	24.50	13.97	1.75	25.95	14.44	1.80	26.90	7.12	3.78
Fri, Nov 28, 2003	24.27	13.97	1.74	26.16	14.44	1.81	27.08	7.12	3.80
Mon, Dec 1, 2003	24.60	13.97	1.76	26.17	14.44	1.81	27.39	7.12	3.85
Tue, Dec 2, 2003	24.98	13.97	1.79	26.15	14.44	1.81	21.47	7.12	3.02
Wed, Dec 3, 2003	24.16	13.97	1.73	26.30	14.44	1.82	20.65	7.12	2.90
Thu, Dec 4, 2003	24.20	13.97	1.73	26.48	14.44	1.83	21.38	7.12	3.00
Fri, Dec 5, 2003	24.25	13.97	1.74	26.56	14.44	1.84	21.24	7.12	2.98
Mon, Dec 8, 2003	24.45	13.97	1.75	27.10	14.44	1.88	21.29	7.12	2.99
Tue, Dec 9, 2003	24.30	13.97	1.74	27.01	14.44	1.87	21.51	7.12	3.02
Wed, Dec 10, 2003	24.80	13.97	1.78	26.90	14.44	1.86	21.42	7.12	3.01
Thu, Dec 11, 2003	25.00	13.97	1.79	27.77	14.44	1.92	21.50	7.12	3.02
Fri, Dec 12, 2003	25.43	13.97	1.82	27.70	14.44	1.92	21.49	7.12	3.02
Mon, Dec 15, 2003	24.39	13.97	1.75	26.81	14.44	1.86	21.23	7.12	2.98
Tue, Dec 16, 2003	24.46	13.97	1.75	27.30	14.44	1.89	20.93	7.12	2.94
Wed, Dec 17, 2003	24.75	13.97	1.77	26.90	14.44	1.86	21.18	7.12	2.97
Thu, Dec 18, 2003	25.00	13.97	1.79	27.58	14.44	1.91	22.09	7.12	3.10
Fri, Dec 19, 2003	25.00	13.97	1.79	27.50	14.44	1.90	22.02	7.12	3.09
Mon, Dec 22, 2003	25.00	13.97	1.79	27.75	14.44	1.92	22.08	7.12	3.10
Tue, Dec 23, 2003	25.14	13.97	1.80	27.95	14.44	1.94	22.03	7.12	3.09

Wed, Dec 24, 2003	24.98	13.97	1.79	27.85	14.44	1.93	22.00	7.12	3.09
Fri, Dec 26, 2003	25.10	13.97	1.80	27.56	14.44	1.91	21.96	7.12	3.08
Mon, Dec 29, 2003	25.22	13.97	1.81	27.99	14.44	1.94	22.10	7.12	3.10
Tue, Dec 30, 2003	25.25	13.97	1.81	27.98	14.44	1.94	22.25	7.12	3.13
Wed, Dec 31, 2003	25.00	13.97	1.79	27.40	14.44	1.90	22.10	7.12	3.10
Average	**24.87**	**13.97**	**1.78**	**26.70**	**14.44**	**1.85**	**22.83**	**7.12**	**3.21**

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
MARKET TO BOOK RATIO ANALYSIS 1995-2004

Observation Period	AWR Avg. Annual Market Price Per Share	AWR Avg. Annual Book Value Per Share	AWR Avg. Annual Market to Book Ratio	CWT Avg. Annual Market Price Per Share	CWT Avg. Annual Book Value Per Share	CWT Avg. Annual Market to Book Ratio	WTR Avg. Annual Market Price Per Share	WTR Avg. Annual Book Value Per Share	WTR Avg. Annual Market to Book Ratio
Fri, Jan 2, 2004	25.06	14.98	1.67	27.75	15.65	1.77	22.12	7.85	2.82
Mon, Jan 5, 2004	25.20	14.98	1.68	27.90	15.65	1.78	22.26	7.85	2.84
Tue, Jan 6, 2004	25.20	14.98	1.68	27.66	15.65	1.77	22.00	7.85	2.80
Wed, Jan 7, 2004	25.32	14.98	1.69	28.11	15.65	1.80	22.00	7.85	2.80
Thu, Jan 8, 2004	25.75	14.98	1.72	28.37	15.65	1.81	21.92	7.85	2.79
Fri, Jan 9, 2004	25.52	14.98	1.70	28.50	15.65	1.82	21.72	7.85	2.77
Mon, Jan 12, 2004	26.00	14.98	1.74	29.20	15.65	1.87	22.13	7.85	2.82
Tue, Jan 13, 2004	26.35	14.98	1.76	29.45	15.65	1.88	22.02	7.85	2.81
Wed, Jan 14, 2004	26.78	14.98	1.79	29.25	15.65	1.87	22.09	7.85	2.81
Thu, Jan 15, 2004	26.00	14.98	1.74	28.94	15.65	1.85	22.04	7.85	2.81
Fri, Jan 16, 2004	26.36	14.98	1.76	28.05	15.65	1.79	22.03	7.85	2.81
Tue, Jan 20, 2004	26.50	14.98	1.77	29.10	15.65	1.86	22.39	7.85	2.85
Wed, Jan 21, 2004	26.60	14.98	1.78	28.93	15.65	1.85	22.55	7.85	2.87
Thu, Jan 22, 2004	26.05	14.98	1.74	28.90	15.65	1.85	22.05	7.85	2.81
Fri, Jan 23, 2004	26.25	14.98	1.75	29.25	15.65	1.87	22.05	7.85	2.81
Mon, Jan 26, 2004	26.25	14.98	1.75	29.65	15.65	1.89	22.30	7.85	2.84
Tue, Jan 27, 2004	26.20	14.98	1.75	28.92	15.65	1.85	22.29	7.85	2.84
Wed, Jan 28, 2004	25.70	14.98	1.72	27.62	15.65	1.76	22.18	7.85	2.83
Thu, Jan 29, 2004	25.60	14.98	1.71	27.90	15.65	1.78	22.15	7.85	2.82
Fri, Jan 30, 2004	25.50	14.98	1.70	28.49	15.65	1.82	21.80	7.85	2.78
Mon, Feb 2, 2004	25.55	14.98	1.71	28.62	15.65	1.83	22.09	7.85	2.81
Tue, Feb 3, 2004	25.64	14.98	1.71	29.30	15.65	1.87	21.80	7.85	2.78
Wed, Feb 4, 2004	25.25	14.98	1.69	27.25	15.65	1.74	21.75	7.85	2.77
Thu, Feb 5, 2004	25.16	14.98	1.68	27.65	15.65	1.77	20.80	7.85	2.65
Fri, Feb 6, 2004	25.95	14.98	1.73	28.01	15.65	1.79	21.00	7.85	2.68
Mon, Feb 9, 2004	25.34	14.98	1.69	28.50	15.65	1.82	21.02	7.85	2.68
Tue, Feb 10, 2004	26.00	14.98	1.74	29.30	15.65	1.87	21.73	7.85	2.77
Wed, Feb 11, 2004	25.64	14.98	1.71	29.44	15.65	1.88	21.69	7.85	2.76
Thu, Feb 12, 2004	25.63	14.98	1.71	29.40	15.65	1.88	21.80	7.85	2.78
Fri, Feb 13, 2004	25.45	14.98	1.70	28.49	15.65	1.82	21.80	7.85	2.78
Tue, Feb 17, 2004	25.95	14.98	1.73	29.46	15.65	1.88	22.29	7.85	2.84
Wed, Feb 18, 2004	26.00	14.98	1.74	29.25	15.65	1.87	22.10	7.85	2.82
Thu, Feb 19, 2004	25.69	14.98	1.71	28.73	15.65	1.84	22.07	7.85	2.81
Fri, Feb 20, 2004	25.70	14.98	1.72	29.36	15.65	1.88	21.80	7.85	2.78
Mon, Feb 23, 2004	25.34	14.98	1.69	28.87	15.65	1.84	21.56	7.85	2.75
Tue, Feb 24, 2004	24.56	14.98	1.64	29.53	15.65	1.89	21.54	7.85	2.74
Wed, Feb 25, 2004	24.63	14.98	1.64	29.42	15.65	1.88	21.43	7.85	2.73
Thu, Feb 26, 2004	24.71	14.98	1.65	29.55	15.65	1.89	21.45	7.85	2.73
Fri, Feb 27, 2004	24.60	14.98	1.64	29.45	15.65	1.88	21.61	7.85	2.75
Mon, Mar 1, 2004	24.71	14.98	1.65	29.34	15.65	1.87	21.65	7.85	2.76
Tue, Mar 2, 2004	24.41	14.98	1.63	28.98	15.65	1.85	21.54	7.85	2.74
Wed, Mar 3, 2004	24.60	14.98	1.64	29.14	15.65	1.86	21.46	7.85	2.73
Thu, Mar 4, 2004	24.90	14.98	1.66	29.00	15.65	1.85	21.67	7.85	2.76
Fri, Mar 5, 2004	24.90	14.98	1.66	29.30	15.65	1.87	21.85	7.85	2.78
Mon, Mar 8, 2004	25.18	14.98	1.68	29.10	15.65	1.86	21.64	7.85	2.76
Tue, Mar 9, 2004	24.92	14.98	1.66	29.99	15.65	1.92	21.62	7.85	2.75
Wed, Mar 10, 2004	24.54	14.98	1.64	29.30	15.65	1.87	21.21	7.85	2.70
Thu, Mar 11, 2004	24.30	14.98	1.62	29.36	15.65	1.88	21.17	7.85	2.70
Fri, Mar 12, 2004	24.90	14.98	1.66	29.80	15.65	1.90	21.48	7.85	2.74
Mon, Mar 15, 2004	24.66	14.98	1.65	29.02	15.65	1.85	21.23	7.85	2.70
Tue, Mar 16, 2004	24.47	14.98	1.63	29.12	15.65	1.86	21.30	7.85	2.71
Wed, Mar 17, 2004	24.77	14.98	1.65	29.28	15.65	1.87	21.37	7.85	2.72
Thu, Mar 18, 2004	24.75	14.98	1.65	28.92	15.65	1.85	21.10	7.85	2.69
Fri, Mar 19, 2004	24.66	14.98	1.65	28.19	15.65	1.80	20.88	7.85	2.66
Mon, Mar 22, 2004	24.40	14.98	1.63	27.55	15.65	1.76	20.21	7.85	2.57
Tue, Mar 23, 2004	24.50	14.98	1.64	27.49	15.65	1.76	20.64	7.85	2.63
Wed, Mar 24, 2004	24.55	14.98	1.64	27.26	15.65	1.74	20.00	7.85	2.55
Thu, Mar 25, 2004	24.30	14.98	1.62	27.80	15.65	1.78	20.60	7.85	2.62
Fri, Mar 26, 2004	24.16	14.98	1.61	27.65	15.65	1.77	20.48	7.85	2.61
Mon, Mar 29, 2004	24.70	14.98	1.65	27.45	15.65	1.75	20.80	7.85	2.65
Tue, Mar 30, 2004	24.80	14.98	1.66	28.01	15.65	1.79	21.25	7.85	2.71
Wed, Mar 31, 2004	24.40	14.98	1.63	28.29	15.65	1.81	21.68	7.85	2.76
Thu, Apr 1, 2004	24.75	14.98	1.65	28.23	15.65	1.80	21.87	7.85	2.79
Fri, Apr 2, 2004	25.00	14.98	1.67	28.25	15.65	1.81	21.77	7.85	2.77
Mon, Apr 5, 2004	25.01	14.98	1.67	28.85	15.65	1.84	21.53	7.85	2.74
Tue, Apr 6, 2004	24.81	14.98	1.66	28.90	15.65	1.85	21.38	7.85	2.72
Wed, Apr 7, 2004	25.00	14.98	1.67	29.20	15.65	1.87	21.44	7.85	2.73
Thu, Apr 8, 2004	24.90	14.98	1.66	29.17	15.65	1.86	21.28	7.85	2.71
Mon, Apr 12, 2004	25.15	14.98	1.68	29.18	15.65	1.86	21.06	7.85	2.68
Tue, Apr 13, 2004	24.44	14.98	1.63	28.71	15.65	1.83	20.87	7.85	2.66
Wed, Apr 14, 2004	24.10	14.98	1.61	28.57	15.65	1.83	20.53	7.85	2.62
Thu, Apr 15, 2004	23.95	14.98	1.60	28.82	15.65	1.84	20.50	7.85	2.61
Fri, Apr 16, 2004	24.00	14.98	1.60	29.15	15.65	1.86	20.47	7.85	2.61
Mon, Apr 19, 2004	24.17	14.98	1.61	29.25	15.65	1.87	20.64	7.85	2.63
Tue, Apr 20, 2004	23.58	14.98	1.57	28.75	15.65	1.84	20.41	7.85	2.60

Wed, Apr 21, 2004	24.26	14.98	1.62	29.40	15.65	1.88	20.62	7.85	2.63
Thu, Apr 22, 2004	24.29	14.98	1.62	29.75	15.65	1.90	21.00	7.85	2.68
Fri, Apr 23, 2004	24.47	14.98	1.63	29.60	15.65	1.89	20.79	7.85	2.65
Mon, Apr 26, 2004	24.01	14.98	1.60	29.65	15.65	1.89	20.93	7.85	2.67
Tue, Apr 27, 2004	24.55	14.98	1.64	30.15	15.65	1.93	20.97	7.85	2.67
Wed, Apr 28, 2004	24.09	14.98	1.61	29.20	15.65	1.87	20.79	7.85	2.65
Thu, Apr 29, 2004	23.97	14.98	1.60	29.37	15.65	1.88	20.61	7.85	2.63
Fri, Apr 30, 2004	23.15	14.98	1.55	28.52	15.65	1.82	20.45	7.85	2.61
Mon, May 3, 2004	23.44	14.98	1.56	28.48	15.65	1.82	20.48	7.85	2.61
Tue, May 4, 2004	23.45	14.98	1.57	28.56	15.65	1.82	20.60	7.85	2.62
Wed, May 5, 2004	23.81	14.98	1.59	28.25	15.65	1.81	20.61	7.85	2.63
Thu, May 6, 2004	22.88	14.98	1.53	28.13	15.65	1.80	20.61	7.85	2.63
Fri, May 7, 2004	21.37	14.98	1.43	27.05	15.65	1.73	20.05	7.85	2.55
Mon, May 10, 2004	21.64	14.98	1.44	26.60	15.65	1.70	19.93	7.85	2.54
Tue, May 11, 2004	22.75	14.98	1.52	27.41	15.65	1.75	19.74	7.85	2.51
Wed, May 12, 2004	22.85	14.98	1.53	27.50	15.65	1.76	19.47	7.85	2.48
Thu, May 13, 2004	22.46	14.98	1.50	27.18	15.65	1.74	19.48	7.85	2.48
Fri, May 14, 2004	22.37	14.98	1.49	27.05	15.65	1.73	19.42	7.85	2.47
Mon, May 17, 2004	22.41	14.98	1.50	26.90	15.65	1.72	19.10	7.85	2.43
Tue, May 18, 2004	22.70	14.98	1.52	27.06	15.65	1.73	19.21	7.85	2.45
Wed, May 19, 2004	22.46	14.98	1.50	26.97	15.65	1.72	19.00	7.85	2.42
Thu, May 20, 2004	22.81	14.98	1.52	26.85	15.65	1.72	19.04	7.85	2.43
Fri, May 21, 2004	22.90	14.98	1.53	26.90	15.65	1.72	19.08	7.85	2.43
Mon, May 24, 2004	23.10	14.98	1.54	27.63	15.65	1.77	19.40	7.85	2.47
Tue, May 25, 2004	23.16	14.98	1.55	28.43	15.65	1.82	19.55	7.85	2.49
Wed, May 26, 2004	22.94	14.98	1.53	28.19	15.65	1.80	19.78	7.85	2.52
Thu, May 27, 2004	23.24	14.98	1.55	28.32	15.65	1.81	19.80	7.85	2.52
Fri, May 28, 2004	23.40	14.98	1.56	28.45	15.65	1.82	19.86	7.85	2.53
Tue, Jun 1, 2004	23.34	14.98	1.56	28.37	15.65	1.81	20.05	7.85	2.55
Wed, Jun 2, 2004	23.30	14.98	1.56	28.05	15.65	1.79	19.86	7.85	2.53
Thu, Jun 3, 2004	22.43	14.98	1.50	28.00	15.65	1.79	19.42	7.85	2.47
Fri, Jun 4, 2004	22.48	14.98	1.50	28.02	15.65	1.79	19.67	7.85	2.51
Mon, Jun 7, 2004	22.60	14.98	1.51	28.61	15.65	1.83	19.78	7.85	2.52
Tue, Jun 8, 2004	22.73	14.98	1.52	28.34	15.65	1.81	19.85	7.85	2.53
Wed, Jun 9, 2004	22.27	14.98	1.49	28.15	15.65	1.80	19.93	7.85	2.54
Thu, Jun 10, 2004	22.47	14.98	1.50	28.21	15.65	1.80	20.01	7.85	2.55
Mon, Jun 14, 2004	22.25	14.98	1.49	27.28	15.65	1.74	20.43	7.85	2.60
Tue, Jun 15, 2004	22.15	14.98	1.48	27.50	15.65	1.76	20.35	7.85	2.59
Wed, Jun 16, 2004	22.10	14.98	1.48	27.88	15.65	1.78	20.40	7.85	2.60
Thu, Jun 17, 2004	22.32	14.98	1.49	28.37	15.65	1.81	20.29	7.85	2.58
Fri, Jun 18, 2004	22.21	14.98	1.48	28.45	15.65	1.82	20.07	7.85	2.56
Mon, Jun 21, 2004	22.10	14.98	1.48	27.86	15.65	1.78	19.90	7.85	2.54
Tue, Jun 22, 2004	22.29	14.98	1.49	27.34	15.65	1.75	19.85	7.85	2.53
Wed, Jun 23, 2004	22.31	14.98	1.49	27.32	15.65	1.75	19.80	7.85	2.52
Thu, Jun 24, 2004	22.20	14.98	1.48	27.25	15.65	1.74	19.67	7.85	2.51
Fri, Jun 25, 2004	22.70	14.98	1.52	27.64	15.65	1.77	20.16	7.85	2.57
Mon, Jun 28, 2004	22.85	14.98	1.53	27.44	15.65	1.75	19.70	7.85	2.51
Tue, Jun 29, 2004	23.20	14.98	1.55	27.55	15.65	1.76	19.73	7.85	2.51
Wed, Jun 30, 2004	23.24	14.98	1.55	27.55	15.65	1.76	20.05	7.85	2.55
Thu, Jul 1, 2004	22.58	14.98	1.51	27.00	15.65	1.73	19.99	7.85	2.55
Fri, Jul 2, 2004	22.85	14.98	1.53	27.42	15.65	1.75	20.14	7.85	2.57
Tue, Jul 6, 2004	22.53	14.98	1.50	27.31	15.65	1.75	19.90	7.85	2.54
Wed, Jul 7, 2004	22.31	14.98	1.49	27.43	15.65	1.75	19.83	7.85	2.53
Thu, Jul 8, 2004	22.26	14.98	1.49	27.00	15.65	1.73	19.61	7.85	2.50
Fri, Jul 9, 2004	22.05	14.98	1.47	27.19	15.65	1.74	19.72	7.85	2.51
Mon, Jul 12, 2004	22.20	14.98	1.48	27.15	15.65	1.73	19.55	7.85	2.49
Tue, Jul 13, 2004	22.50	14.98	1.50	27.12	15.65	1.73	19.70	7.85	2.51
Wed, Jul 14, 2004	22.38	14.98	1.49	27.36	15.65	1.75	19.44	7.85	2.48
Thu, Jul 15, 2004	22.30	14.98	1.49	27.23	15.65	1.74	19.58	7.85	2.49
Fri, Jul 16, 2004	22.05	14.98	1.47	27.00	15.65	1.73	19.39	7.85	2.47
Mon, Jul 19, 2004	22.50	14.98	1.50	27.22	15.65	1.74	19.26	7.85	2.45
Tue, Jul 20, 2004	22.76	14.98	1.52	27.25	15.65	1.74	19.74	7.85	2.51
Wed, Jul 21, 2004	22.62	14.98	1.51	27.00	15.65	1.73	19.37	7.85	2.47
Thu, Jul 22, 2004	22.17	14.98	1.48	26.71	15.65	1.71	19.25	7.85	2.45
Fri, Jul 23, 2004	21.92	14.98	1.46	26.75	15.65	1.71	19.20	7.85	2.45
Mon, Jul 26, 2004	21.90	14.98	1.46	26.19	15.65	1.67	18.91	7.85	2.41
Tue, Jul 27, 2004	22.76	14.98	1.52	26.60	15.65	1.70	19.30	7.85	2.46
Wed, Jul 28, 2004	22.70	14.98	1.52	26.33	15.65	1.68	19.32	7.85	2.46
Thu, Jul 29, 2004	23.00	14.98	1.54	27.54	15.65	1.76	19.52	7.85	2.49
Fri, Jul 30, 2004	23.05	14.98	1.54	27.29	15.65	1.74	19.45	7.85	2.48
Mon, Aug 2, 2004	23.32	14.98	1.56	27.62	15.65	1.76	19.30	7.85	2.46
Tue, Aug 3, 2004	23.26	14.98	1.55	27.70	15.65	1.77	19.31	7.85	2.46
Wed, Aug 4, 2004	23.75	14.98	1.59	27.97	15.65	1.79	20.15	7.85	2.57
Thu, Aug 5, 2004	22.11	14.98	1.48	27.45	15.65	1.75	20.02	7.85	2.55
Fri, Aug 6, 2004	22.00	14.98	1.47	27.37	15.65	1.75	19.80	7.85	2.52
Mon, Aug 9, 2004	22.10	14.98	1.48	27.25	15.65	1.74	19.70	7.85	2.51
Tue, Aug 10, 2004	22.20	14.98	1.48	27.60	15.65	1.76	20.00	7.85	2.55
Wed, Aug 11, 2004	22.83	14.98	1.52	27.35	15.65	1.75	20.23	7.85	2.58
Thu, Aug 12, 2004	22.22	14.98	1.48	27.04	15.65	1.73	19.97	7.85	2.54
Fri, Aug 13, 2004	22.55	14.98	1.51	27.43	15.65	1.75	20.00	7.85	2.55
Mon, Aug 16, 2004	22.90	14.98	1.53	27.47	15.65	1.76	20.10	7.85	2.56
Tue, Aug 17, 2004	22.87	14.98	1.53	27.19	15.65	1.74	19.92	7.85	2.54
Wed, Aug 18, 2004	23.00	14.98	1.54	27.50	15.65	1.76	20.21	7.85	2.57
Thu, Aug 19, 2004	22.80	14.98	1.52	27.27	15.65	1.74	20.00	7.85	2.55
Fri, Aug 20, 2004	23.91	14.98	1.60	27.65	15.65	1.77	20.30	7.85	2.59
Mon, Aug 23, 2004	23.50	14.98	1.57	27.77	15.65	1.77	20.26	7.85	2.58

Tue, Aug 24, 2004	23.93	14.98	1.60	27.85	15.65	1.78	20.41	7.85	2.60
Wed, Aug 25, 2004	23.92	14.98	1.60	27.92	15.65	1.78	20.91	7.85	2.66
Thu, Aug 26, 2004	23.89	14.98	1.59	27.85	15.65	1.78	20.95	7.85	2.67
Fri, Aug 27, 2004	23.95	14.98	1.60	28.11	15.65	1.80	20.83	7.85	2.65
Mon, Aug 30, 2004	24.40	14.98	1.63	28.05	15.65	1.79	20.70	7.85	2.64
Tue, Aug 31, 2004	24.85	14.98	1.66	28.45	15.65	1.82	21.20	7.85	2.70
Wed, Sep 1, 2004	25.27	14.98	1.69	28.49	15.65	1.82	21.67	7.85	2.76
Thu, Sep 2, 2004	25.92	14.98	1.73	28.84	15.65	1.84	21.89	7.85	2.79
Fri, Sep 3, 2004	25.46	14.98	1.70	28.74	15.65	1.84	21.71	7.85	2.77
Tue, Sep 7, 2004	25.65	14.98	1.71	28.91	15.65	1.85	21.95	7.85	2.80
Wed, Sep 8, 2004	25.42	14.98	1.70	29.00	15.65	1.85	21.70	7.85	2.76
Thu, Sep 9, 2004	25.90	14.98	1.73	29.45	15.65	1.88	22.00	7.85	2.80
Fri, Sep 10, 2004	25.90	14.98	1.73	29.23	15.65	1.87	21.89	7.85	2.79
Mon, Sep 13, 2004	25.95	14.98	1.73	29.34	15.65	1.87	21.94	7.85	2.79
Tue, Sep 14, 2004	25.85	14.98	1.73	29.35	15.65	1.88	21.87	7.85	2.79
Wed, Sep 15, 2004	25.60	14.98	1.71	29.30	15.65	1.87	22.02	7.85	2.81
Thu, Sep 16, 2004	25.78	14.98	1.72	29.40	15.65	1.88	21.98	7.85	2.80
Fri, Sep 17, 2004	26.00	14.98	1.74	29.23	15.65	1.87	22.00	7.85	2.80
Mon, Sep 20, 2004	25.80	14.98	1.72	29.24	15.65	1.87	21.76	7.85	2.77
Tue, Sep 21, 2004	25.90	14.98	1.73	29.42	15.65	1.88	21.87	7.85	2.79
Wed, Sep 22, 2004	25.26	14.98	1.69	29.31	15.65	1.87	21.90	7.85	2.79
Thu, Sep 23, 2004	25.40	14.98	1.70	29.31	15.65	1.87	22.08	7.85	2.81
Fri, Sep 24, 2004	25.38	14.98	1.69	29.32	15.65	1.87	21.92	7.85	2.79
Mon, Sep 27, 2004	25.09	14.98	1.67	28.90	15.65	1.85	21.83	7.85	2.78
Tue, Sep 28, 2004	25.00	14.98	1.67	28.99	15.65	1.85	21.83	7.85	2.78
Wed, Sep 29, 2004	25.22	14.98	1.68	29.37	15.65	1.88	22.04	7.85	2.81
Thu, Sep 30, 2004	24.90	14.98	1.66	29.37	15.65	1.88	22.11	7.85	2.82
Fri, Oct 1, 2004	25.00	14.98	1.67	29.48	15.65	1.88	22.25	7.85	2.83
Mon, Oct 4, 2004	24.92	14.98	1.66	29.76	15.65	1.90	22.05	7.85	2.81
Tue, Oct 5, 2004	25.01	14.98	1.67	29.64	15.65	1.89	21.84	7.85	2.78
Wed, Oct 6, 2004	25.48	14.98	1.70	29.88	15.65	1.91	21.99	7.85	2.80
Thu, Oct 7, 2004	25.14	14.98	1.68	29.41	15.65	1.88	21.71	7.85	2.77
Fri, Oct 8, 2004	24.83	14.98	1.66	29.11	15.65	1.86	21.80	7.85	2.78
Mon, Oct 11, 2004	24.97	14.98	1.67	29.39	15.65	1.88	21.82	7.85	2.78
Tue, Oct 12, 2004	25.07	14.98	1.67	29.70	15.65	1.90	21.94	7.85	2.79
Wed, Oct 13, 2004	23.89	14.98	1.59	28.82	15.65	1.84	21.44	7.85	2.73
Thu, Oct 14, 2004	23.71	14.98	1.58	28.26	15.65	1.81	21.25	7.85	2.71
Fri, Oct 15, 2004	24.30	14.98	1.62	29.24	15.65	1.87	21.59	7.85	2.75
Mon, Oct 18, 2004	24.22	14.98	1.62	29.00	15.65	1.85	21.54	7.85	2.74
Tue, Oct 19, 2004	23.94	14.98	1.60	28.50	15.65	1.82	21.33	7.85	2.72
Wed, Oct 20, 2004	24.09	14.98	1.61	28.53	15.65	1.82	21.29	7.85	2.71
Thu, Oct 21, 2004	24.72	14.98	1.65	28.88	15.65	1.85	21.31	7.85	2.71
Fri, Oct 22, 2004	24.20	14.98	1.62	28.20	15.65	1.80	21.04	7.85	2.68
Mon, Oct 25, 2004	24.38	14.98	1.63	28.79	15.65	1.84	21.00	7.85	2.68
Tue, Oct 26, 2004	24.43	14.98	1.63	29.09	15.65	1.86	21.20	7.85	2.70
Wed, Oct 27, 2004	24.85	14.98	1.66	29.76	15.65	1.90	21.49	7.85	2.74
Thu, Oct 28, 2004	24.70	14.98	1.65	29.50	15.65	1.88	21.61	7.85	2.75
Fri, Oct 29, 2004	24.60	14.98	1.64	29.49	15.65	1.88	21.86	7.85	2.78
Mon, Nov 1, 2004	25.00	14.98	1.67	30.00	15.65	1.92	21.62	7.85	2.75
Tue, Nov 2, 2004	25.02	14.98	1.67	30.00	15.65	1.92	21.74	7.85	2.77
Wed, Nov 3, 2004	25.50	14.98	1.70	30.35	15.65	1.94	22.14	7.85	2.82
Thu, Nov 4, 2004	25.45	14.98	1.70	30.70	15.65	1.96	22.94	7.85	2.92
Fri, Nov 5, 2004	25.40	14.98	1.70	30.40	15.65	1.94	22.90	7.85	2.92
Mon, Nov 8, 2004	24.92	14.98	1.66	30.45	15.65	1.95	22.90	7.85	2.92
Tue, Nov 9, 2004	24.81	14.98	1.66	30.63	15.65	1.96	22.74	7.85	2.90
Wed, Nov 10, 2004	24.61	14.98	1.64	30.67	15.65	1.96	22.80	7.85	2.90
Thu, Nov 11, 2004	24.90	14.98	1.66	31.20	15.65	1.99	22.99	7.85	2.93
Fri, Nov 12, 2004	24.90	14.98	1.66	31.12	15.65	1.99	23.44	7.85	2.99
Mon, Nov 15, 2004	24.49	14.98	1.63	31.11	15.65	1.99	23.51	7.85	2.99
Tue, Nov 16, 2004	24.66	14.98	1.65	30.96	15.65	1.98	23.55	7.85	3.00
Wed, Nov 17, 2004	24.62	14.98	1.64	30.94	15.65	1.98	23.80	7.85	3.03
Thu, Nov 18, 2004	24.80	14.98	1.66	30.55	15.65	1.95	23.42	7.85	2.98
Fri, Nov 19, 2004	24.59	14.98	1.64	31.23	15.65	2.00	23.08	7.85	2.94
Mon, Nov 22, 2004	24.70	14.98	1.65	32.45	15.65	2.07	22.93	7.85	2.92
Tue, Nov 23, 2004	25.22	14.98	1.68	32.99	15.65	2.11	23.30	7.85	2.97
Wed, Nov 24, 2004	25.49	14.98	1.70	33.83	15.65	2.16	23.78	7.85	3.03
Fri, Nov 26, 2004	25.47	14.98	1.70	33.90	15.65	2.17	23.71	7.85	3.02
Mon, Nov 29, 2004	25.50	14.98	1.70	34.79	15.65	2.22	23.72	7.85	3.02
Tue, Nov 30, 2004	26.01	14.98	1.74	34.97	15.65	2.23	23.72	7.85	3.02
Wed, Dec 1, 2004	26.20	14.98	1.75	35.23	15.65	2.25	23.65	7.85	3.01
Thu, Dec 2, 2004	25.59	14.98	1.71	34.45	15.65	2.20	23.19	7.85	2.95
Fri, Dec 3, 2004	24.63	14.98	1.64	34.36	15.65	2.20	23.28	7.85	2.97
Mon, Dec 6, 2004	24.98	14.98	1.67	34.30	15.65	2.19	23.85	7.85	3.04
Tue, Dec 7, 2004	24.26	14.98	1.62	33.07	15.65	2.11	23.44	7.85	2.99
Wed, Dec 8, 2004	24.27	14.98	1.62	33.15	15.65	2.12	23.30	7.85	2.97
Thu, Dec 9, 2004	23.87	14.98	1.59	34.00	15.65	2.17	23.28	7.85	2.97
Fri, Dec 10, 2004	24.46	14.98	1.63	34.55	15.65	2.21	23.43	7.85	2.98
Mon, Dec 13, 2004	25.35	14.98	1.69	37.10	15.65	2.37	24.00	7.85	3.06
Tue, Dec 14, 2004	25.30	14.98	1.69	36.98	15.65	2.36	24.09	7.85	3.07
Wed, Dec 15, 2004	25.47	14.98	1.70	36.16	15.65	2.31	23.89	7.85	3.04
Thu, Dec 16, 2004	25.30	14.98	1.69	35.81	15.65	2.29	23.78	7.85	3.03
Fri, Dec 17, 2004	25.90	14.98	1.73	35.90	15.65	2.29	23.90	7.85	3.04
Mon, Dec 20, 2004	25.85	14.98	1.73	35.67	15.65	2.28	23.70	7.85	3.02
Tue, Dec 21, 2004	26.20	14.98	1.75	35.92	15.65	2.30	23.96	7.85	3.05
Wed, Dec 22, 2004	26.00	14.98	1.74	36.75	15.65	2.35	23.95	7.85	3.05
Thu, Dec 23, 2004	25.79	14.98	1.72	36.62	15.65	2.34	23.99	7.85	3.06

Mon, Dec 27, 2004	25.48	14.98	1.70	36.10	15.65	2.31	23.75	7.85	3.03
Tue, Dec 28, 2004	25.93	14.98	1.73	37.18	15.65	2.38	24.05	7.85	3.06
Wed, Dec 29, 2004	25.84	14.98	1.72	37.28	15.65	2.38	24.00	7.85	3.06
Thu, Dec 30, 2004	26.10	14.98	1.74	37.70	15.65	2.41	24.51	7.85	3.12
Fri, Dec 31, 2004	26.00	14.98	1.74	37.65	15.65	2.41	24.59	7.85	3.13
Average	**24.32**	**14.98**	**1.62**	**29.28**	**15.65**	**1.87**	**21.31**	**7.85**	**2.71**

AWR

1995	1.75
1996	2.01
1997	2.05
1998	2.18
1999	2.58
2000	2.40
2001	2.54
2002	2.13
2003	1.78
2004	1.62

CWT

1995	2.72
1996	3.15
1997	3.69
1998	2.05
1999	2.02
2000	1.99
2001	1.97
2002	1.88
2003	1.85
2004	1.87

WTR

1995	5.60
1996	5.69
1997	5.61
1998	5.45
1999	5.07
2000	4.22
2001	4.46
2002	3.65
2003	3.21
2004	2.71

AMER. STATES WATER NYSE-AWR

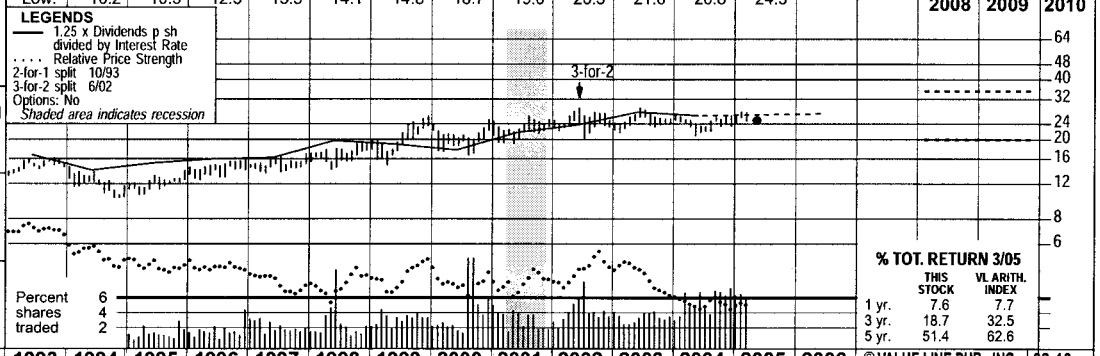
RECENT PRICE **24.96** | P/E RATIO **19.8** (Trailing: 20.8 / Median: 16.0) | RELATIVE P/E RATIO **1.11** | DIV'D YLD **3.6%** | VALUE LINE

TIMELINESS 4 Raised 11/7/03
SAFETY 3 New 2/4/00
TECHNICAL 3 Lowered 2/25/05
BETA .70 (1.00 = Market)

High:	14.7	14.0	16.1	17.1	19.5	26.5	25.3	26.4	29.0	29.0	26.8	27.6
Low:	10.2	10.5	12.5	13.5	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3

Target Price Range 2008 | 2009 | 2010

LEGENDS
— 1.25 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 10/93
3-for-2 split 6/02
Options: No
Shaded area indicates recession



2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+40%)	12%
Low	20	(-20%)	-1%

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	45	52	57
to Sell	35	25	29
Hld's(000)	5584	5938	5663

% TOT. RETURN 3/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	7.6	7.7
3 yr.	18.7	32.5
5 yr.	51.4	62.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
9.12	9.58	9.15	10.10	9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.60	*14.20*	*14.70*	Revenues per sh	*16.00*
1.44	1.49	1.78	1.81	1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.22	*2.65*	*2.95*	"Cash Flow" per sh	*3.70*
.92	.94	1.19	1.15	1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	*1.35*	*1.55*	Earnings per sh A	*2.10*
.69	.72	.73	.77	.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	*.90*	*.91*	Div'd Decl'd per sh B■	*.96*
2.46	2.53	2.77	2.31	1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.02	*5.15*	*5.25*	Cap'l Spending per sh	*5.50*
7.31	7.54	8.39	8.85	9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	14.98	*15.20*	*15.35*	Book Value per sh	*17.65*
9.39	9.43	9.91	9.96	11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.77	*17.25*	*18.00*	Common Shs Outst'g C	*20.00*
9.7	10.2	8.8	10.6	13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	*Bold figures are*		Avg Ann'l P/E Ratio	*13.0*
.73	.76	.56	.64	.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	*Value Line*		Relative P/E Ratio	*.85*
7.7%	7.5%	7.0%	6.3%	5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.7%	*estimates*		Avg Ann'l Div'd Yield	*3.5%*

CAPITAL STRUCTURE as of 12/31/04
Total Debt $274.8 mill. **Due in 5 Yrs** $65.0 mill.
LT Debt $228.9 mill. **LT Interest** $18.0 mill.
(Total interest coverage: 2.6x)

Leases, Uncapitalized: None
Pension Assets-12/04 $51.3 mill.
Oblig. $70.3 mill.
Pfd Stock None. **Pfd Div'd** None.

Common Stock 16,768,396 shs.
as of 3/11/05
MARKET CAP: $425 million (Small Cap)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		08-10
129.8	151.5	153.8	148.1	173.4	184.0	197.5	209.2	212.7	228.0	*245*	*265*	Revenues ($mill)	*320*
12.2	13.5	14.1	14.6	16.1	18.0	20.4	20.3	11.9	16.4	*23.0*	*28.0*	Net Profit ($mill)	*42.0*
41.9%	43.3%	41.1%	40.9%	46.0%	45.7%	43.0%	38.9%	43.5%	37.7%	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
46.6%	41.9%	43.0%	43.6%	51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	*51.0%*	*51.0%*	Long-Term Debt Ratio	*52.0%*
52.5%	57.3%	56.3%	55.7%	48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	*49.0%*	*49.0%*	Common Equity Ratio	*48.0%*
230.6	256.0	268.4	277.1	328.2	371.1	447.6	444.4	442.3	480.4	*535*	*600*	Total Capital ($mill)	*735*
335.0	357.8	383.6	414.8	449.6	509.1	539.8	563.3	602.3	664.2	*710*	*770*	Net Plant ($mill)	*915*
7.2%	6.9%	6.9%	7.0%	6.6%	6.4%	6.1%	6.5%	4.6%	4.9%	*7.5%*	*8.0%*	Return on Total Cap'l	*7.5%*
9.9%	9.0%	9.2%	9.4%	10.0%	9.2%	10.1%	9.5%	5.6%	6.5%	*9.0%*	*9.5%*	Rurn on Shr. Equity	*12.0%*
10.0%	9.0%	9.2%	9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	6.5%	*9.0%*	*9.5%*	Return on Com Equity	*12.0%*
2.1%	2.4%	1.8%	2.1%	2.9%	3.0%	3.6%	3.3%	NMF	NMF	*2.5%*	*4.0%*	Retained to Com Eq	*6.5%*
79%	73%	80%	78%	72%	68%	65%	65%	113%	91%	*68%*	*59%*	All Div'ds to Net Prof	*46%*

CURRENT POSITION ($MILL.)	2002	2003	12/31/04
Cash Assets	18.4	12.8	4.3
Receivables	10.8	11.8	14.3
Inventory (Avg Cst)	.9	1.4	1.5
Other	21.7	32.4	32.9
Current Assets	51.8	58.4	53.0
Accts Payable	11.6	18.8	18.2
Debt Due	48.3	56.8	45.9
Other	19.6	20.3	22.2
Current Liab.	79.5	95.90	86.3
Fix. Chg. Cov.	285%	255%	*200%*

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	3.5%	4.0%	*2.0%*
"Cash Flow"	3.0%	5.0%	*5.0%*
Earnings	--	1.5%	*8.0%*
Dividends	1.5%	1.0%	*1.5%*
Book Value	4.5%	4.0%	*3.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2002	44.5	52.8	61.6	50.3	209.2
2003	46.7	51.8	63.7	50.5	212.7
2004	46.7	59.3	69.0	53.0	228.0
2005	*50.0*	*63.0*	*73.0*	*59.0*	*245*
2006	*55.0*	*68.0*	*78.0*	*64.0*	*265*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2002	.25	.36	.50	.23	1.34
2003	.20	.19	.51	d.12	.78
2004	.08	.30	.52	.16	1.05
2005	*.20*	*.35*	*.55*	*.25*	*1.35*
2006	*.25*	*.40*	*.60*	*.30*	*1.55*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.217	.217	.217	.217	.87
2002	.217	.217	.217	.221	.87
2003	.221	.221	.221	.221	.88
2004	.221	.221	.221	.225	.89
2005	.225				

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Southern California Water Company, it supplies water to 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to approximately 22,000 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00); 11,400 customers. Has roughly 525 employees. Off. & dir. own 2.4% of common stock (4/05 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Incorporated: CA. Add.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel.: 909-394-3600. Web: www.aswater.com.

An improving regulatory environment is painting a positive backdrop for American States Water. Indeed, more favorable and timely rate request decisions by the California Public Utility Commission (CPUC) helped the company post $0.16 share net in the fourth quarter, versus a loss of $0.12 last year, despite unseasonably rainy weather. We look for the current regulatory landscape to get even better at the urging of Governor Schwarzenegger. He recently replaced two regulatory commissioners, considered to be antagonists of rate relief for utilities, with more business friendly members. The CPUC has already approved rate increases for Region I and II customer areas, which should boost AWR's top line by more than $5 million. This relief along with more normal weather ought to fuel better-than 25% earnings growth this year.

Earnings growth should tail off a bit in 2006. We are concerned that the company's strapped financials will become a hindrance to growth. Infrastructure costs are growing higher everyday and do not look as though they will be receding anytime soon. With only minimal cash on hand, AWR will likely be forced to sell stock and debt to fund these expenditures. Such a development would undoubtedly dilute earnings, despite brighter top-line prospects. We, therefore, look for American's earnings growth rate to slow to 15% in 2006. However, there might be a catalyst on the horizon. The utility filed a general rate case for region III during the first quarter. Region III is its largest service area with roughly 40% of AWR's customer base. The company is requesting a 24% revenue increase, effective January 2006. If a favorable ruling is handed down, our share-net figure would probably prove too conservative.

Most investors will want to look elsewhere. AWR stock offers minimal appreciation potential to 2008-2010 and is ranked 4 (Below Average) for Timeliness. Although consolidating industry trends could provide some opportunities for the company, a dearth of funds limits the likelihood of such measures. That said, income-oriented investors might want t consider the issue because AWR offers a above average dividend yield.

Andre J. Costanza *April 29, 20*

(A) Primary earnings. Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢. Next earnings report due late July. Qurterly earnings may not sum due to change in share count.
(B) Dividends historically paid in early-March, June, September, December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for splits.

Company's Financial Strength	B
Stock's Price Stability	8
Price Growth Persistence	8
Earnings Predictability	7

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CALIFORNIA WATER NYSE-CWT

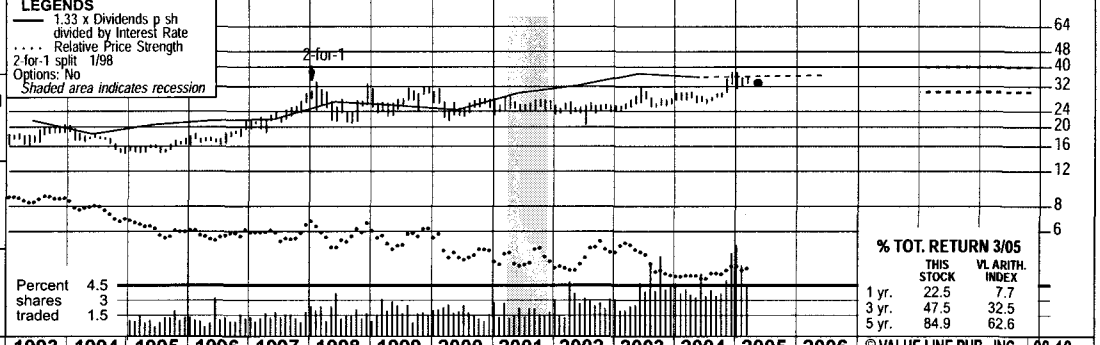
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
33.30	21.5	(Trailing: 22.8 Median: 17.0)	1.20	3.4%	VALUE LINE

TIMELINESS 4 Lowered 2/4/05
SAFETY 2 Lowered 8/11/95
TECHNICAL 2 Raised 4/29/05
BETA .75 (1.00 = Market)

High:	20.5	17.6	21.9	29.6	33.8	32.0	31.4	28.6	26.9	31.4	37.9	37.8
Low:	14.7	14.8	16.3	18.6	20.8	22.6	21.5	22.9	20.5	23.7	26.1	31.2

Target Price Range 2008 | 2009 | 2010

LEGENDS
— 1.33 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 1/98
Options: No
Shaded area indicates recession



2008-10 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+20%)	8%
Low	30	(-10%)	2%

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	0	0	0	0	0	0	0	0	1
Options	0	0	0	0	0	0	5	0	0
to Sell	0	0	0	0	0	1	5	0	0

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	40	38	49
to Sell	30	28	26
Hld's(000)	4047	3994	4419

% TOT. RETURN 3/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	22.5	7.7
3 yr.	47.5	32.5
5 yr.	84.9	62.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
10.33	10.93	11.18	12.29	13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	*18.15*	*18.95*	Revenues per sh	*21.75*
1.89	1.97	1.98	1.92	2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.84	*3.10*	*3.40*	"Cash Flow" per sh	*4.10*
1.20	1.25	1.21	1.09	1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	*1.60*	*1.75*	Earnings per sh A	*2.15*
.84	.87	.90	.93	.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	*1.14*	*1.15*	Div'd Decl'd per sh B ■	*1.24*
2.40	2.36	3.03	3.09	2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	*3.85*	*3.95*	Cap'l Spending per sh	*4.15*
9.66	10.04	10.35	10.51	10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.65	*16.00*	*16.90*	Book Value per sh C	*19.55*
11.38	11.38	11.38	11.38	11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	*18.75*	*19.25*	Common Shs Outst'g D	*23.00*
10.6	10.4	11.2	14.1	13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	*Bold figures are*		Avg Ann'l P/E Ratio	*16.0*
.80	.77	.72	.86	.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	*Value Line*		Relative P/E Ratio	*1.05*
6.6%	6.7%	6.6%	6.1%	5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	5.0%	*estimates*		Avg Ann'l Div'd Yield	*3.5%*

CAPITAL STRUCTURE as of 12/31/04
Total Debt $274.8 mill. **Due in 5 Yrs** $11.0 mill.
LT Debt $274.8 mill. **LT Interest** $18.5 mill.

(LT interest earned: 3.8x; total int. cov.: 3.4x)

Pension Assets-12/04 $75.1 mill.
Oblig. $87.6 mill.
Pfd Stock $3.5 mill. **Pfd Div'd** $.15 mill.
139,000 shares, 4.4% cumulative ($25 par).

Common Stock 18,372,496 shs.
as of 3/4/05
MARKET CAP: $600 million (Small Cap)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		08-10
165.1	182.8	195.3	186.3	206.4	244.8	246.8	263.2	277.1	315.6	*340*	*365*	Revenues ($mill)	*500*
14.7	19.1	23.3	18.4	19.9	20.0	14.4	19.1	19.4	26.0	*30.0*	*35.0*	Net Profit ($mill)	*50.0*
40.1%	38.9%	37.4%	36.4%	37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
49.2%	47.4%	45.4%	44.2%	46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	*49.5%*	*49.5%*	Long-Term Debt Ratio	*49.5%*
49.7%	51.4%	53.5%	54.7%	52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	*50.0%*	*50.0%*	Common Equity Ratio	*50.0%*
296.0	299.9	306.7	308.6	333.8	388.8	402.7	453.1	498.4	565.9	*600*	*650*	Total Capital ($mill)	*900*
422.2	443.6	460.4	478.3	515.4	582.0	624.3	697.0	759.5	800.3	*850*	*900*	Net Plant ($mill)	*1050*
6.8%	8.3%	9.4%	7.8%	7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	*6.5%*	*7.0%*	Return on Total Cap'l	*7.5%*
9.8%	12.1%	13.9%	10.7%	11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	*10.0%*	*10.5%*	Return on Shr. Equity	*11.0%*
9.9%	12.3%	14.1%	10.8%	11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	*10.0%*	*10.5%*	Return on Com Equity	*11.0%*
1.2%	3.8%	6.0%	2.8%	3.5%	1.8%	NMF	1.0%	.7%	1.8%	*3.0%*	*4.0%*	Retained to Com Eq	*5.0%*
88%	69%	58%	74%	70%	82%	119%	90%	91%	80%	*71%*	*63%*	All Div'ds to Net Prof	*57%*

CURRENT POSITION ($MILL.)	2002	2003	12/31/04
Cash Assets	1.1	2.9	18.8
Other	41.9	40.6	51.6
Current Assets	43.0	43.5	70.4
Accts Payable	23.7	23.8	19.8
Debt Due	24.8	7.3	--
Other	43.0	32.5	36.4
Current Liab.	91.5	63.6	57.2
Fix. Chg. Cov.	250%	218%	*200%*

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	3.0%	2.0%	*4.0%*
"Cash Flow"	2.0%	-1.5%	*7.5%*
Earnings	-0.5%	-6.5%	*9.5%*
Dividends	2.0%	1.0%	*1.5%*
Book Value	2.5%	1.0%	*5.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	51.7	69.2	81.4	60.9	263.2
2003	51.3	68.0	88.2	69.6	277.1
2004	60.2	88.9	97.1	69.4	315.6
2005	*65.0*	*90.0*	*105*	*80.0*	*340*
2006	*75.0*	*95.0*	*110*	*85.0*	*365*

Cal-endar	EARNINGS PER SHARE A E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.12	.43	.50	.20	1.25
2003	d.05	.30	.53	.41	1.21
2004	.08	.59	.59	.20	1.46
2005	*.10*	*.60*	*.65*	*.25*	*1.60*
2006	*.15*	*.63*	*.67*	*.30*	*1.75*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.279	.279	.279	.279	1.12
2002	.28	.28	.28	.28	1.12
2003	.281	.281	.281	.281	1.12
2004	.283	.283	.283	.283	1.13
2005	.285				

BUSINESS: California Water Service Group provides regulated and nonregulated water service to over 2 million people (451,800 customers) in 75 communities in California, Washington, and New Mexico. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp. (11/00). Revenue breakdown, '04: residential, 70%; business, 18%; public authorities, 5%; industrial, 4%; other, 3%. '04 reported deprec. rate: 2.3%. Has about 837 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwater.com.

Changes within the California Public Utility Commission (CPUC) paint a brighter picture for California Water Service Group going forward. The company has been forced to deal with regulatory delays from the board for years, as general rate case requests often remained in limbo for up to two years. However, two of the main adversaries to rate increase requests stepped down earlier this year and were replaced with more business-friendly candidates. The landscape has already improved, as CWT received approval to increase rates on an annual basis by $4.1 million effective January, 2005. The company is currently awaiting a decision on its 2004 general rate case for eight districts, totaling $26.5 million.

However, there are some concerns looming. Earlier this year, the Office of Ratepayer Advocates (ORA) took issue with CWT's land sale program. The CPUC branch, responsible for looking out for ratepayers, charged that CWT violated the California Water Utility Infrastructure Improvement Act of 1995, challenging its land sales since 1996. It recommended that the company pay a small fine and that an unspecified portion of the $19.2 million in gains from these sales be allocated for the benefit of the ratepayers. The company denies the charges. The CPUC does not have to take the ORA's advice, but this is the first case of this nature, making timeline and outcome of a resolution difficult to pin down. We expect the claim to slow earnings growth until the matter is concluded, though. As a result, we have lowered our 2005 earnings estimate by a dime, to $1.60 a share.

Growth-minded investors will want to look elsewhere. These untimely shares are likely to underperform the broad market out to late decade. Besides the uncertainty surrounding the motion by the ORA, profits will likely be thwarted by ongoing share and debt issuances, a product of rising infrastructure costs.

However, Cal may interest those looking for some income. The company offers an above-average dividend yield. And the recent dividend hike marks the 38th consecutive year that it has increased its payout. Risk-averse investors should like the stock's 2 (Above Average) Safety rank.

Andre J. Costanza *April 29, 2005*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; Q2 '02, 8¢. Next earnings report due late July.

(B) Dividends historically paid in mid-Feb., May, Aug., Nov. ■ Div'd reinvestment plan available.

(C) Incl. deferred charges. In '04: $54.3 mill., $2.96/sh.
(D) In millions, adjusted for split.
(E) May not total due to change in shares.

Company's Financial Strength	B++
Stock's Price Stability	90
Price Growth Persistence	95
Earnings Predictability	65

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RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
25.90	27.8	(Trailing: 30.1 Median: 21.0)	1.55	2.0%	VALUE LINE

TIMELINESS 4 Lowered 6/4/04
SAFETY 3 Lowered 8/1/03
TECHNICAL 3 Lowered 3/4/05
BETA .75 (1.00 = Market)

High:	5.0	5.5	7.6	11.4	15.4	15.4	16.0	19.7	20.0	22.4	24.6	27.0	
Low:	4.4	4.4	5.2	5.9	9.7	10.1	8.4	12.5	12.8	15.8	18.9	23.3	

Target Price Range 2008 | 2009 | 2010

2008-10 PROJECTIONS

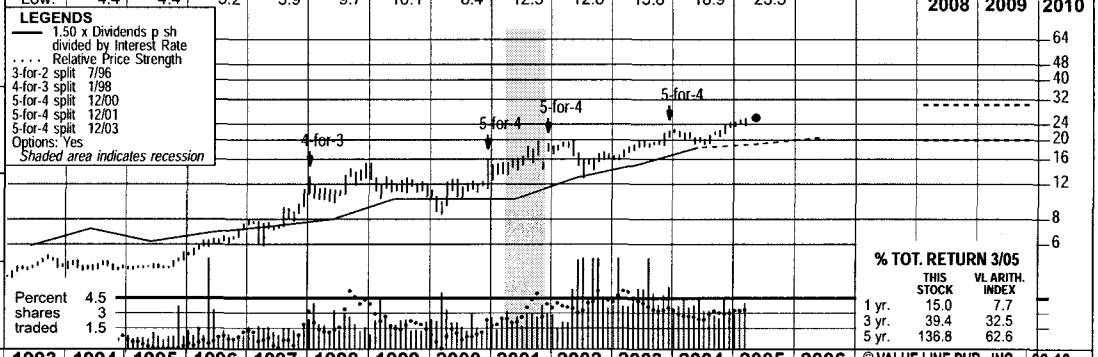
	Price	Gain	Ann'l Total Return
High	35	(+35%)	9%
Low	25	(+5%)	1%

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	1	0	0	0	0	0	0	0	0
Options	0	0	0	0	1	0	0	0	1
to Sell	1	0	1	0	0	0	0	0	2

Institutional Decisions

	2Q2004	3Q2004	4Q2004
to Buy	90	90	103
to Sell	62	45	49
Hld's(000)	26345	26282	27052



% TOT. RETURN 3/05

	THIS STOCK	VL ARITH. INDEX
1 yr.	15.0	7.7
3 yr.	39.4	32.5
5 yr.	136.8	62.6

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	© VALUE LINE PUB., INC.	08-10
4.53	2.70	2.85	2.43	2.27	2.42	2.45	2.48	2.69	2.79	3.21	3.29	3.59	3.79	3.97	4.63	*5.00*	*5.30*	Revenues per sh	*6.50*
.65	.58	.59	.52	.56	.56	.63	.67	.74	.81	.96	1.01	1.15	1.26	1.28	1.46	*1.55*	*1.65*	"Cash Flow" per sh	*1.90*
.27	.33	.33	.31	.33	.35	.39	.40	.46	.53	.56	.62	.68	.72	.76	.85	*.95*	*1.05*	Earnings per sh A	*1.25*
.24	.26	.26	.27	.27	.28	.29	.30	.32	.34	.36	.38	.40	.43	.46	.49	*.52*	*.56*	Div'd Decl'd per sh B■	*.68*
1.15	1.01	.72	.80	.63	.61	.69	.64	.77	1.09	1.20	1.55	1.45	1.60	1.76	2.05	*1.85*	*1.80*	Cap'l Spending per sh	*1.85*
2.92	2.80	2.76	2.79	3.05	3.21	3.28	3.59	3.79	4.28	4.57	5.13	5.53	5.81	7.12	7.85	*8.05*	*8.45*	Book Value per sh	*9.70*
29.45	30.48	31.06	38.40	44.55	44.83	47.81	49.31	50.60	54.15	80.10	83.87	85.48	84.90	92.59	95.38	*98.00*	*98.00*	Common Shs Outst'g C	*100.00*
12.9	10.2	10.8	12.5	14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	*Bold figures are*		Avg Ann'l P/E Ratio	*23.0*
.98	.76	.69	.76	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.34	*Value Line*		Relative P/E Ratio	*1.55*
6.9%	7.7%	7.2%	6.8%	5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	*estimates*		Avg Ann'l Div'd Yield	*2.4%*

CAPITAL STRUCTURE as of 12/31/04
Total Debt $884.2 mill. **Due in 5 Yrs** $221.6 mill.
LT Debt $748.9 mill. **LT Interest** $40.0 mill.
(Total interest coverage: 3.7x)

Pension Assets-12/04 $115.3 mill. **Oblig.** $171.1 mill.

Pfd Stock None

Common Stock 95,475,161 shares as of 2/18/05

MARKET CAP: $2.5 billion (Mid Cap)

1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006		08-10
117.0	122.5	136.2	151.0	257.3	275.5	307.3	322.0	367.2	442.0	*490*	*525*	Revenues ($mill)	*650*
19.0	19.8	23.2	28.8	45.0	50.7	58.5	62.7	67.3	80.0	*95.0*	*105.0*	Net Profit ($mill)	*125*
40.4%	41.4%	40.6%	40.5%	38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
1.6%	--	--	--	--	--	--	--	2.2%	3.2%	*3.5%*	*3.5%*	AFUDC % to Net Profit	*4.0%*
51.9%	54.1%	54.4%	52.7%	52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	*48.0%*	*46.0%*	Long-Term Debt Ratio	*40.0%*
46.4%	44.0%	44.8%	46.6%	46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	*52.0%*	*54.0%*	Common Equity Ratio	*60.0%*
338.0	401.7	427.2	496.6	782.7	901.1	990.4	1076.2	1355.7	1497.3	*1525*	*1550*	Total Capital ($mill)	*1615*
436.9	502.9	534.5	609.8	1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	*2125*	*2175*	Net Plant ($mill)	*2325*
7.7%	6.8%	7.4%	7.6%	7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	*7.5%*	*8.0%*	Return on Total Cap'l	*8.5%*
11.7%	10.7%	11.9%	12.3%	12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	*12.0%*	*12.5%*	Return on Shr. Equity	*13.0%*
11.7%	11.2%	12.0%	12.4%	12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	*12.0%*	*12.5%*	Return on Com Equity	*13.0%*
3.5%	2.8%	3.6%	4.5%	4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	*5.5%*	*6.0%*	Retained to Com Eq	*6.0%*
71%	75%	70%	64%	65%	60%	59%	59%	59%	57%	*55%*	*53%*	All Div'ds to Net Prof	*55%*

CURRENT POSITION ($MILL.)	2002	2003	12/31/04
Cash Assets	49.7	39.2	13.1
Receivables	57.7	62.3	64.5
Inventory (AvgCst)	4.6	5.8	6.9
Other	2.7	5.1	5.6
Current Assets	114.7	112.4	90.1
Accts Payable	31.1	32.3	23.5
Debt Due	149.4	135.8	135.3
Other	46.0	63.9	58.6
Current Liab.	226.5	232.0	217.4
Fix. Chg. Cov.	347%	344%	364%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '02-'04 to '08-'10
Revenues	5.5%	7.5%	*8.0%*
"Cash Flow"	9.5%	9.5%	*7.0%*
Earnings	9.0%	8.5%	*9.0%*
Dividends	5.5%	6.5%	*7.0%*
Book Value	8.5%	10.5%	*6.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	71.7	76.6	91.9	81.8	322.0
2003	80.5	83.4	102.1	101.2	367.2
2004	99.8	106.5	120.3	115.4	442.0
2005	*110*	*120*	*130*	*130*	*490*
2006	*120*	*130*	*140*	*135*	*525*

Cal-endar	EARNINGS PER SHARE A D Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2002	.14	.16	.25	.17	.72
2003	.15	.18	.24	.19	.76
2004	.17	.19	.26	.24	.85
2005	*.19*	*.23*	*.27*	*.26*	*.95*
2006	*.21*	*.25*	*.30*	*.29*	*1.05*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.099	.099	.099	.106	.40
2002	.106	.106	.106	.112	.43
2003	.112	.112	.112	.12	.46
2004	.12	.12	.12	.13	.49
2005	.13				

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.5 million residents in Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas, Florida, Kentucky, and five other states. Divested *three of four non-water* businesses in '91; telemarketing group in '93; and others. Acquired Consumers Water, 4/99; AquaSource, 7/03; and others. Water supply revenues '04: residential, 60%; commercial, 15%; industrial & other, 25%. Officers and directors own 1.5% of the common stock (4/05 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

We look for Aqua America to realize an earnings gain of about 12% in the current year, following similar increases in 2004. Continued growth will likely stem from further acquisitions and some rate increases. The company could also benefit from a long hot summer, as reservoirs in the Northeast are at or near capacity thanks to a wet winter, which will enable the utility to meet customer demand from its own facilities.

Management has been fairly successful in securing rate increases. A pending North Carolina case will yield a $3.2 million increase if granted in full. We believe a realistic decision will be reached, based on previous outcomes in that state. Utility commissions are more apt to award increases due to rising capital costs rather than operating expenses. Its ability to lower the ratio of expenses to revenues impresses the commission.

The company is further expanding through acquisitions. WTR completed eight purchases in the first quarter of 2005. We expect a similar rate of expansion throughout the year. Most of these operations are located in Pennsylvania and New Jersey, areas in which the company already has a strong presence. It is likely to file for additional rate hikes, reflecting the cost of hose acquisitions. Also, three of these purchases represent Aqua's first venture into the specialized area of wastewater treatment. It will enable the company to provide internal sludge hauling and collection system maintenance for its own treatment facilities in southeastern Pennsylvania. If this allows tighter cost control, it may be applied to other geographic regions as opportunity allows, perhaps providing a new source of earnings.

This stock's Price/Earnings ratio is somewhat above its 15-year median. Consequently, despite decent earnings growth prospects, this equity's appreciation potential to 2008–2010 is unattractive. But acquisitions of additional small water utilities will likely continue. The company has typically been able to increase returns on those operations, due to its larger size and lower capital costs. Accordingly, our projections might well prove conservative.

Marc Denton *April 29, 2005*

(A) Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '90, (38¢); '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early May. (B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount). (C) In millions, adjusted for stock splits. (D) May not sum due to rounding.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	95
Earnings Predictability	100

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	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
AWR	1.46	1.58	2.01	1.04	1.23	1.42	1.39	1.63	2.08	1.87	1.79	1.84	1.71	1.54
WTR	1.39	1.51	1.64	1.49	1.59	1.96	2.53	3.3	2.57	2.57	3.55	2.84	2.92	3.25
CWT	1.42	1.63	1.79	1.42	1.47	1.62	1.94	2.01	2.27	2.06	2.05	1.96	1.8	2.15
Average	1.42	1.57	1.81	1.32	1.43	1.67	1.95	2.31	2.31	2.17	2.46	2.21	2.14	2.31
Group Ave	1.36	1.49	1.55	1.28	1.33	1.48	1.73	2.06	2.5	2.06	2.27	2.2	2.32	2.23

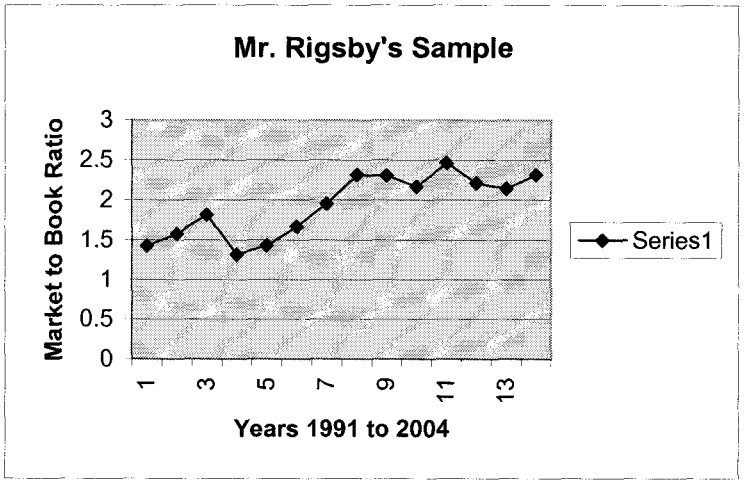

EXHIBIT
RVCO-3
admitted

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-04-0650

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

COST OF CAPITAL

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 20, 2005

EXHIBIT

R-4

admitted

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INTRODUCTION

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

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state your educational background and your qualifications in the field of utilities regulation.

A. Appendix I, which is attached to this testimony, describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on my analysis of Arizona Water Company's ("Arizona Water" or "Company") application for a permanent rate increase ("Application") for the Company's Western Group. The Western Group is comprised of the Company's Ajo Heights, Casa Grande, Coolidge, Stanfield, and White Tank systems. Arizona Water's Application was filed with the Arizona Corporation Commission ("ACC" or "Commission") on August 14, 2004. During the 2003 test year ("Test Year") the Company's Western Group provided water service to 20,266 customers.

Q. Please explain your role in RUCO's analysis of Arizona Water's Application.

A. I reviewed Arizona Water's Application and performed a cost of capital analysis to determine a fair rate of return on the Company's invested capital. In addition to my recommended capital structure, my direct testimony will present my recommended costs of common equity and my recommended cost of long-term debt (the Company has no preferred stock). The recommendations contained in this testimony are based on information obtained from the Company's Application and on market-based research that I conducted during my cost of capital analysis.

Q. Is this your first case involving Arizona Water?

A. No. I testified before the ACC in both the Company's Northern and Eastern Group rate case proceedings[1]. Prior to joining RUCO, I recommended Commission approval of one of Arizona Water's financing requests[2] as a Senior Rate Analyst on the ACC Staff.

Q. Were you also responsible for conducting an analysis of Arizona Water's proposed revenue level and rate base?

A. Yes. I have also filed, under separate cover, direct testimony on revenue and rate base issues associated with the Casa Grande and Stanfield

[1] Docket No.'s W-01445A-00-0962 and W-01445A-02-0619

[2] Docket No. W-01445A-00-0749

systems. The revenue and rate base issues associated with the Ajo Heights, Coolidge and White Tank systems will be addressed in the direct testimony of RUCO witness Timothy J. Coley. Mr. Coley will also testify on RUCO's rate design recommendations for the entire Western Group.

Q. What areas will you address in your testimony?

A. I will address the cost of capital issues associated with the case.

Q. Please identify the exhibits that you are sponsoring.

A. I am sponsoring Schedules WAR-1 through WAR-9.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your cost of capital testimony is organized.

A. My cost of capital testimony is organized into three sections. First, I will present the findings of my cost of equity capital analysis, that utilized both the discounted cash flow ("DCF") method, which I believe is the most reliable methodology and the one that I place the most emphasis on, and the capital asset pricing model ("CAPM"), which I tend to rely on as a check of my DCF results. These are the two most commonly used methods for calculating the cost of equity capital in rate case proceedings and are generally regarded as the most reliable[3]. In this first section I will

[3] A. Lawrence Kolbe and James A Read Jr., The Cost of Capital – Estimating the Rate of Return for Public Utilities, The MIT Press: Cambridge, Massachusetts, 1984, pp. 35-94.

also provide a brief overview of the current economic climate that Arizona Water is operating in. Second, I will compare my recommended capital structure with the Company-proposed capital structure. Third, I will comment on Arizona Water's cost of capital testimony. Schedules WAR-1 through WAR-9 will provide support for my cost of capital analysis.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Based on the results of my analysis of Arizona Water, I am making the following recommendations:

Cost of Equity Capital – I am recommending a 9.44 percent cost of equity capital. This 9.44 percent figure is based on the results that I obtained in my cost of equity analysis, which employed both the DCF and CAPM methodologies.

Cost of Debt – I am recommending that the Commission adopt Arizona Water's proposed 8.43 percent cost of long-term debt. This is based on my review of the costs associated with Arizona Water's various bond issues.

Capital Structure – I am recommending that the Company-proposed capital structure, which is comprised of approximately 74 percent common equity and 26 percent debt, be adopted by the Commission.

Cost of Capital – Based on the results of my recommended capital structure, cost of common equity, and debt analyses, I am recommending a 9.17 percent cost of capital for Arizona Water. This figure represents the weighted cost of both the Company's common equity and long-term debt.

Q. Why do you believe that your recommended 9.17 percent cost of capital is an appropriate rate of return for Arizona Water to earn on its invested capital?

A. The 9.17 percent cost of capital figure that I have recommended meets the criteria established in the landmark Supreme Court cases of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two cases affirmed that a public utility that is efficiently and economically managed is entitled to a return on investment that instills confidence in its financial soundness, allows the utility to attract capital, and also allows the utility to perform its duty to provide service to ratepayers. The rate of return adopted for the utility should also be comparable to a return that investors would expect to receive from investments with similar risk.

The Hope decision allows for the rate of return to cover both the operating expenses and the "capital costs of the business" which includes interest on debt and dividend payment to shareholders. This is predicated on the belief that, in the long run, a company that cannot meet its debt obligations and provide its shareholders with an adequate rate of return will not continue to supply adequate public utility service to ratepayers.

Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient to cover all operating and capital costs is guaranteed?

A. No. Neither case guarantees a rate of return on utility investment. What the Bluefield and Hope decisions *do allow*, is for a utility to be provided with the *opportunity* to earn a reasonable rate of return on its investment. That is to say that a utility, such as Arizona Water, is provided with the opportunity to earn an appropriate rate of return if the Company's management exercises good judgment and manages its assets and resources in a manner that is both prudent and economically efficient.

COST OF EQUITY CAPITAL

Q. What is your recommended cost of equity capital for Arizona Water?

A. Based on the results of my DCF and CAPM analyses, which ranged from 8.35 percent to 9.81 percent, I am recommending a 9.44 percent cost of equity capital for Arizona Water. My recommended 9.44 percent figure is based on the results of my DCF analysis.

Discounted Cash Flow (DCF) Method

Q. Please explain the DCF method that you used to estimate Arizona Water's cost of equity capital.

A. The DCF method employs a stock valuation model that is often referred to as either the constant growth valuation model or the Gordon[4] model. Simply stated, the DCF model is based on the premise that the current price of a given share of common stock is determined by the present value of all of the future cash flows that will be generated by that share of common stock. The rate that is used to discount these cash flows back to their present value is often referred to as the investor's cost of capital (i.e. the cost at which an investor is willing to forego other investments in favor of the one that he or she has chosen).

Another way of looking at the investor's cost of capital is to consider it from the standpoint of a company that is offering its shares of stock to the investing public. In order to raise capital, through the sale of common stock, a company must provide a required rate of return on its stock that will attract investors to commit funds to that particular investment. In this respect, the terms "cost of capital" and "investor's required return" are one in the same. For common stock, this required return is a function of the dividend that is paid on the stock. The investor's required rate of return can be expressed as the percentage of the dividend that is paid on the

[4] Named after Dr. Myron J. Gordon, the professor of finance who developed the model.

stock (dividend yield) plus an expected rate of future dividend growth. This is illustrated in mathematical terms by the following formula:

$$k = (D_1 \div P_0) + g$$

where: k = the required return (cost of equity, equity capitalization rate),

$D_1 \div P_0$ = the dividend yield of a given share of stock calculated by dividing the expected dividend by the current market price of the given share of stock, and

g = the expected rate of future dividend growth.

This formula is the basis for the standard growth valuation model that I used to determine Arizona Water's cost of equity capital. It is similar to the model that was used by the Company.

Q. In determining the rate of future dividend growth for Arizona Water, what assumptions did you make?

A. There are two primary assumptions regarding dividend growth that must be made when using the DCF method. First, dividends will grow by a constant rate into perpetuity, and second, the dividend payout ratio will remain at a constant rate. Both of these assumptions are predicated on the traditional DCF model's basic underlying assumption that a company's

earnings, dividends, book value and share growth all increase at the same constant rate of growth into infinity. Given these assumptions, if the dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as g = b x r.

Q. Would you please provide an example that will illustrate the relationship that earnings, the dividend payout ratio and book value have with dividend growth?

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.[5]

Table I

	Year 1	Year 2	Year 3	Year 4	Year 5	Growth
Book Value	$10.00	$10.40	$10.82	$11.25	$11.70	4.00%
Equity Return	10%	10%	10%	10%	10%	N/A
Earnings/Sh.	$1.00	$1.04	$1.082	$1.125	$1.170	4.00%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	$0.60	$0.624	$0.649	$0.675	$0.702	4.00%

[5] Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of $10.00 per share, an investor-expected equity return of ten percent, and a dividend payout ratio of sixty percent. This results in earnings per share of $1.00 ($10.00 book value x 10 percent equity return) and a dividend of $0.60 ($1.00 earnings/sh. x 0.60 payout ratio) during Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's earnings are retained as opposed to being paid out to investors, book value increases to $10.40 in Year 2 of Mr. Hill's illustration. Table I presents the results of this continuing scenario over the remaining five-year period.

The results displayed in Table I demonstrate that under "steady-state" (i.e. constant) conditions, book value, earnings and dividends all grow at the same constant rate. The table further illustrates that the dividend growth rate, as discussed earlier, is a function of (1) the internally generated funds or earnings that are retained by a company to become new equity, and (2) the return that an investor earns on that new equity. The DCF dividend growth rate, expressed as g = b x r, is also referred to as the internal or sustainable growth rate.

Q. If earnings and dividends both grow at the same rate as book value, shouldn't that rate be the sole factor in determining the DCF growth rate?

A. No. Possible changes in the expected rate of return on either common equity or the dividend payout ratio make earnings and dividend growth by themselves unreliable. This can be seen in the continuation of Mr. Hill's illustration on a hypothetical utility.

Table II

	Year 1	Year 2	Year 3	Year 4	Year 5	Growth
Book Value	$10.00	$10.40	$10.82	$11.47	$12.158	5.00%
Equity Return	10%	10%	15%	15%	15%	10.67%
Earnings/Sh	$1.00	$1.04	$1.623	$1.720	$1.824	16.20%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	$0.60	$0.624	$0.974	$1.032	$1.094	16.20%

In the example displayed in Table II, a sustainable growth rate of four percent[6] exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six percent.[7] If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rates for earnings and dividends, displayed in the last column, are 16.20 percent. If this rate were to be used in the DCF model, the utility's return on common equity would be

[6] [(Year 2 Earnings/Sh – Year 1 Earnings/Sh) ÷ Year 1 Earnings/Sh] = [($1.04 - $1.00) ÷ $1.00] = [$0.04 ÷ $1.00] = 4.00%

[7] [(1 – Payout Ratio) x Rate of Return] = [(1 - 0.60) x 15.00%] = 0.40 x 15.00% = 6.00%

expected to increase by fifty percent every five years, [(15 percent ÷ 10 percent) – 1]. This is clearly an unrealistic expectation.

Although it is not illustrated in Mr. Hill's hypothetical example, a change in only the dividend payout ratio will eventually result in a utility paying out more in dividends than it earns. While it is not uncommon for a utility in the real world to have a dividend payout ratio that exceeds one hundred percent on occasion, it would be unrealistic to expect the practice to continue over a sustained long-term period of time.

Q. Other than the retention of internally generated funds, as illustrated in Mr. Hill's hypothetical example, are there any other sources of new equity capital that can influence an investor's growth expectations for a given company?

A. Yes, a company can raise new equity capital externally. The best example of external funding would be the sale of new shares of common stock. This would create additional equity for the issuer and is often the case with utilities that are either in the process of acquiring smaller systems or providing service to rapidly growing areas.

Q. How does external equity financing influence the growth expectations held by investors?

A. Rational investors will put their available funds into investments that will either meet or exceed their given cost of capital (i.e. the return earned on

their investment). In the case of a utility, the book value of a company's stock usually mirrors the equity portion of its rate base (the utility's earning base). Because regulators allow utilities the opportunity to earn a reasonable rate of return on rate base, an investor would take into consideration the effect that a change in book value would have on the rate of return that he or she would expect the utility to earn. If an investor believes that a utility's book value (i.e. the utility's earning base) will increase, then he or she would expect the return on the utility's common stock to increase. If this positive trend in book value continues over an extended period of time, an investor would have a reasonable expectation for sustained long-term growth.

Q. Please provide an example of how external financing affects a utility's book value of equity.

A. As I explained earlier, one way that a utility can increase its equity is by selling new shares of common stock on the open market. If these new shares are purchased at prices that are higher than those shares sold previously, the utility's book value per share will increase in value. This would increase both the earnings base of the utility and the earnings expectations of investors. However, if new shares sold at a price below the pre-sale book value per share, the after-sale book value per share declines in value. If this downward trend continues over time, investors might view this as a decline in the utility's sustainable growth rate and will

have lower expectations regarding growth. Using this same logic, if a new stock issue sells at a price per share that is the same as the pre-sale book value per share, there would be no impact on either the utility's earnings base or investor expectations.

Q. Please explain how the external component of the DCF growth rate is determined.

A. In his book, The Cost of Capital to a Public Utility,[8] Dr. Myron Gordon, the individual responsible for the development of the DCF or constant growth model, identified a growth rate that includes both expected internal and external financing components. The mathematical expression for Dr. Gordon's growth rate is as follows:

$$g = (br) + (sv)$$

where: g = DCF expected growth rate,

b = the earnings retention ratio,

r = the return on common equity,

s = the fraction of new common stock sold that accrues to a current shareholder, and

v = funds raised from the sale of stock as a fraction of existing equity.

and $v = 1 - [(BV) \div (MP)]$

[8] Gordon, M.J., The Cost of Capital to a Public Utility, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

where: BV = book value per share of common stock, and

MP = the market price per share of common stock.

Q. Did you include the effect of external equity financing on long-term growth rate expectations in your analysis of expected dividend growth for the DCF model?

A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of Schedule WAR-4, where it is added to the internal growth rate estimate (br) to arrive at a final sustainable growth rate estimate.

Q. Please explain why your calculation of external growth on page 2 of Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in the equation [(M ÷ B) + 1] ÷ 2.

A. The market price of a utility's common stock will tend to move toward book value, or a market-to-book ratio of 1.0, if regulators allow a rate of return that is equal to the cost of capital (one of the desired effects of regulation). As a result of this situation, I used [(M ÷ B) + 1] ÷ 2 as opposed to the current market-to-book ratio by itself to represent investor's expectations that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

Q. In determining your dividend growth rate estimate, you analyzed the data on three water companies. Why did you use this methodology as opposed to a direct analysis of Arizona Water?

A. One of the problems in performing this type of analysis is that the utility applying for a rate increase is not always a publicly traded company, as is the case with Arizona Water. Because there is no financial data available on dividends paid on *publicly held* shares[9] of Arizona Water common stock or the historical market prices of the Company's common stock, it was necessary to create a proxy by analyzing publicly traded water companies with similar risk characteristics.

Q. Are there any other advantages to the use of a proxy?

A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope decision that a utility is entitled to earn a rate of return that is commensurate with the returns on investments of other firms with comparable risk. The proxy technique that I have used derives that rate of return. One other advantage to using a sample of companies is that it reduces the possible impact that any undetected biases, anomalies, or measurement errors may have on the DCF growth estimate.

[9] In the case of Arizona Water, the Company is a closely held corporation that pays dividends on shares of common stock that are not publicly traded.

Q. What criteria did you use in selecting the three water companies that make up your proxy for Arizona Water?

A. All of the water companies used in the proxy are publicly traded on the NYSE, are followed by The Value Line Investment Survey ("Value Line") and are the same companies that comprise Value Line's Water Utility Industry segment of the U.S. economy (Attachment A). My proxy includes American States Water Company ("American States"), Aqua America, Inc. ("Aqua America"), formerly known as Philadelphia Suburban Corporation, and California Water Service Group ("California Water"). Each of these water utilities are traded on the New York Stock Exchange ("NYSE") and face the same types of risk that Arizona Water faces.

Q. Are these the same water companies that Arizona Water used in its application?

A. Yes, Arizona Water's cost of capital witness, Dr. Thomas M. Zepp, also used the same water companies included in my proxy in his analysis. In addition to these three companies, Dr. Zepp also used three other water companies[10] that are included in the Small and Mid Cap edition of The Value Line Investment Survey.

[10] Connecticut Water Service, Middlesex Water Company and SJW Corp.

Q. Why did you exclude the water companies that are followed in the Small and Mid Cap edition of The Value Line Investment Survey?

A. Value Line does not provide the same type of forward-looking information (i.e. long-term estimates on return on common equity and share growth) on small and mid-cap companies that it provides on the three companies that I used in my proxy. Consequently, these companies are not as suitable as the ones that I have used in my analysis.

Q. Please explain your DCF growth rate calculations for the sample companies used in your proxy.

A. Schedule WAR-5 provides retention ratios, returns on book equity, internal growth rates, book values per share, numbers of shares outstanding, and the compounded share growth for each of the utilities included in the sample for the period 1999 to 2003. Schedule WAR-5 also includes Value Line's projected 2004, 2005, and 2007-2009 values for the retention ratio, equity return, book value per share growth rate, and number of shares outstanding.

Q. Please describe how you used the information displayed in Schedule WAR-5 to estimate each comparable utility's dividend growth rate.

A. In explaining my analysis, I will use Aqua America, NYSE symbol WTR, as an example. The first dividend growth component that I evaluated was the internal growth rate. I used the "b x r" formula (page 9) to multiply WTR's

earned return on common equity by its earnings retention ratio for each year 1999 through 2003 to derive the utility's annual internal growth rates. I used the mean average of this five-year period as a benchmark against which I compared the 2004 internal growth rate and projected growth rate trends provided by Value Line. Because an investor is more likely to be influenced by recent growth trends, as opposed to historical averages, the five-year mean noted earlier was used only as a benchmark figure. As shown on Schedule WAR-5, WTR had sustainable internal growth that averaged 4.63 percent over the course of the 1999 to 2003 observation period. During this time frame, growth ranged from 4.39 percent in 1999, to 5.12 percent in 2002 but then fell to 4.03 percent in 2003. Value Line's analysts expect dividend growth to increase to 4.66 percent in 2004 and then climb to 5.96 percent during the 2007-09 period. Growth is not unreasonable for WTR given this company's past preference for growth through acquisition. After weighing the Value Line earnings, dividend and book value per share data, I maintain that a slightly higher 6.00 percent rate of internal growth is not unreasonable for WTR.

Q. Please continue with the external growth rate component portion of your analysis.

A. Schedule WAR-5 demonstrates that shares outstanding for WTR increased from 80.10 million in 1999, to 92.59 million in 2003. Even though WTR's share growth for the aforementioned time frame averaged

3.69 percent, Value Line is forecasting a decline in future growth. According to Value Line's analysts, outstanding shares should increase from 95.00 million in 2004 to 100.00 million by the end of the 2007-09 time period. After considering these projections, I believe that a 1.00 percent rate of growth is reasonable. My final dividend growth rate estimate for WTR is 7.16 percent (6.00 percent internal + 1.16 percent external) and is shown on Page 1 of Schedule WAR-4.

Q. What is your average dividend growth rate estimate using the DCF model for the sample water utilities?

A. Based on the DCF model, my average dividend growth rate estimate is 6.50 percent as displayed on Page 1 of Schedule WAR-4.

Q. How does your average dividend growth rate compare to the growth rate data of other publicly traded firms?

A. Overall my estimate is somewhat more optimistic than the projections of analysts at both Zacks Investment Research, Inc. ("Zacks") and Value Line. Schedule WAR-6 compares my sustainable growth estimates with the five-year projections of both Zacks and Value Line. The 6.50 percent estimate that I have calculated is 50 basis points higher than the projected 5-year EPS average of 6.00 percent for Zacks (Zack's outlook for the water industry is 6.30 percent) and 61 basis points higher than the 5.89 percent for Value Line (which is an average of EPS, DPS and BVPS). My

6.50 percent estimate is 471 basis points higher than the 5-year compound historical average also displayed in Schedule WAR-6. This indicates that investors are expecting increased performance from water utilities in the future. On balance, I would say my 6.50 percent estimate is a good representation of the growth projections that are available to the investing public.

Q. How did you calculate the dividend yields displayed in Schedule WAR-3?

A. I used the estimated annual dividends, for the next twelve-month period, that appeared in the January 28, 2005 Ratings and Reports water services industry update of The Value Line Investment Survey. I then divided that figure by the eight-week average price per share of the appropriate utility's common stock. The eight-week average price is based on the daily closing stock prices for each of the three companies in my proxy for the period February 7, 2005 to April 1, 2005.

Q. Based on the results of your DCF analysis, what is your cost of equity capital estimate for the water utilities included in your sample?

A. As shown in Schedule WAR-2, the cost of equity capital derived from my DCF analysis is 9.44 percent.

Capital Asset Pricing Model (CAPM) Method

Q. Please explain the theory behind the capital asset pricing model ("CAPM") and why you decided to use it as an equity capital valuation method in this proceeding.

A. CAPM is a mathematical tool that was developed during the early 1960's by William F. Sharpe, Ph.D.[11] The CAPM model is used to analyze the relationships between rates of return on various assets and risk as measured by beta.[12] In this regard, CAPM can help an investor to determine how much risk is associated with a given investment so that he or she can decide if that investment meets their individual preferences. Finance theory has always held that as the risk associated with a given investment increases, so should the expected rate of return on that investment and vice versa. According to CAPM theory, risk can be classified into two specific forms: nonsystematic or diversifiable risk, and systematic or non-diversifiable risk. While nonsystematic risk can be virtually eliminated through diversification (i.e. by including stocks of various companies in various industries in a portfolio of securities), systematic risk, on the other hand, cannot be eliminated by diversification. Thus, systematic risk is the only risk of importance to investors. Simply

[11] William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

[12] Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

stated, the underlying theory behind CAPM states that the expected return on a given investment is the sum of a risk-free rate of return plus a market risk premium that is proportional to the systematic (non-diversifiable risk) associated with that investment. In mathematical terms, the formula is as follows:

$$k = r_f + [\, ß\, (r_m - r_f)\,]$$

where: k = cost of capital of a given security,

r_f = risk-free rate of return,

$ß$ = beta coefficient, a statistical measurement of a security's systematic risk,

r_m = average market return (e.g. S&P 500), and

$r_m - r_f$ = market risk premium.

Q. What security did you use for a risk-free rate of return in your CAPM analysis?

A. I used a six-week average on a 91-day Treasury Bill ("T-Bill") rate.[13] This resulted in a risk-free (r_f) rate of return of 2.70 percent.

[13] A six-week average was computed for the current rate using 91-day T-Bill quotes listed in Value Line's Selection and Opinion newsletter from January 21, 2005 to February 25, 2005.

Q. Why did you use the short-term T-Bill rate as opposed to the yield on an intermediate 5-year Treasury note or a long-term 30-year Treasury bond?

A. Because a 91-day T-Bill presents the lowest possible total risk to an investor. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments will reveal that those with longer maturity dates do have slightly higher yields. Treasury yields are comprised of two separate components,[14] a true rate of interest (believed to be approximately 2.00 percent) and an inflationary expectation. When the true rate of interest is subtracted from the total treasury yield, all that remains is the inflationary expectation. Because increased inflation represents a potential capital loss, or risk, to investors, a higher inflationary expectation by itself represents a degree of risk to an investor. Another way of looking at this is from an opportunity cost standpoint. When an investor locks up funds in long-term T-Bonds, compensation must be provided for future investment opportunities foregone. This is often described as maturity or interest rate risk and it can affect an investor adversely if market rates increase before the instrument matures (a rise in interest rates would decrease the value of the debt instrument). As discussed earlier in the DCF portion of my

[14] As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the true rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

testimony, this compensation translates into higher rates of returns to the investor. Since a 91-day T-Bill presents the lowest possible total risk to an investor, it more closely meets the definition of a risk-free rate of return and is the more appropriate instrument to use in a CAPM analysis.

Q. How did you calculate the market risk premium used in your CAPM analysis?

A. I used both a geometric and an arithmetic mean of the historical returns on the S&P 500 index from 1926 to 2003 as the proxy for the market rate of return (r_m). The risk premium (r_m - r_f) that results by using the geometric mean calculation for r_m is equal to 7.70 percent (10.40% - 2.70% = 7.70%). The risk premium that results by using the arithmetic mean calculation for r_m is 9.70 percent (12.40% - 2.70% = 9.70%).

Q. How did you select the beta coefficients that were used in your CAPM analysis?

A. The beta coefficients (ß), for the individual utilities used in my sample, were calculated by Value Line and were current as of January 28, 2005. Value Line calculates its betas by using a regression analysis between weekly percentage changes in the market price of the security being analyzed and weekly percentage changes in the NYSE Composite Index over a five-year period. The betas are then adjusted by Value Line for their long-term tendency to converge toward 1.00. The beta coefficients

for the water utilities included in my sample ranged from 0.70 to 0.75 with an average beta of 0.73.

Q. What are the results of your CAPM analysis?

A. As shown on Pages 1 and 2 of Schedule WAR-7, my CAPM calculation using a geometric mean for r_m results in an average expected return of 8.35 percent. My calculation using the arithmetic mean results in an average expected return of 9.81 percent. Although there is some debate on this point, I believe that the consensus among financial analysts appears to be that the arithmetic mean is the better of the two averages. For this reason, I believe that the 9.81 percent figure is the better check on the result of my DCF analysis.

Q. Please summarize the results derived under each of the methodologies presented in your testimony.

A. The following is a summary of the cost of equity capital derived under each methodology used:

METHOD	RESULTS
DCF	9.44%
CAPM	8.35% – 9.81%

Based on these results, my best estimate of an appropriate range for the cost of equity is from 8.35 percent to 9.81 percent. My final recommendation is a 9.44 percent return for Arizona Water's cost of equity capital.

Q How did you arrive at your recommended 9.44 percent cost of common equity?

A. My recommended 9.44 percent cost of common equity is the unadjusted result of my DCF analysis

Q. Is this the method that you have typically used to determine the cost of equity capital in prior rate case proceedings?

A. Yes. As I stated earlier in my testimony, the DCF model is the one that I rely on the most. Typically, as in this case, my recommended cost of equity is derived primarily from my DCF analysis.

Q. Why is your typical practice of relying primarily on your DCF appropriate in this proceeding?

A. My recommended capital structure for Arizona Water is comprised of approximately 73 percent common equity capital and 27 percent debt. This capital structure has a larger percentage of equity than the capital structures of the three water utilities that I included in my DCF and CAPM proxies, which had an average capital structure of 56 percent common

equity and 44 percent debt. Although an argument could be made that, because Arizona Water is not as leveraged and therefore faces a lower level of financial risk (i.e. the risk of not being able to meet debt service obligations) than the companies in my proxy, a lower cost of equity is warranted, I have decided not to make such an adjustment. My reason for this is that my CAPM analysis, using an arithmetic mean is producing an expected rate of return that is approximately 37 basis points higher than the 9.44 percent estimate derived by the DCF formula. After weighing this fact, and other considerations that I will discuss later in my testimony, I have come to the conclusion that a downward adjustment to my 9.44 recommended cost of equity capital would not be warranted at this particular point in time.

Q. Have you made adjustments to your DCF results in prior cases?

A. Yes. I adjusted my DCF results in three of the last four rate cases that I testified in. In the first of those cases, I increased my DCF result by 50 basis points to recognize the additional financial risk faced by Arizona-American Water Company ("Arizona-American"). My 50 basis point adjustment in that case took into consideration Arizona-American's leveraged capital structure (which was comprised of 60 percent debt and 40 percent equity). The second case involved Rio Rico, Utilities, Inc. ("Rio Rico"), a water and wastewater provider with a capital structure comprised of 100 percent common equity. In Rio Rico's case, I averaged the results

of my DCF and CAPM analyses to arrive at a cost of equity of 8.83 percent. This adjustment resulted in a 42 basis point downward adjustment to my 9.04 percent DCF estimate. In the Rio Rico proceeding, the Commission eventually adopted a cost of common equity that was slightly lower than the 8.83 percent that I recommended. In the third case, I used the same methodology that I used in the Rio Rico Case to arrive at my recommended cost of equity of 11.50 percent for heavily leveraged Qwest Corporation (25 percent equity 75 percent debt). In my most recent case involving Chaparral City Water Company of Fountain Hills ("Chaparral City"), I made no adjustment despite the fact that Chaparral City had slightly more equity in its capital structure than the water utilities included in my sample. In that case the expected rate of return produced by the CAPM model, using an arithmetic mean, also exceeded the rate of return produced by my DCF model.

Current Economic Environment

Q. Please explain why it is necessary to consider the current economic environment when performing a cost of equity capital analysis for a regulated utility.

A. Consideration of the economic environment is necessary because trends in interest rates, present and projected levels of inflation, and the overall state of the U.S. economy determine the rates of return that investors earn on their invested funds. Each of these factors represent potential risks

that must be weighed when estimating the cost of equity capital for a regulated utility and are, most often, the same factors considered by individuals who are investing in non-regulated entities also.

Q. Please discuss your analysis of the current economic environment.

A. My analysis includes a review of the economic events that have occurred since 1990. Schedule WAR-8 displays various economic indicators and other data that I will refer to during this portion of my testimony.

In 1991, as measured by the most recently revised annual change in gross domestic product ("GDP"), the U.S. Economy experienced a rate of growth of negative 0.20 percent. This decline in GDP marked the beginning of a mild recession that ended sometime before the end of the first half of 1992. Reacting to this situation the Federal Reserve Board ("Federal Reserve" or "Fed"), chaired by noted economist Alan Greenspan, lowered its benchmark federal funds rate[15] in an effort to further loosen monetary constraints - an action that resulted in lower interest rates.

During this same period, the nation's major money center banks followed the Federal Reserve's lead and began lowering their interest rates as well. By the end of the fourth quarter of 1993, the prime rate (the rate charged

[15] The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

by banks to their best customers) had dropped to 6.00 percent from a 1990 level of 10.01 percent. In addition, the Federal Reserve's discount rate on loans to its member banks had fallen to 3.00 percent and short-term interest rates had declined to levels that had not been seen since 1972.

Although GDP increased in 1992 and 1993, the Federal Reserve took steps to increase interest rates beginning in February of 1994, in order to keep inflation under control. By the end of 1995, the Federal discount rate had risen to 5.21 percent. Once again, the banking community followed the Federal Reserve's moves. The Fed's strategy, during this period, was to engineer a "soft landing." That is to say that the Federal Reserve wanted to foster a situation in which economic growth would be stabilized without incurring either a prolonged recession or runaway inflation.

Q. Did the Federal Reserve achieve its goals during this period?

A. The Fed's strategy of decreasing interest rates to stimulate the economy worked. The annual change in GDP began an upward trend in 1991. A change of 4.50 percent and 4.20 percent were recorded at the end of 1997 and 1998 respectively. Based on daily reports that were presented in the mainstream print and broadcast media during most of 1999, there appeared to be little doubt among both economists and the public at large that the U.S. was experiencing a period of robust economic growth highlighted by low rates of unemployment and inflation. Investors, who

1 believed that technology stocks and Internet company start-ups (with little
2 or no history of earnings) had high growth potential, purchased these
3 types of issues with enthusiasm. These types of investors, who exhibited
4 what Chairman Greenspan described as "irrational exuberance," pushed
5 stock prices and market indexes to all time highs from 1997 to 2000.
6
7 Q. What has been the state of the economy over the last four years?
8 A. The U.S. economy entered into a recession around the end of the first
9 quarter of 2001. The bullish trend, which had characterized the last half of
10 the 1990's, had already run its course sometime during the third quarter of
11 2000. Economic data released since the beginning of 2001 had already
12 been disappointing during the months preceding the September 11, 2001
13 terrorist attacks on the World Trade Center and the Pentagon. Slower
14 growth figures, rising layoffs in the high technology manufacturing sector,
15 and falling equity prices (due to lower earnings expectations) prompted
16 the Fed to begin cutting interest rates as it had done in the early 1990's.
17 The now infamous terrorist attacks on New York City and Washington
18 D.C. marked a defining point in this economic slump and prompted the
19 Federal Reserve to continue its rate cutting actions through December
20 2001. Prior to the 9/11 attacks, commentators, reporting in both the
21 mainstream financial press and various economic publications including
22 Value Line, believed that the Federal Reserve Chairman was cutting rates

in the hope of avoiding the recession that the U.S. is still in the process of recovering from.

Despite several intervals during 2002 and 2003 in which the Federal Open Market Committee ("FOMC") decided not to change interest rates, moves which indicated that the worst may be over and that the current recession might have bottomed out during the last quarter of 2001, a lackluster economy persisted. The continuing economic malaise and even fears of possible deflation prompted the FOMC to make a thirteenth rate cut on June 25, 2003. The quarter point cut reduced the federal funds rate to 1.00 percent, the lowest level in 45 years.

Even though some signs of economic strength, that were mainly attributed to consumer spending, began to crop up during the latter part of 2002 and into 2003, Chairman Greenspan appeared to be concerned with sharp declines in capital spending in the business sector.

During the latter part of 2003, the FOMC went on record as saying that it intended to leave interest rates low "for a considerable period." After its two-day meeting that ended on January 28, 2004, the FOMC stated "that with inflation 'quite low' and plenty of excess capacity in the economy, policy-makers 'can be patient in removing its policy accommodation.'"[16]

[16] Wolk, Martin, "Fed leaves short-term rates unchanged," MSNBC, January 28, 2004.

Q. What actions has the Federal Reserve taken in terms of interest rates since the beginning of 2001?

A. As noted earlier, from January 2001 to June 2003 the Federal Reserve cut interest rates a total of thirteen times. During this period, the federal funds rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25 percent. Between June 29, 2004 and March 22, 2005, the FOMC has raised the federal funds rate six more times to its current level of 2.75 percent. As expected, banks have followed the Fed's lead and have boosted the prime rate to its current level of 5.75 percent. According to an article that appeared in the September 22, 2004 edition of the The Wall Street Journal, the FOMC's decision to begin raising rates was viewed as a move to increase rates from emergency lows in order to avoid creating an inflation problem in the future as opposed to slowing down the strengthening economy[17]. In other words, the Fed is trying to head off inflation *before* it becomes a problem.

Since it began increasing the federal funds rate in June 2004, the Federal Reserve has stated that it would increase rates at a "measured" pace. Many analysts and economists interpret this language to mean that Chairman Greenspan will be cautious in increasing interest rates too quickly in order to avoid what is considered to be one of the Fed's few

[17] McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

1 blunders during Greenspan's tenure – a series of increases in 1994 that
2 caught the financial markets by surprise after a long period of low rates.
3 The rapid rise in rates resulted in financial turmoil, which contributed to the
4 bankruptcy of Orange County, California and the Mexican peso crisis[18].
5
6 Q. Putting this all into perspective, how have the Fed's actions over the past
7 four years affected benchmark rates?
8 A. Virtually all of the benchmark rates have fallen to levels not seen in over
9 forty-five years. The Fed's actions have had the overall effect of reducing
10 the cost of many types of business and consumer loans. Despite the
11 recent increases in the federal funds rate, the federal discount rate (the
12 rate charged to member banks) has fallen from 5.73 percent in 2000, to its
13 present level of 3.75 percent. Despite the recent increases, rates are still
14 at historically low levels.
15
16 Q. What has been the trend in other leading interest rates over the last year?
17 A. As of April 1, 2005, all of the leading interest rates have edged up. The
18 prime rate has increased from 4.00 percent a year ago to a current level of
19 5.75 percent. The benchmark federal funds rate, just discussed, has
20 increased from 1.00 percent, in March 2004, to its current level of 2.75
21 percent. As of the week ended April 1, 2005, the yields on all maturities of
22 U.S. Treasury instruments, with the exception of the 30-year and 30-year

[18] Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

zero coupon bonds, which have fallen from 16 to 11 basis points respectively since February 2004, have increased over the past year. The 91-day T-bill rate, used in my CAPM analysis, has increased from 0.93 percent, in March 2004, to 2.88 percent today. The 1-Year Treasury Constant Maturity rate, has also increased from 1.16 percent over the past year to 3.40 percent today. Again, these levels are still low when they are compared with the historical yields displayed on Schedule WAR-8.

Q. How have economists and members of the investment community viewed the Fed's rate actions since June 2004?

A. The change in the Fed's language from "considerable period" to "patient" to "measured," that have been noted through the course of my testimony, has pretty much summed up the Fed's course of action during the economic recovery that is still in progress. In his October column for Wells Capital Management's ("Wells") Monthly Market Outlook publication, Senior Economist Gary E. Schlossberg sees the Fed's recent credit tightening action as a trend that is likely to continue barring an unraveling of the economic recovery, a major disruption in the financial markets or a renewed threat of declining prices. According to Mr. Schlossberg, the Fed appears to be determined to engineer a fundamental shift from its past policy of "aggressive accommodation" to what he considers to be a more "neutral" policy stance (determined by both the rate of inflation and an additional "premium" of possibly 1.00 percent to 1.50 percent) via a series

of rapid fire quarter-point increases that will result in a federal funds rate of 4.00 percent to 4.50 percent by the end of 2005. Mr. Schlossberg's expectation of future incremental increases in the federal funds rate is shared by Mickey Levy, Chief Economist for Bank of America, and by Value Line analysts. In the October 1, 2004 edition of Value Line's "Selection & Opinion" publication, Value Line's analysts stated that they believed that the Fed was following a prudent course. In their opinion the Fed's interest rate cutting helped to avoid a more serious recession and the Fed's present course of action will help to insure that the current upturn in the economy is sustained while keeping inflation low and under control at the same time. Although the increases in the federal funds rate have been viewed as a positive development (i.e. evidence of a strengthening economy), the upward movements in crude oil prices have not. Rising crude oil prices have become a serious concern to analysts and economists because of their potential adverse impact on corporate earnings.

Q. What is the current outlook for interest rates and the economy?

A. Based on the comments of analysts and economists at both Value Line and Wells, the overall outlook for economic growth, and the current low interest rate environment, appears to be good despite a few weak points. In the February 25, 2005 Selection & Opinion's quarterly economic review, Value Line's analysts described the current state of inflation as "benign"

and stated that they expected the current business expansion to continue for the balance of 2005 and into 2006. The following quote[19] by Wells' Chief Investment Strategist, James W. Paulsen, Ph.D., best sums things up:

> "Yes the Fed has raised short-term interest rates, but they are still at remarkably low levels, particularly considering the inflation rate is 3.5 percent! Moreover, long-term yields have barely budged off their recent four-decade lows. The yield curve remains amazingly steep. Fiscal deficit spending has been in excess of $400 billion in the last year and the U.S. dollar has weakened even further in the last six months. Overall, economic policies argue for stronger, not weaker growth."

Q. How has the water industry segment of the U.S. economy fared recently?

A. In his January 28, 2005 update on the water services industry, Value Line analyst Andre Costanza stated that the industry had rebounded after a tough time in 2003. Mr. Costanza also went on to say that the companies included in my proxy had posted "a solid earnings recovery" during 2004. Although none of the water utilities followed by Value Line stand out for capital gains potential, they do offer above average dividend yields and should be attractive to income oriented investors according to Mr. Costanza.

[19] Wells Capital Management's Economic and Market Perspective, January 2005, Pages 1 and 2.

Q. What has been the trend in Value Line's return on common equity projections for the water utility industry?

A. Value Line's analysts have made downward projections on water industry returns on common equity ("ROE") over the past five and a half year period. The following is a summary of Value Line's water utility industry composite statistics on ROE, over the aforementioned period, which are exhibited in Attachments 1 and 2 of Dr. Zepp's testimony and Attachment B of my testimony:

	1999	**2000**	**2002-04**
Value Line ROE Projection – 6 Aug. 1999	11.0%	11.0%	12.0%
	2003	**2004**	**2006-08**
Value Line ROE Projection – 30 Jan. 2004	9.0%	10.5%	12.0%
	2004	**2005**	**2007-09**
Value Line ROE Projection – 28 Jan. 2005	9.5%	9.5%	10.0%

In addition to the downward trend in projections that I just addressed, the above summary also illustrates the fact that Value Line's analysts have been somewhat more optimistic in their forward-looking long-term projections than the projections made during August 1999 and January 2004. These estimates also take into consideration the various water safety regulation and infrastructure problems that the industry currently faces.

Q. Please summarize how the economic data just presented relates to Arizona Water.

A. The current benign rate of inflation translates into stable and even possibly declining prices for goods and services, which in turn means that Arizona Water can expect its present operating expenses to either remain stable or possibly decline in the coming years. Lower interest rates would also benefit Arizona Water in regard to any short or long-term borrowing needs that the Company may have. Lower interest rates, would further help to accelerate growth in new construction projects and home developments (which have been on an upward trend according to data presented in Value Line) in the Company's service territory, and may result in new revenue streams to Arizona Water.

Q. After weighing the economic information that you've just discussed, do you believe that the 9.44 percent cost of equity capital that you have estimated is reasonable for Arizona Water?

A. I believe that my recommended 9.44 percent cost of equity will provide Arizona Water with a reasonable rate of return on the Company's invested capital when economic data on interest rates (that are still low by historical standards), continued growth in new housing construction (attributed to historically low interest rates), and the low and stable outlook for inflation are all taken into consideration. As I noted earlier, the Hope decision determined that a utility is entitled to earn a rate of return that is

commensurate with the returns it would make on other investments with comparable risk. I believe that my DCF analysis has produced such a return. The results that I have obtained are consistent with Value Line's view that the water utility stocks included in my proxy "offer an above average dividend yield." In fact, my recommended 9.44 percent cost of common equity is close to Value Line's forward-looking 2005 return on common equity estimate for the water utility industry.

CAPITAL STRUCTURE

Q. Have you reviewed Arizona Water's testimony regarding the Company's proposed capital structure?

A. Yes, I have.

Q. Please describe the Company's proposed capital structure.

A. The Company is proposing a capital structure comprised of approximately 73 percent common equity and 27 percent long-term debt.

Q. What capital structure are you proposing for Arizona Water?

A. I have adopted the Company-proposed capital structure.

Q. Is Arizona Water's capital structure in line with industry averages?

A. No. As discussed earlier, Arizona Water's capital structure is heavier in equity than the capital structures of the other water companies included in

my cost of capital analysis (Schedule WAR-9). The capital structures for those utilities averaged 44.2 percent for debt (6.5 percent short-term debt + 37.7 percent long-term debt) and 55.8 percent for equity (0.1 percent preferred equity + 55.7 percent common equity).

Q. In terms of risk, how does Arizona Water's capital structure compare to the water utilities in your sample?

A. The water utilities in my sample would be considered as having a higher level of financial risk (i.e. the risk associated with debt repayment) because of their higher levels of debt. The additional financial risk due to debt leverage is embedded in the cost of equities derived for those companies through the DCF analysis. Thus, the cost of equity derived in my DCF analysis is applicable to companies that are more leveraged and, theoretically speaking, riskier than a utility with a level of debt similar to Arizona Water's. In the case of a publicly traded company, such as those included in my proxy, a company with Arizona Water's level of debt would be perceived as having a lower level of financial risk and would therefore also have a lower expected return on common equity.

Q. Have you made a downward adjustment to your DCF estimate based on this perception of lower financial risk?

A. No. As I also explained earlier, I have not made a downward adjustment to my recommended cost of equity based on the results of my DCF and

CAPM analyses. I recognize that Arizona Water may have some degree of risk that would not be present in the sample companies. However, I believe that such risk is minimal at best. Well-managed regulated water utilities are similar in nature regardless of their size; however, a smaller utility may experience a slightly higher level of liquidity risk due to size. Arizona Water's potential for a small degree of liquidity risk is more than offset by its lower level of financial risk.

Q. Have you accepted the Company's 8.43 percent cost of long-term debt?

A. Yes. The Company has not issued any additional long-term debt since its Northern Group rate case in 2001. During that proceeding I accepted the Company's methodology for calculating its cost of debt on the bond issuances that were outstanding at the end of December 31, 2002.

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The 11.25 percent cost of equity capital proposed by the Company's cost of capital witness is 181 basis points higher than the 9.44 percent cost of equity capital that I am recommending.

Q. How does the Company's proposed weighted cost of capital compare with your recommendation?

A. The Company has proposed a weighted cost of capital of 10.50 percent. This composite figure is the result of a weighted average of Arizona Water's proposed 8.43 percent cost of long-term debt and an 11.25 percent cost of equity capital. The Company-proposed 10.50 percent weighted cost of capital is 133 basis points higher than the 9.17 percent weighted cost that I am recommending.

COMMENTS ON ARIZONA WATER'S COST OF EQUITY CAPITAL TESTIMONY

Q. Please describe Arizona Water's cost of equity capital testimony.

A. As noted earlier in my testimony Arizona Water's cost of capital testimony was prepared by Dr. Thomas M. Zepp. Dr. Zepp's testimony presents the results of his analyses, which were derived through a DCF model used by the Federal Energy Regulatory Commission ("FERC") and a risk premium equity cost method that was developed by the staff of the California Public Utility Commission ("CPUC").

Dr. Zepp argues that Arizona Water is riskier than the water utilities included in his sample because of the historical test year concept used in Arizona, and the Arizona Constitution's requirement that a finding of fair value must be determined prior to setting rates. He also claims that Arizona Water faces greater risk because the Company will not recover all

of the costs associated with arsenic removal through an arsenic cost recovery mechanism ("ACRM"). Dr Zepp further argues that Arizona Water faces additional risk because the Company's purchased power adjuster mechanism ("PPAM") and purchased water adjustor mechanism ("PWAM") were eliminated in the Company's Eastern Group rate case proceeding. Other risk factors cited by Dr. Zepp include the Company's size, lower financial flexibility and the Commission's policy on the use of tiered rates to encourage conservation. Dr. Zepp attempts to justify his recommended 11.25 percent return on common equity by citing ACC final orders issued between May 1997 and October 2001 that granted an average return on common equity of 11.28 percent.

Q. Were there any differences in the way that you conducted your DCF analysis and the way that Dr. Zepp conducted his?

A. Yes, Dr. Zepp conducted two separate FERC approved DCF analyses. His first DCF analysis is a one-step constant growth model, similar to the one that I used, which uses a proxy of six water providers. Dr. Zepp's second FERC approved DCF analysis uses a two-step or multi-stage growth model.

Q. Why didn't you conduct a FERC approved multi-stage DCF analysis like the one conducted by Dr. Zepp?

A. Primarily because the growth rate component that I estimated for my single-stage model already takes into consideration both the near-term and long-term growth rate projections that Dr. Zepp averaged in his multi-stage model. This being the case, I saw no need to conduct a separate DCF analysis. Of less importance is the fact that Dr. Zepp chose to use a spot price in the $\mathbf{P_0}$ portion of the DCF formula (principally because ACC Staff has done so in the past) as opposed to an average of closing prices over a specific period of time (e.g. my eight-week average). Although there is the belief among some finance professionals that the current price of a share of stock reflects all known and available information on a publicly traded company, I believe that the use of a spot price leaves too much to chance (i.e. a good or bad day for the stock market, or some random event that affected investor perceptions on a particular day). For this reason I believe an average of closing prices over a specific period of time is a better approach.

Q. What is the difference between your DCF results and Dr. Zepp's first DCF result?

A. The 9.44 percent cost of common equity derived in my DCF analysis (that uses three sample water companies) is 76 basis points lower than the

10.20 percent cost of common equity derived in Dr. Zepp's one-step DCF analysis.

Q. Why is your 9.44 percent DCF result 76 basis points lower than Dr. Zepp's 10.20 percent one-step DCF result?

A. The main reason for the difference is one of observation period timing. Over the past two years there have been no substantial changes in dividend payouts but stock prices have increased. Dr. Zepp's higher dividend yields are attributed to the fact that his six-month average was taken over an observation period (December 2003 thru May 2004) when the majority of the water companies in his sample were trading at lower prices than they were during the eight-week observation period (February 7, 2005 to April 1, 2005) that I based my calculation on (Attachment C). In the dividend yield portion ($D_1 \div P_0$) of the DCF formula ($k = (\mathbf{D_1 \div P_0}) + g$), Dr. Zepp's dividend yield was derived by taking a high and low average of a six-month dividend yield (adjusted for one-half year's growth) on each of the six water companies in his proxy (Table 4 of Dr. Zepp's testimony). This produced an average adjusted dividend yield of 3.40 percent (the average of a high of 3.8 percent to a low of 3.0 percent) versus the 2.94 percent, which I calculated (Schedule WAR-3).

In the growth portion (g) of the DCF formula ($k = (D_1 \div P_0) + \mathbf{g}$), Dr. Zepp relied on data published in the April 30, 2004 Value Line water industry update to calculate a high and low range of 6.50 percent to 7.00 percent.

He then averaged the range to arrive at a dividend growth rate of 6.75 percent versus my 6.50 percent dividend growth rate (Schedule WAR-4). In arriving at his final one-step DCF estimate of 10.20 percent, Dr. Zepp added his 3.40 percent average dividend yield and his 6.75 percent dividend growth average to arrive at his final estimate of 10.20 percent that is 76 basis points higher than my 9.44 percent estimate that relied on data from the January 28, 2005 Value Line water industry update.

Q. You stated that Dr. Zepp used a six-month average of closing stock prices in the "P_0" component of the DCF model as opposed to a more recent eight-week average that you used. What is the difference between the two average stock prices?

A. Attachment C to my testimony contains closing stock price charts, from the March 2003 to March 2005 time period, for the six water utilities included in Dr. Zepp's proxy. In the case of the three water companies that were included in my proxy, the high and low range of approximate closing stock prices for Dr. Zepp's observation period and the high and low closing stock prices for my observation period were as follows:

	12/01/03 – 05/31/04	02/07/05 – 04/01/05
American States	$26.75 to $20.75	$27.55 to $25.10
California Water	$30.00 to $26.00	$35.55 to $32.87
Aqua America	$23.00 to $19.00	$25.63 to $23.72

My comparison illustrates the fact that the stock prices for the three water companies included in both Dr. Zepp's proxy and my proxy have increased in value since Dr. Zepp's testimony was filed, thus explaining the lower yields.

Q. What is the difference between your DCF result and Dr. Zepp's two-step or multi-stage growth model DCF result?

A. The 9.44 percent cost of common equity derived in my DCF analysis (that uses three sample water companies) is 96 basis points lower than the 10.40 percent cost of common equity derived in Dr. Zepp's two-step DCF analysis that relied on closing spot prices as of June 15, 2004. A comparison of Dr. Zepp's closing spot prices and my eight-week average price is as follows:

	06/15/04	02/07/05 – 04/01/05
American States	$22.15	$26.31
California Water	$27.50	$34.36
Aqua America	$20.35	$24.68

Again my comparison illustrates the fact that the differences in dividend yields for the three water companies included in both Dr. Zepp's proxy and my proxy are attributed to the increase in stock prices since Dr. Zepp's testimony was filed.

Q. Does the increase in stock prices that you just described support Dr. Zepp's contention that investor's have bid up water utility stock prices in anticipation of mergers and acquisitions?

A. Although Value Line's analysts have regularly discussed consolidation in the water utility industry, none of the six water utilities in Dr. Zepp's proxy are in the process of being acquired at this time. This being the case, I can only regard Dr. Zepp's statements as being purely speculative.

Q. Based on the DCF comparisons that you have just presented, do you believe that your estimates for the growth component of the DCF model are too low?

A. No. As can be seen in Schedule WAR-6, my growth estimate is actually 61 basis points higher than the average of Value Line's per share projections on earnings, dividends and book value and 20 basis points higher than Zack's 6.30 percent five-year earnings growth outlook for the water utility industry as a whole (Attachment D). These figures were current as of April 1, 2005.

Q. Did Dr. Zepp conduct a CAPM analysis in his testimony?

A. No. Dr. Zepp conducted a risk premium analysis that produced estimated returns that ranged from 10.6 percent to 11.40 percent.

Q. Did you conduct a risk premium analysis?

A. No I did not.

Q. How did Dr. Zepp arrive at his 11.25 percent cost of common equity figure after presenting the results of his DCF and risk premium analyses that range from 10.20 percent to 11.40 percent?

A. As exhibited in Table 15 of his testimony, Dr. Zepp settled on a figure that was slightly below the average of his estimated cost of equity ranges for Arizona Water, which increases the range of estimates produced by his models by 50 basis points.

Q. How does Dr. Zepp justify his stated position that the Arizona jurisdiction has a high level of regulatory risk?

A. Both Dr. Zepp and Company witness William M. Garfield cite regulatory methods in the California jurisdiction, such as future test years, balancing accounts, adjustor mechanisms for plant additions and annual CPI adjustors which are not utilized here in Arizona.

Q. Do you agree with Dr. Zepp and Mr. Garfield's contention that Arizona is a riskier jurisdiction to operate in because of the Commission's adherence to the historical test year concept?

A. No. The Commission historically makes allowances for known and measurable changes to historic test year operating results. Because of this, there is no reason for any additional return on investment. In my view, it is important to remember that one of the main arguments for future and projected test years was the volatile inflationary environment that

utilities once operated in. Given the current economic environment of low inflation, coupled with the projections for low stable interest rates and low, even falling, prices that I noted earlier in my testimony, the continued use of the historical test year approach to setting rates does not add any additional risk for a utility operating in the Arizona jurisdiction.

Q. Please discuss risk in the context of the Company's regulatory climate in Arizona.

A. The regulatory climate that a utility must operate in has always been considered as a potential source of risk when determining the rate of return that a utility is entitled to. In my opinion, the regulatory climate that Arizona Water is operating in has never been more favorable to water utilities. Although Dr. Zepp and Mr. Garfield argue otherwise, the Commission has approved a recovery mechanism that, when authorized in the context of a rate case, will allow water providers in Arizona, including Arizona Water, the ability to pass through costs that are related to the removal of arsenic in order to meet the new EPA standard. Over the past eight years, the federal reauthorization of the Safe Drinking Water Act ("SDWA") has provided federal funds from which a state revolving fund has been established. The fund, administered in Arizona by the Water Infrastructure Finance Authority ("WIFA"), has been set up to provide low interest rate loans to water utilities that want to make improvements to their systems. Unlike other states, such as Indiana,

which has in the past, exercised its discretionary power to limit the distribution of that state's share of federal monies to public systems only, Arizona has encouraged both public and investor-owned systems like Arizona Water to apply for WIFA loans. Although an Arizona-based water provider might not wish to take advantage of loans offered by WIFA (for whatever reasons decided on by the water provider's management) that does not change the fact that low interest financing is available to qualifying water providers through the WIFA program. The Arizona Department of Environmental Quality's ("ADEQ") Monitoring Assistance Program ("MAP") is also now in place to aid water utilities on their water testing needs.

Q. Can you cite any recent events that would support your claim that Arizona is a favorable jurisdiction for water utilities?

A. Yes. There have been a number of public utility holding company acquisitions of Arizona properties in recent years. California-based American States acquired Chaparral City in Fountain Hills, and RWE AG of Germany, acquired Arizona-American. The Chaparral City acquisition is particularly noteworthy since it marked the first time that American States had acquired a system outside of California. Over the last three years Southwest Gas expanded its operations in Arizona by acquiring Black Mountain Gas and UniSource Energy acquired the electric and gas operations of Citizens Communications. Clearly, these public utility

holding companies would not have expanded in Arizona if they believed they were going to have to face a harsh regulatory climate.

Q. Are there other facts that would indicate that the Arizona jurisdiction is not as risky as the Company would want one to believe?

A. While working on the Company's Northern Group rate case proceeding, I had the opportunity to review CPUC documents on Park Water Company[20] ("Park Water"), a California water provider that was part of a CPUC investigation on rates of return for small utilities in that jurisdiction (Park Water was cited in Dr. Zepp's testimony in both the instant case and the Northern Group proceeding). Contained in the report were various aspects of California regulation that have never been major issues in the water utility proceedings that I have been involved with here in Arizona. This includes rigid caps on management salary levels and strict policies that allow utilities to recover only fifty percent of their fixed operating costs through minimum monthly service charges. During the CPUC investigative proceedings, Park Water expressed displeasure over being subject to an imputed capital structure, which is also rare in the case of water utility proceedings in Arizona. These examples indicate that the

[20] Based on information contained on its Internet web site during the Arizona Water Company Northern Group proceeding, Park Water is an investor owned, public water utility that delivers water to approximately 60,000 service connections. Park Water serves a population of about 200,000 people in Los Angeles and San Bernardino Counties in California, and in Missoula and Superior Counties in Montana.

Arizona jurisdiction is not as unfavorable as many utility consultants would lead you to believe.

Q. Please discuss Dr. Zepp's argument that Arizona Water faces additional risk because it will not recover all of the costs associated with arsenic removal through a Western Group ACRM.

A. As background, Arizona Water's Northern Group rate case proceeding was bifurcated for the purpose of developing the ACRM that is now in place for both the Company's Northern and Eastern Groups (it is likely that the Western Group will be granted a similar mechanism in the course of this proceeding). During the bifurcated phase of the Northern Group proceeding, representatives from Arizona Water, ACC Staff and RUCO met on a number of occasions to create an adjustor mechanism that would allow for the recovery of costs related to arsenic removal. Now that a mechanism is in place, Arizona Water would like a higher rate of return because some costs may not be recovered through a Western Group ACRM due to the timing of this proceeding – which the Company had control over in terms of when it decided to file for rate relief. Therefore, Dr. Zepp's additional risk argument has no more merit than his arguments regarding the Commission's adherence to the historical test year concept and the fair-value requirement mandated by the Arizona Constitution.

Q. Please comment on Dr. Zepp's position that the current ACRM limits the Company to recover only specific and narrowly defined costs that can easily be audited by ACC Staff.

A. The ACRM approved by the Commission is no different from other cost recovery mechanisms in this respect. No Arizona ratemaking mechanism gives carte blanche ability for utilities to pass costs on to ratepayers without some regulatory oversight. In fact this requirement helps to insure that utilities maintain efforts to keep costs under control.

Q. Do you agree with Dr. Zepp's position that an upward adjustment in Arizona Water's cost of equity capital is warranted should the Commission eliminate the PPAM and PWAM for the Western Group systems?

A. No. Although I have argued in prior cases that adjustor mechanisms can mitigate earnings volatility, the facts in this case do not support such an adjustment. As I have explained in my direct testimony on required revenue, the elimination of the Western Group's PPAM and PWAM will not have any adverse impact on the Company's ability to recover operating costs. In regard to the Arizona Public Service ("APS") rate increase, which was recently approved, the Commission amended the settlement agreement reached in that proceeding and placed a cap on the amount of costs that could be passed through a power supply adjustor mechanism ("PSA"). Given these facts, I see no need to make an upward adjustment

to my recommended return on common equity, which was derived from a sample of water utilities that face greater financial risk than Arizona Water.

Q. Is Arizona Water seeking an additional return on common equity because of Arizona Water's size?

A. No. After citing academic papers and a CPUC study on small water utilities that address the issue of company size (the contents and conclusions of which have been discussed and debated vigorously by RUCO in prior Arizona Water rate case proceedings) on pages 24 and 25 of his testimony, Dr. Zepp states that Arizona Water is not seeking an additional risk premium for the Company's size even though he believes that one is justified.

Q. Is Arizona Water seeking an additional return on common equity because of alleged risk associated with the Company's financial flexibility?

A. No. After he addresses this point and discusses the Company's options for raising capital on pages 25 and 26 of his testimony, Dr. Zepp states that Arizona Water is not seeking an additional risk premium for the Company's ability to obtain funds for plant improvements even though he believes that one is justified. Again, RUCO has discussed and debated this issue in testimony filed in both the Northern Group and Eastern Group proceedings and, again, the Commission has rejected the Company's argument.

Q. Should the Company be provided with a higher return on equity due to the Commission's policy of requiring tiered rates for the purpose of encouraging conservation?

A. No. Discussion of this issue always centers on the possibility of a drop in revenues. However, there is rarely if any discussion on the possibility that lower consumption would also produce a drop in the variable costs associated with pumping and transporting water which could also result in lower operating expenses. This could lead to no change in, or possibly higher, operating income for the affected water utility. Further, the Commission typically does not recognize ratemaking adjustments based on mere speculation and adheres to the "known and measurable" principle of ratemaking.

Q. Please comment on Dr. Zepp's observation that ACC final orders issued between May 1997 and October 2001 granted an average return on common equity of 11.28 percent.

A. The ACC's return authorizations in the past have no bearing on this case. The purpose of estimating a cost of common equity is to try to determine, as best as possible, what a regulated utility's cost of equity should be after taking into consideration both prevailing and forward-looking economic conditions. Dr. Zepp's argument in this regard is akin to a comparable earning's analysis that would always result in an ROE of 11.28 percent.

Q. Are there any final remarks that you would like to make regarding your recommended cost of capital for Arizona Water?

A. Yes. I would like to reiterate my firm belief that the water utilities that were included in my DCF and CAPM sample fit the Hope decision definition of "other investments with comparable risk." I further believe that the water companies included in my sample closely resemble Arizona Water in terms of both an operating and risk standpoint.

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of Dr. Zepp or any other witness for Arizona Water constitute your acceptance of their positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on Arizona Water?

A. Yes, it does.

Qualifications of William A. Rigsby

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Revenue Auditor II
Arizona Department of Revenue
Corporate Income Tax Audit Unit
Phoenix, Arizona
November 1993 – October 1994

Tax Examiner Technician I
Arizona Department of Revenue
Transaction Privilege Tax Audit Unit
Phoenix, Arizona
July 1991 – November 1993

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

Utility Company	Docket No.	Type of Proceeding
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase

ATTACHMENT A

AMER. STATES WATER NYSE-AWR

RECENT PRICE 25.58 | P/E RATIO 18.9 (Trailing: 27.8 / Median: 16.0) | RELATIVE P/E RATIO 1.01 | DIV'D YLD 3.5% | VALUE LINE

TIMELINESS 4 Raised 11/7/03

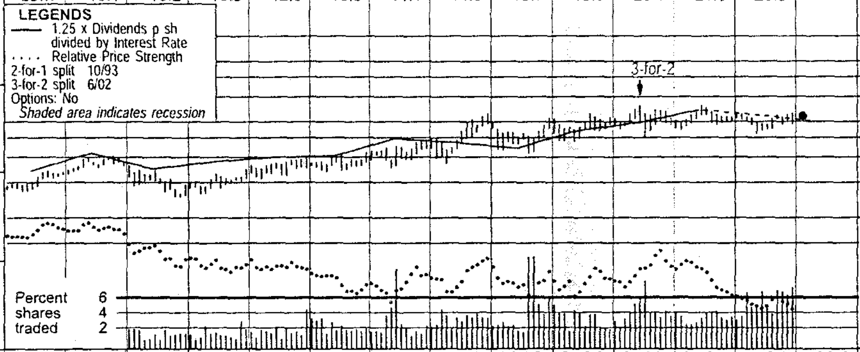
SAFETY 3 New 2/4/00

TECHNICAL 2 Raised 12/24/04

BETA .70 (1.00 = Market)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
High:	16.3	14.7	14.0	16.1	17.1	19.5	26.5	25.3	26.4	29.0	29.0	26.8
Low:	13.1	10.2	10.5	12.5	13.5	14.1	14.8	16.7	19.0	20.3	21.6	20.8

Target Price Range 2007 | 2008 | 2009



2007-09 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	30	(+15%)	7%
Low	20	(-20%)	-2%

Insider Decisions

	M	A	M	J	J	A	S	O	N
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2004	2Q2004	3Q2004
to Buy	47	45	52
to Sell	33	35	25
Hld's(000)	5623	5584	5938

% TOT. RETURN 12/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	7.9	17.2
3 yr.	23.2	43.9
5 yr.	28.7	76.6

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
8.58	9.12	9.58	9.15	10.10	9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	*13.75*	*14.80*	Revenues per sh	*15.80*
1.13	1.44	1.49	1.78	1.81	1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	*2.50*	*2.90*	"Cash Flow" per sh	*3.40*
.65	.92	.94	1.19	1.15	1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.72	*1.16*	*1.45*	Earnings per sh A	*2.00*
.67	.69	.72	.73	.77	.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	*.90*	Div'd Decl'd per sh B■	*.96*
2.39	2.46	2.53	2.77	2.31	1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	*4.05*	*4.15*	Cap'l Spending per sh	*3.60*
7.07	7.31	7.54	8.39	8.85	9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	*14.65*	*15.35*	Book Value per sh	*17.50*
9.35	9.39	9.43	9.91	9.96	11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	*16.75*	*17.25*	Common Shs Outst'g C	*19.00*
14.2	9.7	10.2	8.8	10.6	13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	*21.0*		Avg Ann'l P/E Ratio	*13.0*
1.18	.73	.76	.56	.64	.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.85	*1.09*		Relative P/E Ratio	*.85*
7.4%	7.7%	7.5%	7.0%	6.3%	5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.7%		Avg Ann'l Div'd Yield	*3.8%*

CAPITAL STRUCTURE as of 9/30/04
Total Debt $258.1 *mill.* **Due in 5 Yrs** $60.0 mill.
LT Debt $229.3 mill. **LT Interest** $16.0 mill.
(Total interest coverage: 2.0x)

Leases, Uncapitalized: None
Pension Assets-12/03 $46.7 mill.
Oblig. $58.9 mill.
Pfd Stock None. **Pfd Div'd** None.

Common Stock 16,689,482 shs.
as of 11/9/04
MARKET CAP: $425 million (Small Cap)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
122.7	129.8	151.5	153.8	148.1	173.4	184.0	197.5	209.2	212.7	*230*	*255*	Revenues ($mill)	*300*
11.3	12.2	13.5	14.1	14.6	16.1	18.0	20.4	20.3	11.9	*19.5*	*25.0*	Net Profit ($mill)	*38.0*
43.9%	41.9%	43.3%	41.1%	40.9%	46.0%	45.7%	43.0%	38.9%	43.5%	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
--	--	--	--	--	--	--	--	--	--	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
43.5%	46.6%	41.9%	43.0%	43.6%	51.0%	47.5%	54.9%	52.0%	52.0%	*51.0%*	*51.0%*	Long-Term Debt Ratio	*52.0%*
55.5%	52.5%	57.3%	56.3%	55.7%	48.4%	51.9%	44.7%	48.0%	48.0%	*49.0%*	*49.0%*	Common Equity Ratio	*48.0%*
213.5	230.6	256.0	268.4	277.1	328.2	371.1	447.6	444.4	442.3	*490*	*545*	Total Capital ($mill)	*700*
314.9	335.0	357.8	383.6	414.8	449.6	509.1	539.8	563.3	602.3	*650*	*710*	Net Plant ($mill)	*850*
7.1%	7.2%	6.9%	6.9%	7.0%	6.6%	6.4%	6.1%	6.5%	4.6%	*6.0%*	*6.5%*	Return on Total Cap'l	*7.0%*
9.4%	9.9%	9.0%	9.2%	9.4%	10.0%	9.2%	10.1%	9.5%	5.6%	*9.0%*	*9.5%*	Return on Shr. Equity	*10.5%*
9.5%	10.0%	9.0%	9.2%	9.4%	10.1%	9.3%	10.1%	9.5%	5.6%	*9.0%*	*9.5%*	Return on Com Equity	*10.5%*
1.6%	2.1%	2.4%	1.8%	2.1%	2.9%	3.0%	3.6%	3.3%	NMF	*3.0%*	*3.5%*	Retained to Com Eq	*5.5%*
84%	79%	73%	80%	78%	72%	68%	65%	65%	113%	*76%*	*58%*	All Div'ds to Net Prof	*48%*

CURRENT POSITION ($MILL.)	2002	2003	9/30/04
Cash Assets	18.4	12.8	6.6
Receivables	10.8	11.8	14.5
Inventory (Avg Cst)	.9	1.4	1.5
Other	21.7	32.4	24.9
Current Assets	51.8	58.4	47.5
Accts Payable	11.6	18.8	19.0
Debt Due	48.3	56.8	28.8
Other	19.6	20.3	26.8
Current Liab.	79.5	95.90	74.6
Fix. Chg. Cov.	285%	255%	200%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '07-'09
Revenues	3.5%	4.0%	2.5%
"Cash Flow"	3.0%	5.0%	6.0%
Earnings	--	1.5%	9.5%
Dividends	1.5%	1.0%	1.5%
Book Value	4.5%	4.0%	4.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2001	40.3	49.9	59.4	47.9	197.5
2002	44.5	52.8	61.6	50.3	209.2
2003	46.7	51.8	63.7	50.5	212.7
2004	46.7	59.3	69.0	*55.0*	*230*
2005	*53.0*	*66.0*	*76.0*	*60.0*	*255*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2001	.21	.33	.63	.18	1.35
2002	.25	.36	.50	.23	1.34
2003	.20	.13	.51	d.12	.72
2004	.08	.30	.52	*.26*	*1.16*
2005	*.24*	*.33*	*.60*	*.28*	*1.45*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.217	.217	.217	.217	.87
2002	.217	.217	.217	.221	.87
2003	.221	.221	.221	.221	.88
2004	.221	.221	.221	.225	.89
2005					

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Southern California *Water Company*, it supplies water to 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to approximately 22,000 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00); 11,400 customers. Has about 520 employees. Off. & dir. own less than 1% of common stock (4/04 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Incorporated: CA. Add.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tel.: 909-394-3600. Web: www.aswater.com.

American States Water will have to contend with increasing infrastructure costs going forward. The company was forced to purchase water from wholesalers in the second half of 2004, as wells were taken out of service for water quality and maintenance reasons. We remain concerned about these circumstances, as industry standards will likely only intensify moving forward due to the threat of bioterrorism and the age of some of current systems. Prolonged well closures can substantially impact margins, given that purchased water can cost more than five times water pumped from company wells.

Still, regulatory relief likely helped the company close out 2004 in strong form. The California Public Utilities Commission (CPUC) has been handing down some favorable decisions in a more timely manner of late, helping boost the company's top line considerably. Specifically, the board granted rate relief in Regions II and III in the amounts of $0.4 million and $15.8 million, respectively in late August. These orders followed an $8.1 million increase in Region III in March.

We look for American to grow earnings by 25% in 2005. Earlier this year, the CPUC approved additional rate increases for Region II and III customer service areas of its SWC unit effective this month. The rate increases there will provide additional annual revenues totaling in excess of $5 million.

These untimely shares hold minimal capital gains appeal . . . Although the recent rash of favorable CPUC decisions augurs well for the company's top line, we suspect that AWR will have to tap equity and debt markets in order to keep up with growing government regulations, as it is strapped for cash at this time. Such moves would not only dilute earnings, but could also limit AWR's ability to participate in the growing acquisition market.

. . . but ought to pique the interest of income-oriented investors. The company recently raised its quarterly dividend by 2%, marking the 50th consecutive year that management has increased its annual dividend to shareholders. We expect that the company will continue to increase payouts moving forward.

Andre J. Costanza *January 28, 2005*

(A) *Primary earnings.* Excludes nonrecurring gains: '91, 73¢; '92, 13¢; '04, 14¢. Next earnings report due late April.

(B) Dividends historically paid in early-March, June, September, December. ■ Div'd reinvestment plan available.

(C) In millions, adjusted for splits.

Company's Financial Strength	B+
Stock's Price Stability	90
Price Growth Persistence	80
Earnings Predictability	70

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CALIFORNIA WATER NYSE-CWT

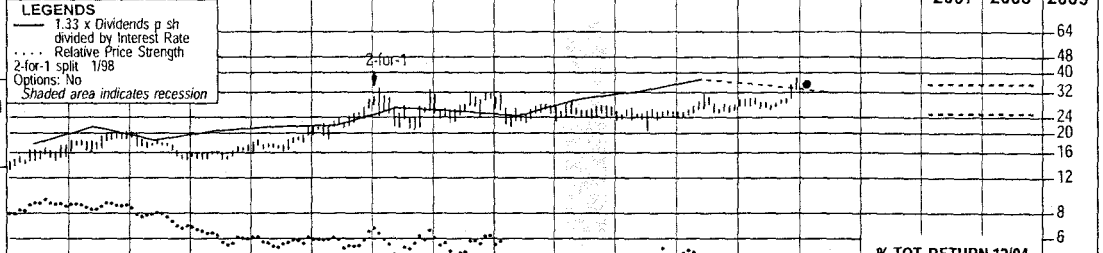
RECENT PRICE 35.12 | P/E RATIO 22.7 (Trailing: 21.0 Median: 17.0) | RELATIVE P/E RATIO 1.21 | DIV'D YLD 3.2% | VALUE LINE

TIMELINESS 3 Raised 8/6/04
SAFETY 2 Lowered 8/11/95
TECHNICAL 2 Raised 1/21/05
BETA .75 (1.00 = Market)

High:	20.6	20.5	17.6	21.9	29.6	33.8	32.0	31.4	28.6	26.9	31.4	37.9
Low:	16.1	14.7	14.8	16.3	18.6	20.8	22.6	21.5	22.9	20.5	23.7	26.1

Target Price Range 2007 | 2008 | 2009

LEGENDS
— 1.33 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 1/98
Options: No
Shaded area indicates recession



2007-09 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(Nil)	3%
Low	25	(-30%)	-4%

Insider Decisions

	M	A	M	J	J	A	S	O	N
to Buy	0	0	1	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	1

Institutional Decisions

	1Q2004	2Q2004	3Q2004
to Buy	42	40	38
to Sell	19	30	28
Hld's(000)	3785	4047	3994

Percent shares traded 4.5 3 1.5

% TOT. RETURN 12/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	42.9	17.2
3 yr.	66.0	43.9
5 yr.	57.2	76.6

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
10.03	10.33	10.93	11.18	12.29	13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.371	17.45	18.45	Revenues per sh	20.65
1.87	1.89	1.97	1.98	1.92	2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.95	3.10	"Cash Flow" per sh	3.60
1.23	1.20	1.25	1.21	1.09	1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.58	1.70	Earnings per sh A	2.00
.80	.84	.87	.90	.93	.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	Div'd Decl'd per sh B ■	1.18
2.12	2.40	2.36	3.03	3.09	2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.40	3.65	Cap'l Spending per sh	3.90
9.30	9.66	10.04	10.35	10.51	10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.55	15.80	Book Value per sh C	18.25
11.34	11.38	11.38	11.38	11.38	11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.35	18.70	Common Shs Outst'g D	23.00
11.5	10.6	10.4	11.2	14.1	13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	18.5		Avg Ann'l P/E Ratio	16.0
.95	.80	.77	.72	.86	.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.28	.97		Relative P/E Ratio	1.05
5.7%	6.6%	6.7%	6.6%	6.1%	5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%		Avg Ann'l Div'd Yield	4.0%
						157.3	165.1	182.8	195.3	186.3	206.4	244.8	246.8	263.2	277.1	320	345	Revenues ($mill)	475
						14.4	14.7	19.1	23.3	18.4	19.9	20.0	14.4	19.1	19.4	29.0	32.0	Net Profit ($mill)	45.0
						40.0%	40.1%	38.9%	37.4%	36.4%	37.9%	42.3%	39.4%	39.7%	39.9%	40.0%	40.0%	Income Tax Rate	40.0%
						--	--	--	--	--	--	--	--	--	--	Nil	Nil	AFUDC % to Net Profit	Nil
						46.6%	49.2%	47.4%	45.4%	44.2%	46.9%	48.9%	50.3%	55.3%	52.3%	48.5%	49.5%	Long-Term Debt Ratio	49.0%
						52.2%	49.7%	51.4%	53.5%	54.7%	52.0%	50.2%	48.8%	44.0%	47.0%	50.5%	49.5%	Common Equity Ratio	50.0%
						276.9	296.0	299.9	306.7	308.6	333.8	388.8	402.7	453.1	520.3	570	600	Total Capital ($mill)	840
						407.9	422.2	443.6	460.4	478.3	515.4	582.0	624.3	697.0	759.5	800	850	Net Plant ($mill)	985
						7.1%	6.8%	8.3%	9.4%	7.8%	7.8%	6.8%	5.3%	5.9%	5.6%	6.5%	7.0%	Return on Total Cap'l	7.0%
						9.7%	9.8%	12.1%	13.9%	10.7%	11.2%	10.0%	7.2%	9.4%	7.8%	10.0%	10.5%	Return on Shr. Equity	11.0%
						9.9%	9.9%	12.3%	14.1%	10.8%	11.4%	10.1%	7.2%	9.5%	7.9%	10.0%	10.5%	Return on Com Equity	11.0%
						1.9%	1.2%	3.8%	6.0%	2.8%	3.5%	1.8%	NMF	1.0%	.7%	3.0%	3.5%	Retained to Com Eq	4.5%
						81%	88%	69%	58%	74%	70%	82%	119%	90%	91%	72%	67%	All Div'ds to Net Prof	60%

CAPITAL STRUCTURE as of 9/30/04
Total Debt $272.8 mill. **Due in 5 Yrs** $11.0 mill.
LT Debt $271.9 mill. **LT Interest** $17.5 mill.

(LT interest earned: 4.2x; total int. cov.: 3.8x)

Pension Assets-12/03 $88.4 mill.
Oblig. $63.2 mill.
Pfd Stock $3.5 mill. **Pfd Div'd** $.15 mill.
139,000 shares, 4.4% cumulative ($25 par).

Common Stock 18,345,496 shs.
as of 11/4/04
MARKET CAP: $650 million (Small Cap)

CURRENT POSITION ($MILL.)	2002	2003	9/30/04
Cash Assets	1.1	2.9	33.1
Other	41.9	40.6	48.7
Current Assets	43.0	43.5	81.8
Accts Payable	23.7	23.8	26.8
Debt Due	24.8	7.3	.9
Other	43.0	32.5	37.3
Current Liab.	91.5	63.6	65.0
Fix. Chg. Cov.	250%	218%	201%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '07-'09
Revenues	3.0%	2.0%	3.5%
"Cash Flow"	2.0%	-1.5%	6.5%
Earnings	-.5%	-6.5%	10.0%
Dividends	2.0%	1.0%	1.0%
Book Value	2.5%	1.0%	5.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	47.0	67.0	76.3	56.5	246.8
2002	51.7	69.2	81.4	60.9	263.2
2003	51.3	68.0	88.2	69.6	277.1
2004	60.2	88.9	97.1	73.8	320
2005	65.0	90.0	105	85.0	345

Cal-endar	EARNINGS PER SHARE A E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.01	.34	.39	.20	.94
2002	.12	.43	.50	.20	1.25
2003	d.05	.30	.53	.41	1.21
2004	.08	.59	.59	.32	1.58
2005	.09	.55	.70	.36	1.70

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.279	.279	.279	.279	1.12
2002	.28	.28	.28	.28	1.12
2003	.281	.281	.281	.281	1.12
2004	.283	.283	.283	.283	1.13
2005					

BUSINESS: California Water Service Group provides regulated and nonregulated water service to over 2 million people (461,200 customers) in 98 communities in California, Washington, and New Mexico. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired National Utility Company (5/04); Rio Grande Corp. (11/00). Revenue breakdown, '03: residential, 70%; business, 18%; public authorities, 5%; industrial, 4%; other, 3%. '03 reported deprec. rate: 2.2%. Has about 815 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson. Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwater.com.

An improving regulatory environment augurs well for California Water Service Group. Despite sluggish and unfavorable rate case rulings in recent years, it appears as though the California Public Utilities Commission (CPUC) has turned over a new leaf. Recent decisions signal that the regulatory climate is improving and that the current regulatory bodies' policies are becoming more-business friendly. CWT has filed its 2004 general rate case for eight districts, including Salinas. The filing, which covers roughly 40% of its total customer base, requests a $26.5 million in rates in 2005, with increases of $6.3 million in 2006 and 2007. Meanwhile, the company also has other cases still pending with the commission. Favorable decisions would prove our estimates fairly modest. However,

We look for earnings growth to moderate in 2005. We are especially concerned about first-half comparisons, as heavy rainfall has put many of the company's wells out of commission in the past few months. As a result, Cal has been forced to purchase water to meet demand, pushing operating costs considerably higher. Purchased water can cost five times more than internally produced supplies. We look for growth to pick up as the year progresses and as wells are restored.

Infrastructure costs ought to limit profits out to late decade. The costs of well and pipeline upkeep has risen and, with the threat of bioterrorism looming, should increase over the next few years. Such costs will force Cal to issue more debt and stock in order to pay the bill.

These shares are not for everyone . . . They are ranked 3 (Average) for Timeliness. Moreover, they offer little 3- to 5-year gains appeal, as the 20% surge in share price since our October review discounts any gains we envision at this time. Cal shares are already trading slightly above our 2007-2009 Target Price Range.

. . . but should interest those looking for some income. CWT offers an above-average dividend yield. Investors should also find solace in the fact that the board of directors has increased the company's annual payout in each of the last 37 years. The stock also carries a 2 (Above Average) rank for Safety.

Andre J. Costanza *January 28, 2005*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; Q2 '02, 8¢. Next earnings report due late April.
(B) Dividends historically paid in mid-Feb., May, Aug., Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '03: $38.0 mill., $2.25/sh.
(D) In millions, adjusted for split.
(E) May not total due to change in shares.

Company's Financial Strength	B++
Stock's Price Stability	95
Price Growth Persistence	90
Earnings Predictability	65

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AQUA AMERICA NYSE-WTR

RECENT PRICE **24.25** | P/E RATIO **26.6** (Trailing: 29.9 / Median: 20.0) | RELATIVE P/E RATIO **1.41** | DIV'D YLD **2.1%** | VALUE LINE

TIMELINESS **4** Lowered 6/4/04
SAFETY **3** Lowered 8/1/03
TECHNICAL **2** Raised 1/7/05
BETA .75 (1.00 = Market)

High:	5.3	5.0	5.5	7.6	11.4	15.4	15.4	16.0	19.7	20.0	22.4	24.6	
Low:	4.0	4.4	4.4	5.2	5.9	9.7	10.1	8.4	12.5	12.8	15.8	18.9	

Target Price Range 2007 | 2008 | 2009

2007-09 PROJECTIONS

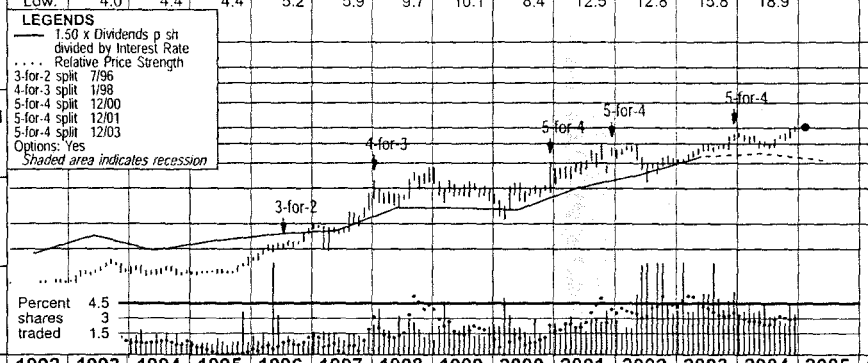
	Price	Gain	Ann'l Total Return
High	35	(+45%)	11%
Low	20	(-20%)	-2%

Insider Decisions

	M	A	M	J	J	A	S	O	N
to Buy	1	0	0	1	0	0	0	0	0
Options	0	0	1	0	0	0	0	1	0
to Sell	0	0	2	1	0	1	0	0	0

Institutional Decisions

	1Q2004	2Q2004	3Q2004
to Buy	93	90	90
to Sell	73	62	45
Hld's(000)	26637	26345	26282



% TOT. RETURN 12/04

	THIS STOCK	VL ARITH. INDEX
1 yr.	13.9	17.2
3 yr.	46.7	43.9
5 yr.	110.4	76.6

1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	© VALUE LINE PUB., INC.	07-09
4.45	4.53	2.70	2.85	2.43	2.27	2.42	2.45	2.48	2.69	2.79	3.21	3.29	3.59	3.79	3.97	*4.65*	*5.00*	Revenues per sh	*6.00*
.66	.65	.58	.59	.52	.56	.56	.63	.67	.74	.81	.96	1.01	1.15	1.26	1.28	*1.45*	*1.60*	"Cash Flow" per sh	*1.85*
.30	.27	.33	.33	.31	.33	.35	.39	.40	.46	.53	.56	.62	.68	.72	.76	*.85*	*.95*	Earnings per sh A	*1.20*
.24	.24	.26	.26	.27	.27	.28	.29	.30	.32	.34	.36	.38	.40	.43	.46	.49	*.52*	Div'd Decl'd per sh B■	*.65*
.88	1.15	1.01	.72	.80	.63	.61	.69	.64	.77	1.09	1.20	1.55	1.45	1.60	1.76	*1.75*	*1.75*	Cap'l Spending per sh	*1.75*
2.88	2.92	2.80	2.76	2.79	3.05	3.21	3.28	3.59	3.79	4.28	4.57	5.13	5.53	5.81	7.12	*7.30*	*7.55*	Book Value per sh	*8.80*
28.27	29.45	30.48	31.06	38.40	44.55	44.83	47.81	49.31	50.60	54.15	80.10	83.87	85.48	84.90	92.59	*95.00*	*98.00*	Common Shs Outst'g C	*100.00*
12.3	12.9	10.2	10.8	12.5	14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	*25.1*		Avg Ann'l P/E Ratio	*23.0*
1.02	.98	.76	.69	.76	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.42	*1.30*		Relative P/E Ratio	*1.55*
6.5%	6.9%	7.7%	7.2%	6.8%	5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%		Avg Ann'l Div'd Yield	*2.4%*

CAPITAL STRUCTURE as of 9/30/04
Total Debt $961.5 mill. **Due in 5 Yrs** $211.9 mill.
LT Debt $772.5 mill. **LT Interest** $45.0 mill.
(Total interest coverage: 3.5x)

Pension Assets-12/03 $108.7 mill.
Oblig. $150.1 mill.

Pfd Stock None

Common Stock 93,254,277 shares as of 10/25/04

MARKET CAP: $2.3 billion (Mid Cap)

1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005		07-09
108.6	117.0	122.5	136.2	151.0	257.3	275.5	307.3	322.0	367.2	*440*	*490*	Revenues ($mill)	*600*
15.6	19.0	19.8	23.2	28.8	45.0	50.7	58.5	62.7	67.3	*80.0*	*95.0*	Net Profit ($mill)	*120*
42.5%	40.4%	41.4%	40.6%	40.5%	38.4%	38.9%	39.3%	38.5%	39.3%	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
.8%	1.6%	1.3%	4.0%	4.3%	4.4%	5.3%	2.1%	2.2%	3.2%	*3.5%*	*3.5%*	AFUDC % to Net Profit	*4.0%*
50.2%	51.9%	54.1%	54.4%	52.7%	52.9%	52.0%	52.2%	54.2%	51.4%	*53.5%*	*54.5%*	Long-Term Debt Ratio	*54.0%*
47.4%	46.4%	44.0%	44.8%	46.6%	46.7%	47.8%	47.7%	45.8%	48.6%	*46.5%*	*45.5%*	Common Equity Ratio	*46.0%*
303.1	338.0	401.7	427.2	496.6	782.7	901.1	990.4	1076.2	1355.7	*1325*	*1315*	Total Capital ($mill)	*1380*
385.7	436.9	502.9	534.5	609.8	1135.4	1251.4	1368.1	1490.8	1824.3	*1925*	*2025*	Net Plant ($mill)	*2300*
7.0%	7.7%	6.8%	7.4%	7.6%	7.6%	7.4%	7.8%	7.6%	6.4%	*7.5%*	*8.5%*	Return on Total Cap'l	*9.5%*
10.4%	11.7%	10.7%	11.9%	12.3%	12.2%	11.7%	12.3%	12.7%	10.2%	*11.5%*	*13.0%*	Return on Shr. Equity	*13.5%*
10.3%	11.7%	11.2%	12.0%	12.4%	12.3%	11.7%	12.4%	12.7%	10.2%	*11.0%*	*12.0%*	Return on Com Equity	*13.0%*
2.1%	3.5%	2.8%	3.6%	4.5%	4.3%	4.7%	5.1%	5.2%	4.2%	*5.0%*	*6.0%*	Retained to Com Eq	*6.5%*
81%	71%	75%	70%	64%	65%	60%	59%	59%	59%	*59%*	*54%*	All Div'ds to Net Prof	*53%*

CURRENT POSITION ($MILL.)	2002	2003	9/30/04
Cash Assets	49.7	39.2	18.6
Receivables	57.7	62.3	71.0
Inventory (AvgCst)	4.6	5.8	7.6
Other	2.7	5.1	6.1
Current Assets	114.7	112.4	103.3
Accts Payable	31.1	32.3	15.2
Debt Due	149.4	135.8	189.0
Other	46.0	63.9	81.6
Current Liab.	226.5	232.0	285.8
Fix. Chg. Cov.	347%	344%	331%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '01-'03 to '07-'09
Revenues	4.0%	7.5%	*8.0%*
"Cash Flow"	8.5%	10.5%	*7.0%*
Earnings	8.5%	9.5%	*9.0%*
Dividends	5.0%	6.0%	*7.0%*
Book Value	8.0%	9.5%	*6.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	70.2	77.3	84.7	75.1	307.3
2002	71.7	76.6	91.9	81.8	322.0
2003	80.5	83.4	102.1	101.2	367.2
2004	99.8	106.5	120.3	*113.4*	*440*
2005	*110*	*120*	*130*	*130*	*490*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.14	.18	.22	.14	.68
2002	.14	.16	.25	.17	.72
2003	.15	.18	.24	.19	.76
2004	.17	.19	.26	*.23*	*.85*
2005	*.19*	*.23*	*.27*	*.26*	*.95*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2001	.099	.099	.099	.106	.40
2002	.106	.106	.106	.112	.43
2003	.112	.112	.112	.12	.46
2004	.12	.12	.12	.13	.49
2005	.13				

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.5 million residents in Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas, Florida, Kentucky, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired Consumers Water, 4/99; AquaSource, 7/03; and others. Water supply revenues '03: residential, 59%; commercial, 17%; industrial & other, 24%. Officers and directors own 1.4% of the common stock (4/04 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

We look for Aqua America to post an earnings gain of 12% in 2005, following last year's likely advance of almost 12%. The revenue increase was primarily a result of acquisitions. Heavier-than-usual rainfall in 2004's final quarter likely dampened earnings by as much as $0.03.

Aqua America completed 29 acquisitions in 2004. These purchases were primarily funded with long- and short-term debt. Unsecured notes were the company's preferred way of securing capital, and the year-end close of the ratio of long-term debt to total capital was probably 54%. The interest rate on most of the company's current long-term debt is in the range of 5% to 6.5%. The first addition of 2005 was a water system in Texas at a cost of about $325,000. Aqua sees its southern markets as an appealing expansion avenue.

The company has been relatively successful in achieving rate increases, within this heavily regulated industry. Most recently, Aqua won a 5% rate hike in Pennsylvania. This is equivalent to $13.8 million in annual revenues. The company is also on the verge of a rate hike in Texas, which should be finalized in May. If so, this would raise revenues by about $12 million per annum. Utility commissions are more apt to award increases due to rising capital costs rather than operating expenses. In Aqua's case, rate increases have also been influenced by the it's ability to lower the ratio of expenses to revenues.

This untimely stock's price-to-earnings ratio is somewhat above its traditional norm. Consequently, despite decent earnings growth prospects, this equity's appreciation potential to 2007-2009 is unattractive. The percentage of dividends to net profit has been generally trending down since 1994, and we don't expect this to be reversed in the coming years. The increase in retained earnings, combined with the likeliness of a rising debt level, accounts for our projection that earnings growth in the coming 3 to 5 years will exceed the 8.5% average increase (per Annual Rate box) over the past 10 years. The company's top rank for Earnings Predictability, along with high marks for the Stock's Price Stability and Growth Persistence, may well appeal to conservative investors.

Marc Denton *January 28, 2005*

(A) Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '90, (38¢); '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early February. (B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount). (C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	85
Price Growth Persistence	95
Earnings Predictability	100

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ATTACHMENT B

The Water Utility industry looks as though it rebounded from a tough 2003 and posted a solid earnings recovery last year. Faster and more favorable relief rate case rulings appears to be responsible for the turnaround and we expect them to continue over the next few quarters.

Nonetheless, Water Utility stocks' gains trailed the broad market in recent months and, as a result, continue to be ranked near the bottom of the *Value Line* universe. Infrastructure costs will likely limit earnings growth going forward, as the high expenses associated with maintaining and improving the country's water-distribution systems continue to rise.

Larger companies should boost profits via acquisitions, as more intense capital requirements prompt smaller businesses to close shop.

INDUSTRY TIMELINESS: 95 (of 98)

Regulatory Assistance

Water utilities have been hindered by unfavorable and delayed rate relief case rulings in recent years. However, it finally looks as though brighter days may be ahead. Some governing bodies are picking up the pace. In California, for example, the California Public Utilities Commission (CPUC) has handed down a number of favorable rate-relief rulings in recent months. With the California electric crisis seemingly behind it, the current administration seems intent on delivering more-timely rulings. As a result, *American States Water Company* and *California Water Service Group* both rebounded solidly in 2004 and should continue to do so moving forward.

Infrastructure Costs

Industry regulations in the water industry continue to be demanding. Although the Safe Drinking Water Act (SDWA) of 1974 remains the authority surrounding the safety and purity of drinking water, an amendment in 1996 authorized the Environmental Protection Agency (EPA) to step up local compliance levels. Now the EPA works with local and state governments to oversee the safety of drinking water. However, these standards will likely only become more stringent in the next few years, as the aging of current facilities and the threat of terrorist activity ought to result in tighter standards. The majority of the current water systems are over a century old and require a make over. Costs associated with the updates are likely to grow into the hundreds of billions of dollars over the next decade or two. Strapped local and federal capital reserves will force water companies to meet the higher capital requirement levels alone.

Buying Opportunity

Many smaller water companies lack the capital requirements to keep up with the rising costs associated with staying in compliance with government standards. As a result, the industry has been, and will likely continue to be, home to further consolidation. Larger companies with the market scale to withstand the increased costs are taking advantage of this situation, growing their businesses at relatively low costs and diversifying their operations into less regulated and more-rapidly developing areas of the U.S. Although each of the companies we cover have participated in the consolidation to some extent, *Aqua America*, is clearly leading the way. It has made over 20 acquisitions since the close of 2003 and does not appear to be slowing down. We think that the current theme will persist, as restructuring costs continue to rise.

Investment Advice

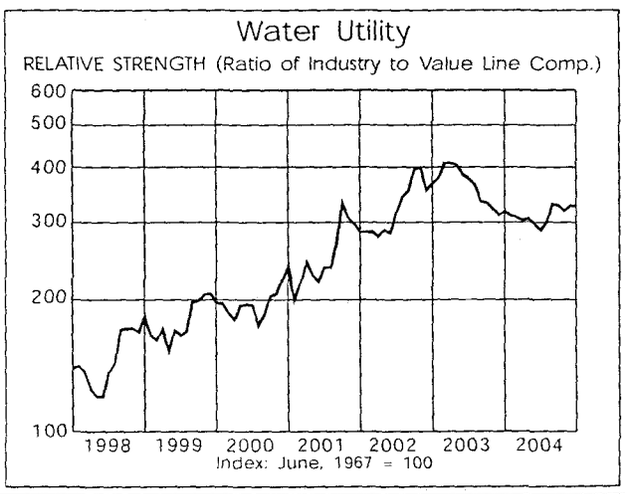
None of the issues covered in the next few pages stand out for capital-gains potential. Not one carries a higher than 3 (Average) rank for the year ahead or offers more than modest appreciation potential out to 2007-2009. In fact, each of the stock's covered in the Water Utilities industry hold below average long-term gains appeal. As a result, growth-minded investors will want to look elsewhere.

Income-oriented investors may have a more positive view, though. The industry, as a whole, offers an above average dividend yield. *American States Water* offers the highest payout ratio. More risk-averse individuals may find added appeal in *California Water*, given its 2 (Above Average) rank for Safety. However, as always, we advise investors to carefully study individual reports that follow before making commitments.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2000	2001	2002	2003	2004	2005		07-09
704.3	751.8	794.4	857.0	*990*	*1090*	Revenues ($mill)	*1345*
90.9	95.4	106.6	98.6	*130*	*150*	Net Profit ($mill)	*205*
41.2%	40.2%	38.8%	40.0%	*40.0%*	*40.0%*	Income Tax Rate	*40.0%*
-	--	--	--	*Nil*	*Nil*	AFUDC % to Net Profit	*Nil*
50.3%	52.4%	53.9%	51.2%	*51.0%*	*51.0%*	Long-Term Debt Ratio	*50.0%*
49.3%	47.2%	45.9%	48.6%	*49.0%*	*49.0%*	Common Equity Ratio	*50.0%*
1661.0	1840.7	1973.6	2296.4	*2615*	*2870*	Total Capital ($mill)	*3550*
2342.5	2532.2	2751.1	3186.1	*3400*	*3605*	Net Plant ($mill)	*4150*
7.0%	6.8%	7.0%	5.9%	*6.5%*	*7.0%*	Return on Total Cap'l	*7.0%*
10.7%	10.6%	11.2%	8.8%	*9.5%*	*9.5%*	Return on Shr. Equity	*10.0%*
10.8%	10.7%	11.2%	8.8%	*9.5%*	*9.5%*	Return on Com Equity	*10.0%*
3.6%	3.3%	3.8%	2.5%	*3.5%*	*4.0%*	Retained to Com Eq	*4.5%*
67%	69%	66%	72%	*62%*	*58%*	All Div'ds to Net Prof	*52%*
18.6	22.6	21.5	26.0	*Bold figures are Value Line estimates*		Avg Ann'l P/E Ratio	*18.0*
1.21	1.16	1.17	1.49			Relative P/E Ratio	*1.20*
3.6%	3.1%	3.1%	2.8%			Avg Ann'l Div'd Yield	*3.5%*



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AWR American Sts Wtr Co (NYSE)

4/4/2005 4:01 PM

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Last:	Change:	Open:	High:	Low:	Volume:
25.60	+0.50	25.10	25.63	25.00	38,600
	Percent Change:	Yield:	P/E Ratio:	52 Week Range:	
	+1.99%	3.52%	21.69	20.82 to 27.63	

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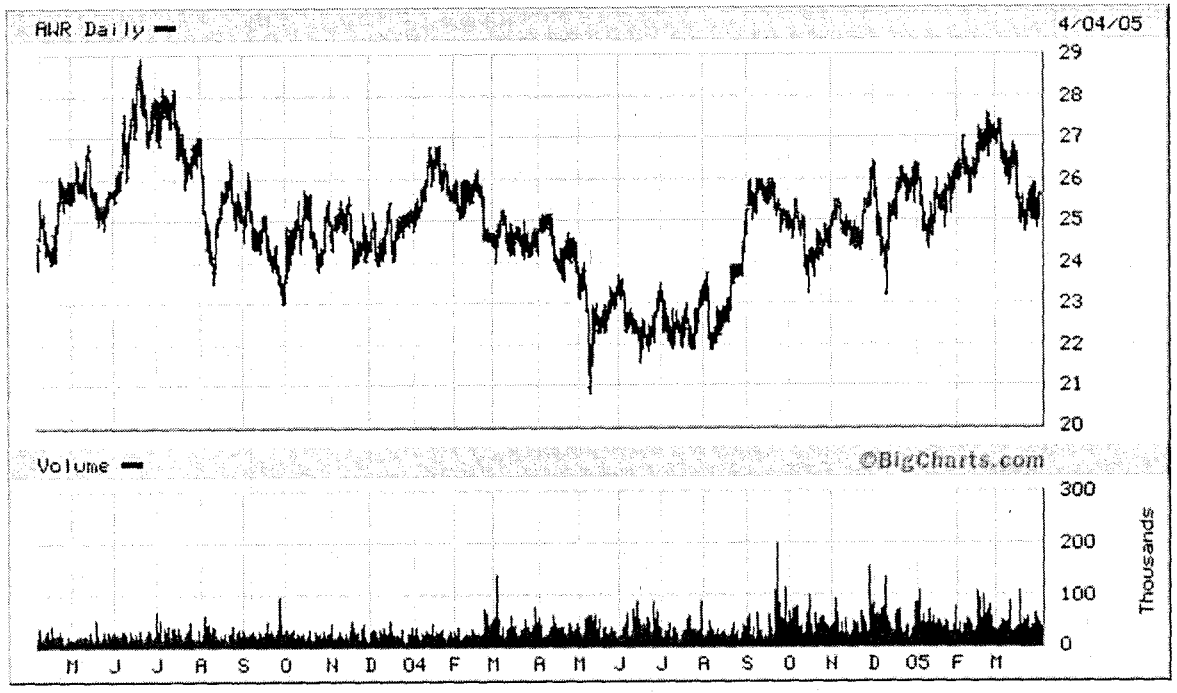

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CWT California Wtr Svc Group (NYSE)

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Last:	Change:	Open:	High:	Low:	Volume:
33.16	+0.29	32.65	33.27	32.55	25,300
	Percent Change:	Yield:	P/E Ratio:	52 Week Range:	
	+0.88%	3.44%	22.71	26.08 to 37.90	

7 Top Stocks for April

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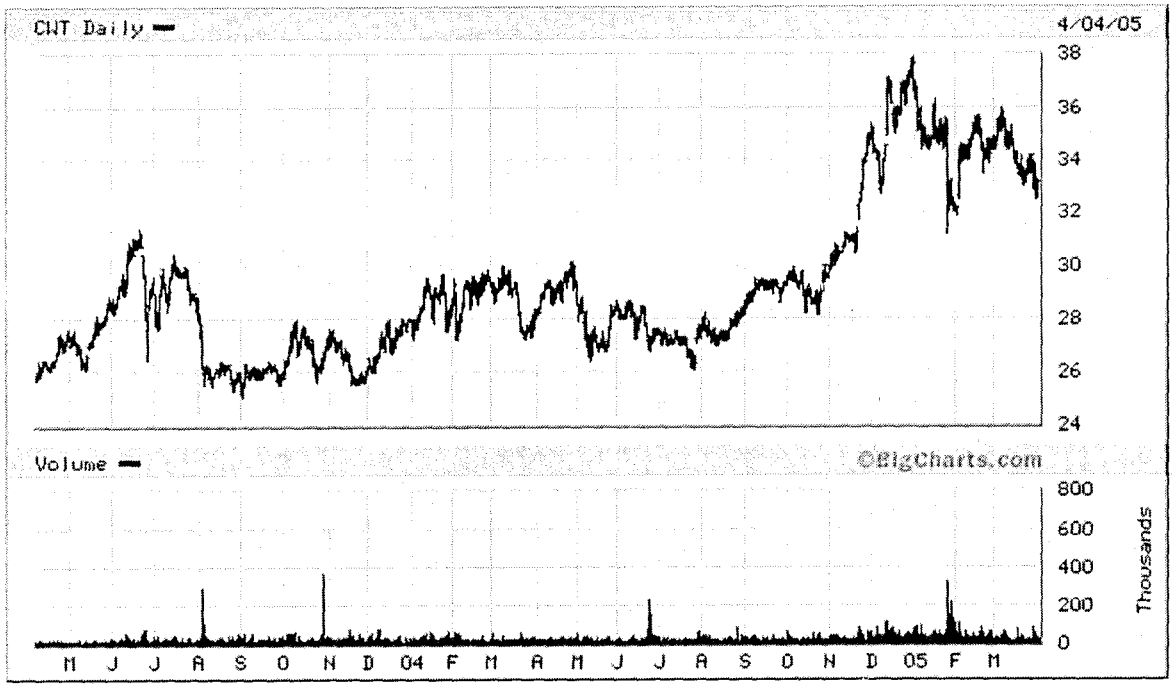

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WTR Aqua America Inc (NYSE)

4/4/2005 4:08 PM

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Last:	Change:	Open:	High:	Low:	Volume:
24.62	+0.42	24.24	24.62	24.04	98,000
	Percent Change:	Yield:	P/E Ratio:	52 Week Range:	
	+1.74%	2.11%	28.96	18.90 to 25.83	

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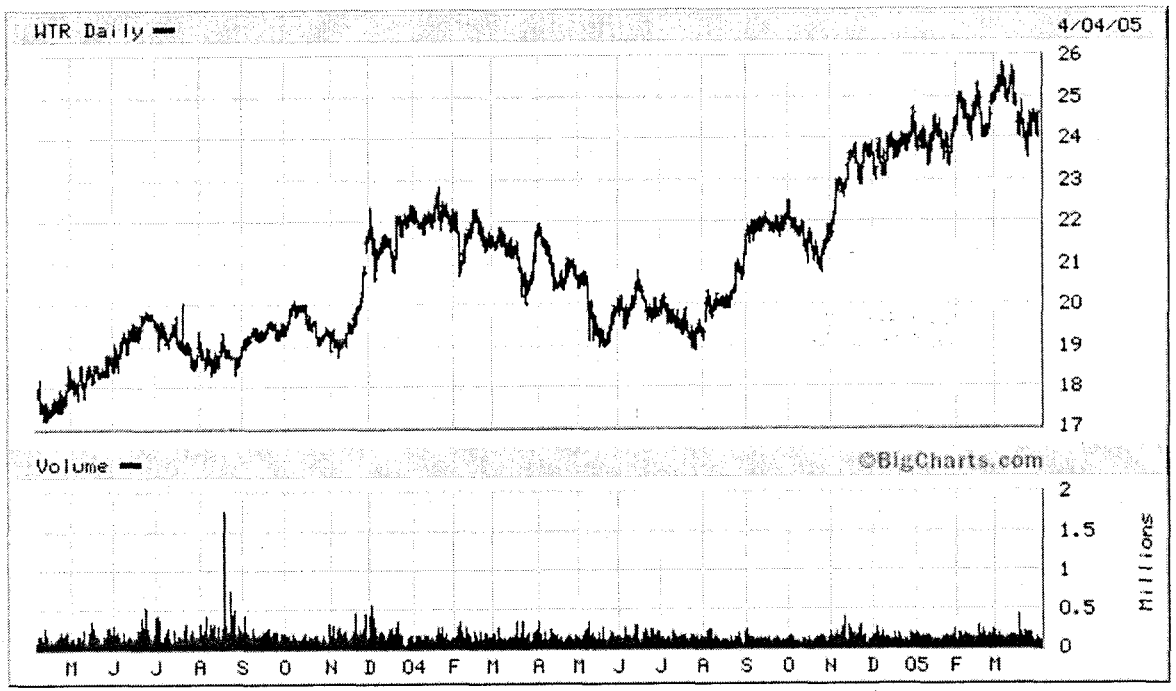

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CTWS Connecticut Water Service Inc (NASDAQ NM)

4/4/2005 4:00 PM

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Last:	Change:	Open:	High:	Low:	Volume:
24.57	-0.03	24.57	24.57	24.20	19,232
	Percent Change: -0.12%	Yield: 3.42%	P/E Ratio: 21.18	52 Week Range: 23.83 to 29.00	

7 Top Stocks for April

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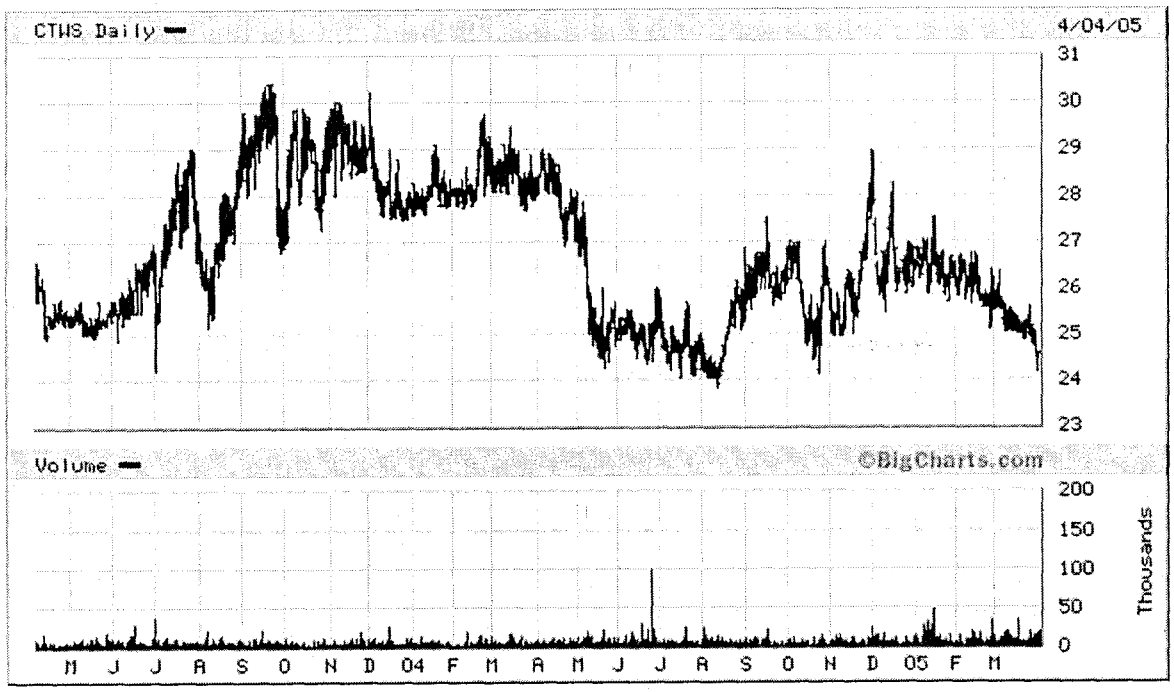

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MSEX Middlesex Water Company (NASDAQ NM)

4/4/2005 3:59 PM

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Last:	Change:	Open:	High:	Low:	Volume:
17.81	+0.06	17.76	17.97	17.53	31,311
	Percent Change:	Yield:	P/E Ratio:	52 Week Range:	
	+0.34%	3.76%	24.40	16.65 to 21.81	

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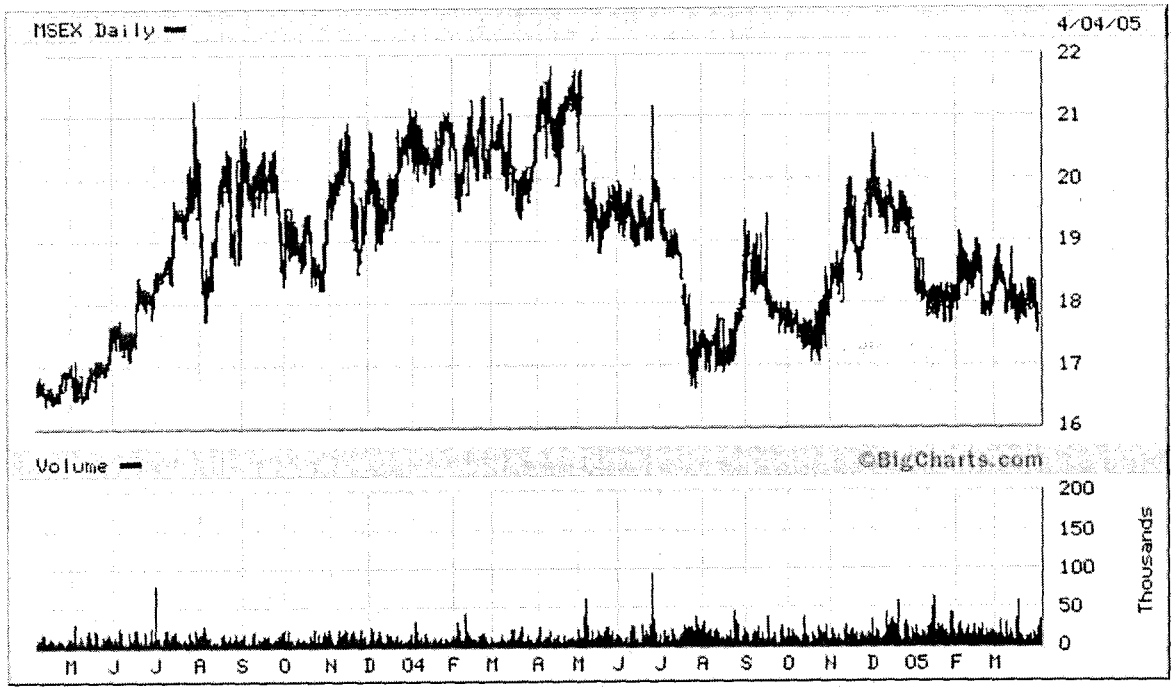

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SJW SJW Corporation (AMEX)

4/4/2005 4:00 PM

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Last:	Change:	Open:	High:	Low:	Volume:
36.01	+0.82	35.30	36.05	35.30	6,100
	Percent Change:	Yield:	P/E Ratio:	52 Week Range:	
	+2.33%	2.97%	16.75	30.01 to 39.10	

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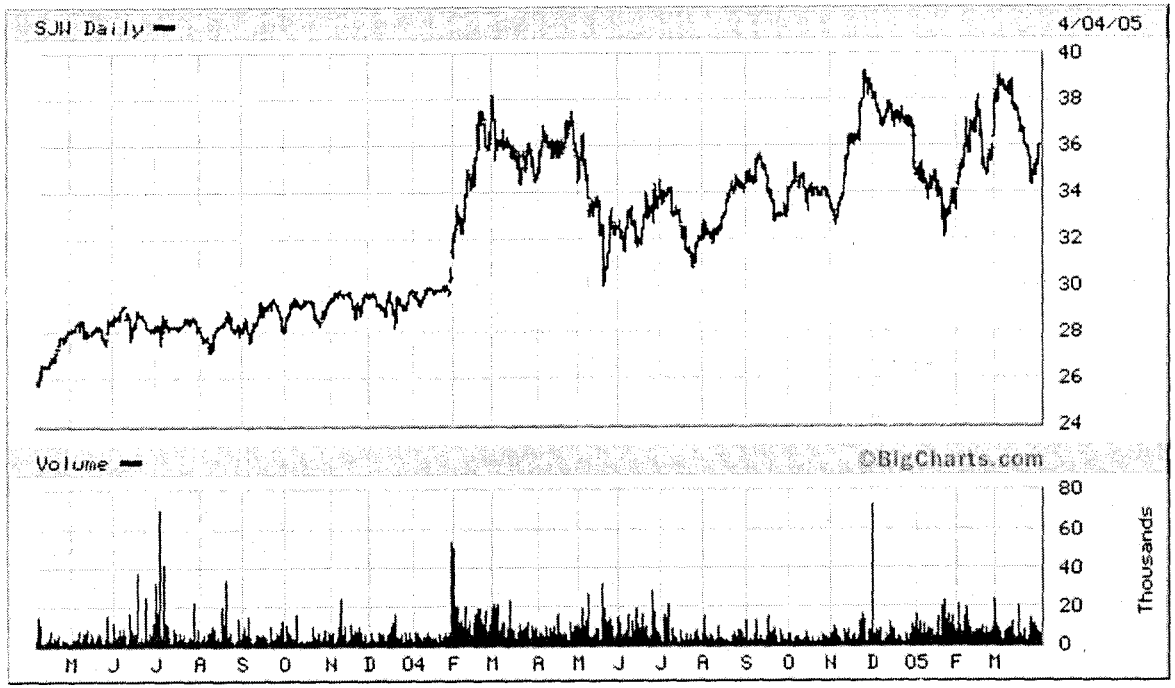

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ATTACHMENT D

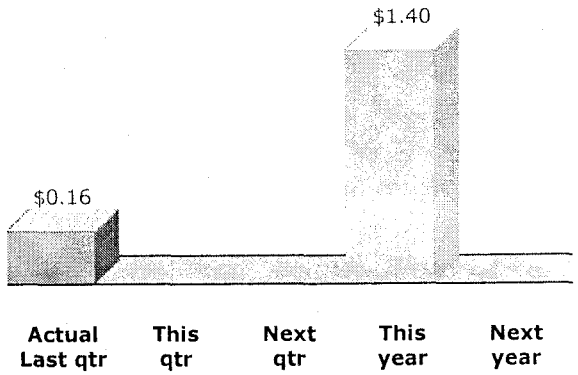
Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - AMER STATES WTR (AWR)

Analyst Estimates

	This qtr Mar-05	Next qtr Jun-05	This yr Dec-05	Next yr Dec-06
Current Average Estimate	-	-	1.40	-
High	-	-	1.40	-
Low	-	-	1.40	-
# of Analysts	0	0	1	0
Year ago actual	0.08	0.44	1.18	-
EPS growth (year-over-year)	-	-	18.64%	-

Current Estimates



ANALYST RECOMMENDATIONS - AMER STATES WTR (AWR)

Recommendation History

	Current	1-month	2-month	3-month
Strong Buy	0	0	0	0
Mod Buy	0	0	0	0

Current Recommendations

Number of brokers	
Strong Buy	0
Mod Buy	0

Hold	1	2	2	2	**Hold**	1	
Mod Sell	0	0	0	0	**Mod Sell**	0	
Strong Sell	0	0	0	0	**Strong Sell**	0	
					Average Recommendation		
Consensus	3	3	3	3	**Consensus**		3
1-Strong Buy,5-Strong Sell						**Strong Buy**	**Strong Sell**

EPS TRENDS / GROWTH

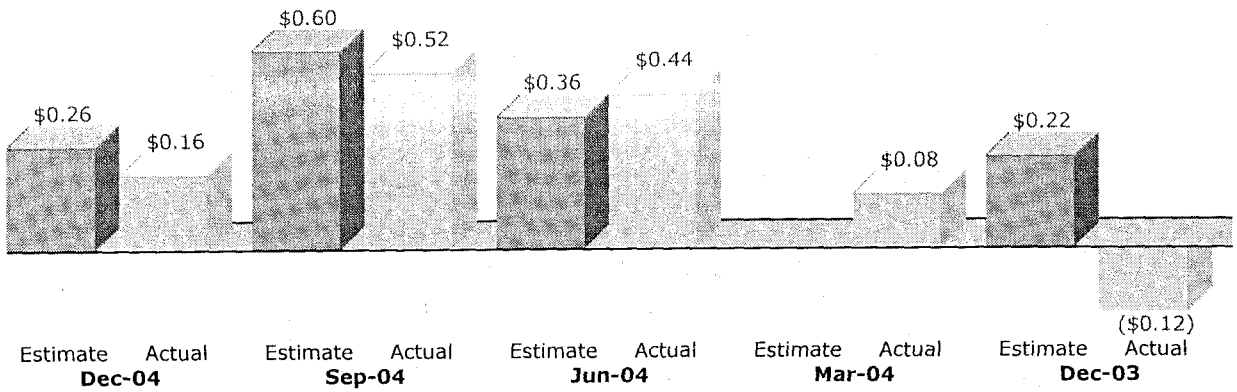
Consensus EPS Trend

	This qtr Mar-05	Next qtr Jun-05	This yr Dec-05	Next yr Dec-06	Long Term
Current	-	-	1.40	-	-%
7 Days Ago	0.20	0.36	1.35	1.50	-%
1 Month Ago	0.24	0.45	1.45	-	-%
2 Months Ago	0.24	0.45	1.45	-	-%
3 Months Ago	0.24	0.45	1.45	-	-%

Earnings Growth Rate

	Last 5 years	This yr (Dec-05)	Next yr (Dec-06)	Next 5 years
AWR	4.20%	0.30%	4.00%	-
UTIL-WATER SPL	7.10%	18.30%	7.80%	6.30%
S&P 500	8.40%	(4.00%)	13.30%	17.50%

EARNINGS SURPRISE HISTORY



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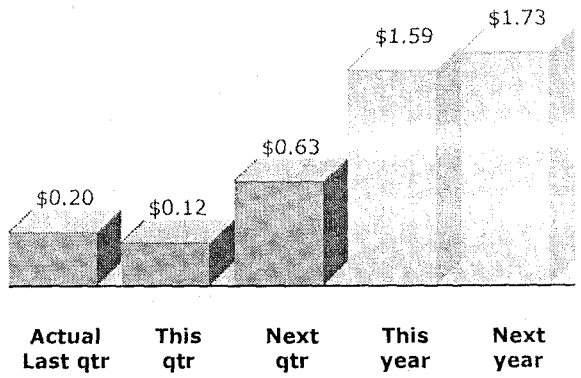
Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - CALIF WATER SVC (CWT)

Analyst Estimates

	This qtr Mar-05	Next qtr Jun-05	This yr Dec-05	Next yr Dec-06
Current Average Estimate	0.12	0.63	1.59	1.73
High	0.16	0.64	1.60	1.75
Low	0.09	0.61	1.55	1.72
# of Analysts	3	3	5	3
Year ago actual	0.08	0.59	1.46	-
EPS growth (year-over-year)	45.83%	6.21%	8.90%	9.01%

Current Estimates



ANALYST RECOMMENDATIONS - CALIF WATER SVC (CWT)

Recommendation History

	Current	1-month	2-month	3-month
Strong Buy	1	1	0	0
Mod Buy	1	1	1	1

Current Recommendations

Number of brokers	
Strong Buy	1
Mod Buy	1

Hold	3	4	4	4	**Hold**		3
Mod Sell	0	0	0	0	**Mod Sell**	0	
Strong Sell	0	0	0	0	**Strong Sell**	0	

Average Recommendation

Consensus	2.4	2.5	2.8	2.8	**Consensus**	**2.4**	
1-Strong Buy,5-Strong Sell						**Strong Buy**	**Strong Sell**

EPS TRENDS / GROWTH

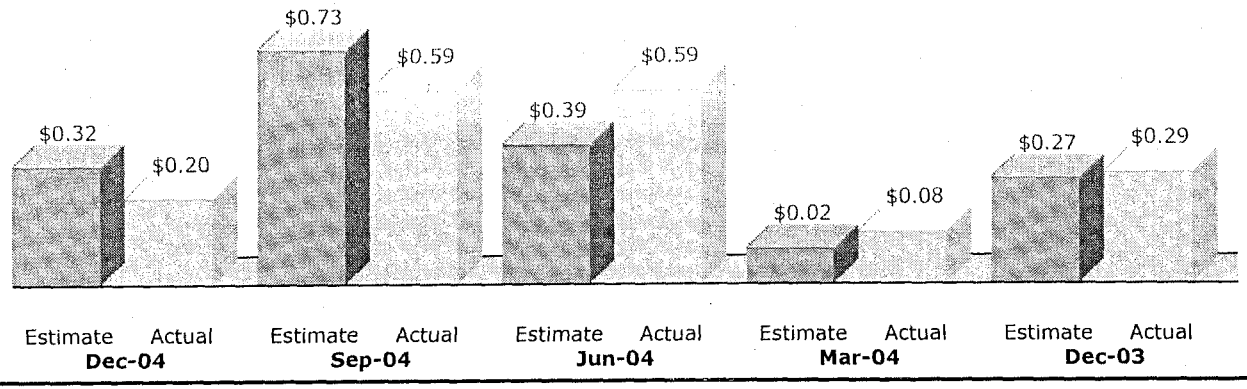
Consensus EPS Trend

	This qtr Mar-05	Next qtr Jun-05	This yr Dec-05	Next yr Dec-06	Long Term
Current	0.12	0.63	1.59	1.73	7.67%
7 Days Ago	0.11	0.61	1.59	1.73	7.67%
1 Month Ago	0.12	0.62	1.61	1.73	7.67%
2 Months Ago	0.10	0.61	1.61	1.74	6.00%
3 Months Ago	0.11	0.58	1.68	-	6.00%

Earnings Growth Rate

	Last 5 years	This yr (Dec-05)	Next yr (Dec-06)	Next 5 years
CWT	-	-	23.60%	6.00%
UTIL-WATER SPL	7.10%	18.30%	7.80%	6.30%
S&P 500	8.40%	(4.00%)	13.30%	17.50%

EARNINGS SURPRISE HISTORY



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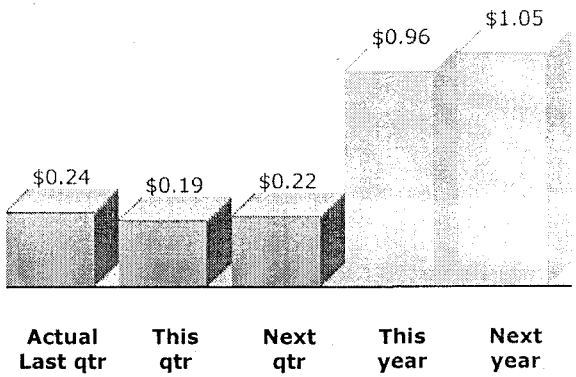
Earnings Estimates

EARNINGS PER SHARE (EPS) ESTIMATES - AQUA AMER INC (WTR)

Analyst Estimates

	This qtr Mar-05	Next qtr Jun-05	This yr Dec-05	Next yr Dec-06
Current Average Estimate	0.19	0.22	0.96	1.05
High	0.20	0.23	1.00	1.10
Low	0.19	0.20	0.95	1.02
# of Analysts	3	3	4	3
Year ago actual	0.17	0.19	0.85	-
EPS growth (year-over-year)	13.73%	15.79%	13.53%	9.15%

Current Estimates



ANALYST RECOMMENDATIONS - AQUA AMER INC (WTR)

Recommendation History

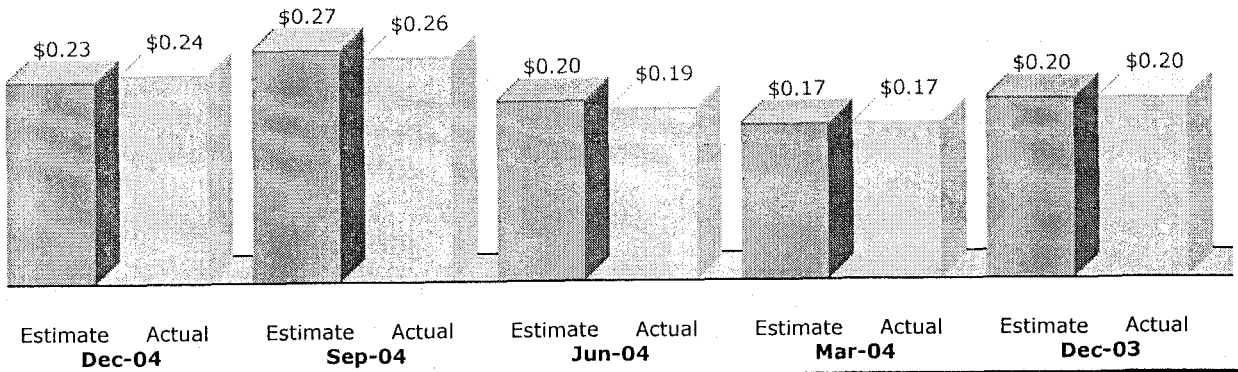
	Current	1-month	2-month	3-month
Strong Buy	3	3	3	3
Mod Buy	1	1	1	1

Current Recommendations

Number of brokers		
Strong Buy		3
Mod Buy	1	

Hold	1	1	2	3	**Hold**		1
Mod Sell	0	0	0	0	**Mod Sell**	0	
Strong Sell	0	0	0	0	**Strong Sell**	0	
					Average Recommendation		
Consensus	1.6	1.6	1.83	2	**Consensus**	**1.6**	
1-Strong Buy,5-Strong Sell						**Strong Buy**	**Strong Sell**

EARNINGS SURPRISE HISTORY



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ARIZONA WATER COMPANY
WESTERN GROUP
DOCKET NO. W-01445A-04-0650
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ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
COST OF CAPITAL SUMMARY

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR - 1

LINE NO.	DESCRIPTION	(A) WATER CAPITALIZATION PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED CAPITALIZATION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	LONG-TERM DEBT	22,200,000	$ -	$ 22,200,000	26.65%	8.43%	2.25%
2	SHORT-TERM DEBT	-	-	-	0.00%	0.00%	0.00%
3	COMMON EQUITY	61,116,374	-	61,116,374	73.35%	9.44%	6.92%
4	TOTAL CAPITALIZATION	$ 83,316,374	$ -	$ 83,316,374	100.00%		
5	COST OF CAPITAL						9.17%

REFERENCES:
COLUMN (A): COMPANY SCHEDULE D-1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) + COLUMN (C), LINE 4
COLUMN (E): TESTIMONY, WAR
COLUMN (F): COLUMN (D) x COLUMN (E)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
DCF COST OF EQUITY CAPITAL

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	3.42%	+	6.50%	=	9.92%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.29%	+	5.81%	=	9.10%
3	WTR	AQUA AMERICA	2.11%	+	7.19%	=	9.30%
4	WATER COMPANY AVERAGE						9.44%

REFERENCES:
COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
DIVIDEND YIELD CALCULATION

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	÷	(B) AVERAGE STOCK PRICE (PER SHARE)	=	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	$0.90	÷	$26.31	=	3.42%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.13	÷	34.36	=	3.29%
3	WTR	AQUA AMERICA	0.52	÷	24.68	=	2.11%
4	WATER COMPANY AVERAGE						2.94%

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - SUMMARY AND INDEX DATED 01/28/05.
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 02/07/05 TO 04/01/05 STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) ÷ COLUMN (B)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
DIVIDEND GROWTH RATE CALCULATION

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	6.00%	+	0.50%	=	6.50%
2	CWT	CALIFORNIA WATER SERVICE GROUP	4.75%	+	1.06%	=	5.81%
3	WTR	AQUA AMERICA	6.00%	+	1.19%	=	7.19%
4	WATER COMPANY AVERAGE						6.50%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
DIVIDEND GROWTH RATE CALCULATION

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	x	(B) { [((M ÷ B) + 1) ÷ 2] - 1 }	=	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	1.25%	x	{ [((1.80) + 1) ÷ 2] - 1 }	=	0.50%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.75%	x	{ [((2.21) + 1) ÷ 2] - 1 }	=	1.06%
3	WTR	AQUA AMERICA	1.00%	x	{ [((3.38) + 1) ÷ 2] - 1 }	=	1.19%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY, 01/28/05
COLUMN (C): COLUMN (A) x COLUMN (B)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR - 5

LINE NO.	STOCK SYMBOL	COMPANY	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	1999	0.2857		10.10%		2.89%	11.82	13.44	
2			2000	0.3281		9.30%		3.05%	12.74	15.12	
3			2001	0.3556		10.10%		3.59%	13.22	15.12	
4			2002	0.3507		9.50%		3.33%	14.05	15.18	
5			2003	-0.2222		5.60%		-1.24%	13.97	15.21	
6			GROWTH 1999 - 2003					2.32%	4.00%		3.14%
7			2004	0.2328		9.00%		2.09%		16.75	10.12%
8			2005	0.3793		9.50%		3.60%		17.25	6.50%
9			2007-09	0.5200		10.50%		5.46%	4.00%	19.00	4.55%
10											
11	CWT	CALIFORNIA WATER SERVICE GROUP	1999	0.2876		11.40%		3.28%	13.43	12.94	
12			2000	0.1603		10.10%		1.62%	12.90	15.15	
13			2001	-0.1915		7.20%		-1.38%	12.95	15.18	
14			2002	0.1040		9.50%		0.99%	13.12	15.18	
15			2003	0.0744		7.90%		0.59%	14.44	16.93	
16			GROWTH 1999 - 2003					1.02%	1.00%		6.95%
17			2004	0.2848		10.00%		2.85%		18.35	8.39%
18			2005	0.3294		10.50%		3.46%		18.70	5.10%
19			2007-09	0.4100		11.00%		4.51%	5.00%	23.00	6.32%
20											
21	WTR	AQUA AMERICA	1999	0.3571		12.30%		4.39%	4.57	80.10	
22			2000	0.3871		11.70%		4.53%	5.13	83.87	
23			2001	0.4118		12.40%		5.11%	5.53	85.48	
24			2002	0.4028		12.70%		5.12%	5.81	84.90	
25			2003	0.3947		10.20%		4.03%	7.12	92.59	
26			GROWTH 1999 - 2003					4.63%	9.50%		3.69%
27			2004	0.4235		11.00%		4.66%		95.00	2.60%
28			2005	0.4526		12.00%		5.43%		98.00	2.88%
29			2007-09	0.4583		13.00%		5.96%	6.00%	100.00	1.55%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/28/05
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 1999 - 2003

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
GROWTH RATE COMPARISON

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR - 6

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	DPS	BVPS	(D) VALUE LINE HISTORIC EPS	DPS	BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	DPS	BVPS
1	AWR	6.50%	-	9.50%	1.50%	4.00%	1.50%	1.00%	4.00%	3.58%	-11.80%	0.87%	4.27%
2	CWT	5.81%	6.00%	10.00%	1.00%	5.00%	-6.50%	1.00%	1.00%	2.50%	-5.70%	0.68%	1.83%
3	WTR	7.19%	-	9.00%	7.00%	6.00%	9.50%	6.00%	9.50%	7.83%	7.93%	6.32%	11.72%
4				9.50%	3.17%	5.00%	1.50%	2.67%	4.83%		-3.19%	2.62%	5.94%
5	AVERAGES	6.50%	6.00%		5.89%			3.00%		4.64%		1.79%	

REFERENCES:
COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/28/05
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/28/05
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1, 3, 5 AND 7
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM
- VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/28/05

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+	[	(A) ß	x	(	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	2.70%	+	[	0.70	x	(	10.40%	-	2.70%	)]	=	8.09%
2	CWT	k	=	2.70%	+	[	0.75	x	(	10.40%	-	2.70%	)]	=	8.48%
3	WTR	k	=	2.70%	+	[	0.75	x	(	10.40%	-	2.70%	)]	=	8.48%
4	AVERAGE						0.73								8.35%

REFERENCES:
COLUMN (A): GENERAL CAPITAL ASSET PRICING MODEL (CAPM) FORMULA

$$k = r_f + [ß (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 02/25/05 THROUGH 04/01/05 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2003 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2004 YEARBOOK.

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CAPM COST OF EQUITY CAPITAL

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR - 7
PAGE 2 OF 2

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+	[	(A) ß	x	(	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	2.70%	+	[	0.70	x	(	12.40%	-	2.70%	)]	=	9.49%
2	CWT	k	=	2.70%	+	[	0.75	x	(	12.40%	-	2.70%	)]	=	9.98%
3	WTR	k	=	2.70%	+	[	0.75	x	(	12.40%	-	2.70%	)]	=	9.98%
4	AVERAGE						0.73								9.81%

REFERENCES:
COLUMN (A): GENERAL CAPITAL ASSET PRICING MODEL (CAPM) FORMULA

$$k = r_f + [ß (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 02/25/05 THROUGH 04/01/05 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2003 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2004 YEARBOOK.

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 $)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.40%	1.90%	10.01%	6.98%	8.10%	7.49%	8.61%	9.86%	10.06%
2	1991	4.21%	-0.20%	8.46%	5.45%	5.69%	5.38%	8.14%	9.36%	9.55%
3	1992	3.01%	3.30%	6.25%	3.25%	3.52%	3.43%	7.67%	8.69%	8.86%
4	1993	2.99%	2.70%	6.00%	3.00%	3.02%	3.00%	6.60%	7.59%	7.91%
5	1994	2.56%	4.00%	7.14%	3.60%	4.20%	4.25%	7.37%	8.31%	8.63%
6	1995	2.83%	2.50%	8.83%	5.21%	5.84%	5.49%	6.88%	7.89%	8.29%
7	1996	2.95%	3.70%	8.27%	5.02%	5.30%	5.01%	6.70%	7.75%	8.17%
8	1997	1.70%	4.50%	8.44%	5.00%	5.46%	5.06%	6.61%	7.60%	8.12%
9	1998	1.60%	4.20%	8.35%	4.92%	5.35%	4.78%	5.58%	7.04%	7.27%
10	1999	2.70%	4.50%	7.99%	4.62%	4.97%	4.64%	5.86%	7.62%	7.88%
11	2000	3.40%	3.70%	9.23%	5.73%	6.24%	5.82%	5.94%	8.24%	8.36%
12	2001	1.60%	0.80%	6.92%	3.41%	3.88%	3.38%	5.95%	7.59%	8.02%
13	2002	2.40%	1.90%	4.67%	1.17%	1.66%	1.60%	5.38%	7.41%	7.98%
14	2003	1.90%	3.00%	4.12%	2.03%	1.13%	1.01%	4.92%	6.18%	6.64%
15	2004	2.23%	4.40%	4.34%	2.35%	1.35%	1.37%	5.03%	5.77%	6.20%
16	CURRENT	2.59%	4.40%	5.75%	3.75%	2.75%	2.88%	4.85%	5.49%	5.88%

REFERENCES:
COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 04/01/05
COLUMN (H) THROUGH (J): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
COLUMN (H) THROUGH (I): 2003 MERGENT NEWS REPORTS

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
CAPITAL STRUCTURES OF PUBLICLY TRADED WATE (IN MILLIONS)

DOCKET NO. W-01445A-04-0650
SCHEDULE WAR - 9

LINE NO.		AWR	PCT.	CWT	PCT.	WTR	PCT.	AVERAGE	PCT.
1	SHORT-TERM DEBT	$28.8	6.8%	$0.9	0.1%	$189.0	8.2%	$73	6.5%
2	LONG-TERM DEBT *	229.3	54.0%	271.9	41.8%	772.5	33.6%	$425	37.7%
3	PREFERRED STOCK	0.0	0.0%	3.5	0.5%	0.0	0.0%	$1	0.1%
4	COMMON EQUITY	166.9	39.3%	373.7	57.5%	1,338.5	58.2%	626	55.7%
5	TOTALS	$425.0	100%	$650.0	100%	$2,300.0	100%	$1,125	100%

NOTE:
* INCLUDES CURRENT PORTION OF LONG-TERM DEBT

REFERENCE:
THE VALUE LINE INVESTMENT SURVEY, DATED 01/28/05

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-04-0650

SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MAY 25, 2005

EXHIBIT

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admitted

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INTRODUCTION

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

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state the purpose of your surrebuttal testimony.

A. The purpose of my surrebuttal testimony is to respond to Arizona Water Company's ("Arizona Water" or "Company") rebuttal testimony on RUCO's recommended revenue level, rate base and rate of return on invested capital (which includes RUCO's recommended cost of debt and cost of common equity) for the Company's Western Group. The Western Group is comprised of five separate systems that serve the communities of Ajo Heights ("Ajo"), Casa Grande, Coolidge, Stanfield and White Tank. The Company's rebuttal testimony was filed with the Commission on May 13, 2005.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, on April 20, 2005, I filed direct testimony with the Arizona Corporation Commission ("ACC" or "Commission"). My direct testimony addressed the revenue requirement and rate base issues associated with the Casa Grande and Stanfield systems in the Western Group. I also filed, under separate cover, direct testimony on the cost of capital issues for the entire

Western Group. RUCO witness Timothy J. Coley filed direct testimony on the required revenue and rate base issues associated with the Ajo, Coolidge and White Tank systems, and presented RUCO's recommended rate design for the entire Western Group. All of the aforementioned issues were raised in Arizona Water's application requesting a permanent rate increase ("Application") based on the Company's chosen test year ended December 31, 2003 ("Test Year"). For purposes of comparison, I have included Surrebuttal Schedule WAR-1, which illustrates the positions that were presented in the direct testimony of the Company, ACC Staff and RUCO.

Q. How is your surrebuttal testimony organized?

A. My surrebuttal testimony is organized by the issues that have been raised in the case and contains six parts: the introduction that I have just presented; the Company's request to recover both deferred and future Central Arizona Project ("CAP") costs in rates; the Company's accounting treatment of legal costs in the Casa Grande system; RUCO's calculation of accumulated depreciation for the five Western Group systems; RUCO's recommendation to eliminate the Company's purchased power adjustor mechanism ("PPAM") and purchased water adjustor mechanism ("PWAM") which also includes an adjustment for increased power expense as a result of the recent Arizona Public Service ("APS") rate

increase[1]; and RUCO's cost of capital recommendations. The section on CAP costs will address the rebuttal testimony of Company witnesses William M. Garfield, Sheryl L Hubbard and Michael J. Whitehead. The section on Casa Grande legal costs will address Mr. Garfield's rebuttal testimony on that issue. The section on RUCO's accumulated depreciation adjustment will address the rebuttal testimony of Ms. Hubbard. The section on the elimination of the Company's PPAM, PWAM and RUCO's adjustment related to the recent APS rate increase, will address the rebuttal testimony of Mr. Ralph J. Kennedy and Ms. Hubbard. The final section on the cost of capital issues associated with the case will address the rebuttal testimony of Mr. Kennedy and the Company's cost of capital consultant, Dr. Thomas M. Zepp.

CAP COSTS

Q. Please give a brief overview of the argument on the CAP cost issues in this case.

A. For the most part, the Company has not changed its position on CAP water costs in its rebuttal testimony. As I will explain later in my testimony, the Company's witnesses have misrepresented the intent of ACC Decision No. 62993, dated November 3, 2000, in order to justify why Arizona Water should be able to recover deferred and ongoing CAP M&I costs in rates from the general body of ratepayers in Casa Grande, Coolidge and White

[1] Decision No. 67744, dated April 7, 2005.

Tank. If the Commission adopts the Company's proposed ratemaking treatment of its deferred CAP costs, the general body of ratepayers will not receive CAP water in exchange for what they will be paying for in rates. The Company provides additional information on their long-term plans for CAP water treatment facilities, however, none of these facilities are operational at the present time. In the case of Arizona Water's Casa Grande system, the Company is presently providing untreated non-potable CAP water to customers under Arizona Water's NP-260 tariff (which allows the Company to recover all of the costs associated with non-potable CAP water deliveries in Casa Grande).

Q. Have you reviewed the rebuttal testimony of Company witnesses William M. Garfield, Sheryl L Hubbard and Michael J. Whitehead that addresses the CAP issues related to the case?

A. Yes. I have reviewed the Company's rebuttal testimony, filed by the aforementioned Company witnesses, on May 13, 2005.

Q. Please address the rebuttal testimony of Mr. Garfield.

A. The first portion of Mr. Garfield's rebuttal testimony on the CAP issues in this case makes the following points in regard to RUCO's direct testimony and recommendations: first, Mr. Garfield states my position that the CAP allocations are not used and useful and should not be placed in rates because they will place an undue hardship on customers; second, Mr.

Garfield incorrectly states that my testimony did not recognize the fact that the Company is presently utilizing a portion of its CAP allocation for non-potable customers in the Casa Grande system; and third Mr. Garfield incorrectly states that the Commission's official policy for the recovery of CAP costs is contained in Decision No. 62993, dated November 3, 2000. The second portion of Mr. Garfield's rebuttal testimony contains background information on the CAP and Arizona Water's contractual obligations with the Central Arizona Water Conservation District ("CAWCD"). The third and final portion of Mr. Garfield's rebuttal testimony on the CAP issues in this case contains his rationale as to why he believes that ratepayers in Casa Grande, Coolidge and White Tank benefit from the Company's CAP allocation and should pay for the Company's deferred and ongoing CAP costs in their rates.

Q. Have any of the arguments, for the recovery of CAP charges (from customers in Casa Grande, Coolidge and White Tank who require treated potable CAP water) presented in Mr. Garfield's rebuttal testimony caused you to change your position on the recovery of CAP costs?

A. No. RUCO's position on Arizona Water's request for the recovery of CAP costs remains unchanged. RUCO believes that, with the exception of the non-potable CAP water being utilized under the Company's CAP contract in the Casa Grande system, the remainder of Arizona Water's CAP allocation costs for Casa Grande, Coolidge and White Tank fails to meet

the used and useful standard, and therefore should not be recovered from ratepayers who do not receive CAP water. RUCO strongly recommends that the Commission deny Arizona Water's requests for rate base treatment of the Company's deferred CAP charges, the proposed ten-year amortization of the deferred CAP charges, and the recovery of on-going CAP M&I charges in rates.

Q. Do you also stand by your position that the recovery of CAP charges will place an undue burden on ratepayers in this case?

A. Yes. The Company has not revealed in this case the actual monthly charges that will be passed on to ratepayers in the Casa Grande, Stanfield and White Tank systems through the Company's proposed arsenic cost recovery mechanism ("ACRM"). If the Company's CAP and ACRM cost recovery requests are approved by the Commission, ratepayers requiring potable water in Casa Grande and White Tank will not only have to pay monthly rates that will include costs associated with CAP water that they are not receiving, but will also have to pay the additional ACRM surcharge. This situation very well could result in rate shock, which is unacceptable to RUCO, especially since no actual CAP water treatment facilities exist at the present time, and customers will actually be forced to pay for costs associated with CAP water that they may or may not receive for years to come.

Q. Mr. Garfield stated in his rebuttal testimony that RUCO did not address the recovery of CAP costs in a future rate case. Is this a true statement?

A. Yes. It is true that RUCO did not address the future recovery of CAP costs for the three systems in question. However, RUCO's recommendation to allow cost recovery of CAP charges for Arizona Water's Apache Junction system, during the Company's Eastern Group rate case proceeding, stands as proof that RUCO is not opposed to the recovery of CAP costs as long as the used and useful standard is met and ratepayers actually receive the CAP water that they are paying for in their rates.

Q. Please explain why RUCO supported the recovery of CAP costs in the Eastern Group proceeding, but opposes the recovery of CAP costs in this Western Group proceeding.

A. During the Eastern Group rate case, Arizona Water was using almost all of the Company's Apache Junction CAP allocation. The Apache Junction system's 2001 test year CAP usage can be seen in Attachment A of this testimony, which contains a printout from the CAWCD's website. This printout demonstrates that Arizona Water utilized 5,163 acre-feet or approximately 86 percent of the Company's 6,000 acre-foot allocation during the 2001 operating period. Over the course of the Eastern Group proceeding, it was pointed out by Arizona Water that Apache Junction CAP water is treated at a City of Mesa facility and is then pumped into the

Apache Junction distribution system for use by Apache Junction ratepayers.

In the case of the Western Group, there are presently no treatment facilities in place to provide potable CAP water to ratepayers in the Casa Grande, Coolidge and White Tank systems. During the Western Group Test Year, Arizona Water utilized approximately 26 percent of the Company's Casa Grande CAP allocation (see Attachment B). However, all 26 percent of the allocation was utilized as non-potable water and Arizona Water's costs for the CAP water deliveries were fully recovered through the Company's cost based NP-260 Tariff, a copy of which can be seen in Attachment C of this testimony.

As I pointed out in my direct testimony, the information that I have just presented here comprises the fundamental difference between the reason why RUCO supported CAP cost recovery in the Eastern Group rate case and opposes CAP cost recovery in this proceeding. Quite simply, in this proceeding, Arizona Water wants to charge ratepayers in Casa Grande, Coolidge and White Tank for costs associated with CAP water that they are not using.

Q. Why do you say that Mr. Garfield incorrectly stated that your testimony did not recognize that the Company is presently utilizing a portion of its CAP allocation for non-potable customers in the Casa Grande system?

A. Because I specifically stated on pages 17, 18 and 21 of my direct testimony that with the exception of providing non-potable CAP water to Casa Grande customers under the Company's cost based NP-260 Tariff (exhibited in Attachment C) Arizona Water was not utilizing the Company's CAP allocation for the Western Group.

Q. Twice now you have referred to the Company's NP-260 Tariff as being cost based. What exactly do you mean by this?

A. As can be seen in the actual document exhibited in Attachment C, the NP-260 Tariff, which was approved by the Commission in Decision No. 66849, states that the customer will be billed for all of the actual costs associated with the delivery of non-potable CAP water including a percentage of the actual costs to cover the Company's administrative costs and overhead. A monthly bill under the NP-260 Tariff includes four different components that allow full recovery of annual demand applicable to CAWCD M&I water service charges (based on the number of acre-feet requested by the customer), a monthly meter charge by meter size which includes no water, a commodity charge designed to pass on all costs of non-potable CAP water delivered to the customer, and a power, maintenance and depreciation charge based on actual costs incurred and on Commission

approved rates of depreciation. The first component of the NP-260 Tariff allows Arizona Water to recover the deferred CAWCD M&I charges that are attributable to non-potable customers in Casa Grande. These are the same deferred CAWCD M&I charges that the Company is seeking to recover from ratepayers in Casa Grande, Coolidge and White Tank that, unlike the non-potable customers, will receive no CAP water until the Company finally puts treatment facilities into service.

Given the fact that Arizona Water is presently recovering all of the costs for the non-potable CAP water that the Company is taking under its CAP allocation, the Company should not be permitted to also recover CAP costs from the general body of ratepayers in Casa Grande, Coolidge and White Tank, who receive no benefit from the CAP allocation.

Q. Please explain why Mr. Garfield is incorrect in his statements regarding Decision No. 62993, dated November 3, 2000.

A. In the direct and rebuttal testimony of Mr. Garfield and Ms. Hubbard, both Company witnesses purport that Decision No. 62993 constitutes official ACC policy on water utility issues including the recovery of CAP costs. This is not what the Decision says, and is simply untrue.

Q. What do you believe the intent of Decision No 62993 was?

A. Decision No. 62993 recognizes the fact that ACC Staff conducted water utility workshops, by order of Decision No. 60829, and later produced a Staff Report that contained recommendations on certain water utility issues including possible ways of recovering CAP costs. Nowhere in Decision No. 62993 is there any language that adopts any of the recommendations or views presented in the ACC Staff report or concludes that the recommendations constitute official ACC policy. Nor is there an ordering paragraph that actually orders Commission Staff to implement any of the recommendations contained in the ACC Staff report. In the final section of the decision, titled "Conclusions of Law," the Decision states the following:

> 1. The Commission as a regulatory body with the longest history and the primary responsibility over private water companies should take the lead in seeking a coordinated solution to the problems of small water companies.
>
> 2. The Commission arranged for the formation of the Task Force for meetings between representatives of regulatory agencies, the water providers, and water consumers in order to address these issues.
>
> 3. The Task Force has issued a report that summarizes the views of its members.

Mr. Garfield and Ms. Hubbard's testimony completely distorts the intent of Decision No. 62993 and should be given no weight.

Q. Please describe Ms. Hubbard's rebuttal testimony on the CAP issues associated with the case.

A. Other than the fact that Ms. Hubbard's rebuttal testimony contradicts Mr. Garfield's rebuttal testimony by stating that I did recognize the fact that Arizona Water was utilizing a portion of its CAP allocation to serve non-potable customers through the NP-260 Tariff, there is really nothing in her testimony that hasn't already been said or argued by Mr. Garfield on this issue as it relates to RUCO's position in the case. Ms. Hubbard cites several ACC decisions that involved the recovery of CAP costs in rates, including the Eastern Group Decision that I have already discussed, however none of these other decisions have anything in common with this case.

Q. Have you read the rebuttal testimony of Mr. Whitehead?

A. Yes.

Q. Please describe Mr. Whitehead's testimony?

A. Mr. Whitehead's rebuttal testimony describes the plans that the Company has to build CAP treatment facilities for the Casa Grande, Coolidge and White Tank systems. However, none of these plants exist at this time. Therefore, his testimony is completely irrelevant since the ACC did not set any CAP recovery policy pursuant to Decision No. 62993. In fact, his testimony only reinforces my argument that the recovery of CAP charges

should be delayed until the Company is actually providing treated CAP water to the three affected systems.

Q. Why do you believe that Mr. Whitehead's testimony reinforces your argument that the recovery of CAP charges should be delayed until the Company is actually providing treated CAP water to the three affected systems?

A. Mr. Whitehead's testimony only provides evidence that Arizona Water *has plans to utilize the Company's CAP allocation* in Casa Grande, Coolidge and White Tank *but none of these facilities presently exist*. Mr. Whitehead's testimony reinforces RUCO's argument that customers who require treated CAP water, in the three affected systems, will not receive any CAP water in return for the CAP costs that would be collected in rates until actual treatment facilities are constructed sometime between 2008 and 2012. RUCO believes that, with the exception of the NP-260 Tariff customers, no CAP costs should be recovered from ratepayers until the CAP allocation is utilized in a manner that is beneficial to the general body of ratepayers.

Once the facilities that Mr. Whitehead discusses in his testimony have been constructed and are providing treated CAP water for a full operating period, the Company should apply for rate relief and make a request for the recovery of CAP costs and related treatment facilities.

Q. What advantages do you see in waiting until actual treatment plants are constructed and operating?

A. Assuming that the customer base continues to grow in the three systems, the impact of the recovery of CAP costs will not be as heavy on affected ratepayers. In addition, costs being recovered under the Company's ACRM surcharge may also fall if treated CAP water is blended with groundwater that contains unacceptable levels of arsenic. Adhering to the accepted method of obtaining rate relief, that I have just described, would also give ACC Staff and RUCO the opportunity to audit the actual costs of the water treatment facilities and the actual operating expenses associated with them to insure that appropriate rates are set for the provision of service.

Q. Have you calculated what the impact would be on the Casa Grande, Coolidge and White Tank systems if the Commission were to adopt the Company's proposal to recover CAP costs in rates?

A. Yes. Surrebuttal Schedule WAR-2 compares a revenue summary exhibiting RUCO's recommended gross revenue increase for the Casa Grande, Coolidge and White Tank systems, with a revenue summary which includes the Company's pro forma adjustments for CAP cost recovery. In the case of Casa Grande, RUCO's recommended gross revenue increase would jump from $15,481 to $1,005,606. In the Coolidge system, RUCO's recommended level of gross revenue increase

would climb from $50,532 to $355,647. For White Tank, RUCO's recommended $8,568 gross revenue decrease would become a gross revenue increase of $141,729.

Q. What is the monthly impact of these increases on individual customers?

A. Based on annualized Test Year customer counts, the increases, if applied evenly across the board, would have a monthly impact of $5.60 per customer in Casa Grande, $8.43 per customer in Coolidge and $9.43 per customer in White Tank. Given the fact that ratepayers will not be receiving any direct benefit for what they would be paying for in their rates, RUCO believes that no amount of monthly increase is acceptable. In summary, the best analogy that I can offer is that allowing the Company's CAP costs in rates would be like a financial institution billing your credit card anywhere from $5.60 to $9.43 a month (depending on where you lived) for planned services that you may not get to use for another three to seven years, if ever.

CASA GRANDE LEGAL COSTS

Q. Please describe Mr. Garfield's rebuttal testimony regarding your recommendation to remove $824,374 in legal expenses from the Casa Grande system plant in service account.

A. Mr. Garfield explains the disputes that Arizona Water had with the City of Casa Grande and argues that the Company should be permitted to

recover the legal costs associated with these disputes. However, it is clear that he has either missed the real point for which I recommended the adjustment or he is simply ignoring the reason why I have recommended that the legal costs in question should not be given rate base treatment.

Q. *Please explain in detail why you believe that the Company treated the* Casa Grande legal costs incorrectly.

A. As I explained in my direct testimony, the Company has booked the Casa Grande legal costs into a non-depreciable plant account. This means that there will never be any decrease in the $824,374 figure that has been recorded in the account. If my recommendation is not adopted in this case, the full $824,374 figure will remain in rate base forever and will provide the Company with a return in perpetuity. Should the Commission adopt my recommended 9.17 percent required rate of return, the Company will receive an annual return of $75,595 on the $824,374 figure as long as that rate of return is in place. This means that Arizona Water would fully recover the $824,374 in approximately eleven years but continue to earn a return on the amount forever. Clearly this is not fair to Casa Grande ratepayers.

Q. Is this the first time that the Company has treated legal costs in this manner?

A. No. During the Eastern Group evidentiary hearing, Mr. Kennedy, the Company's treasurer, admitted on the stand that legal costs associated with the Miami System's Pinal Creek Group settlement were booked in a similar manner. As in this case, the Company made no effort to request an accounting order from the Commission on how to book the legal costs. In the Eastern Group proceeding, RUCO attempted to correct this situation, but was unable to do so because the Company's actions were not discovered until Mr. Kennedy made his admission during the evidentiary hearing.

Q. Does Mr. Garfield's explanation of the cause of the legal costs change your recommendation?

A. No. Once again, as I stated in my direct testimony, the reasons for the legal costs are not relevant to my recommended adjustment. The costs should have been booked as operating expenses in the periods in which they were incurred and a determination should have been made if the costs were non-recurring. By treating the Casa Grande legal costs as a non-depreciable component of rate base, the Company has chosen to shift the burden from shareholders to ratepayers, who were innocent bystanders to the legal fight between their city government and Arizona Water.

Q. Would you have treated the Casa Grande legal costs as a non-recurring expense if the legal costs had been properly booked as an operating expense?

A. Yes. Because I believe Casa Grande ratepayers should not have to pay for disputes between their city government and Arizona Water. These decisions were made by management and appropriately should be borne by shareholders.

ACCUMULATED DEPRECIATION ADJUSTMENT

Q. Have you reviewed the rebuttal testimony of Company witness Hubbard that addresses the accumulated depreciation adjustment issue related to the case?

A. Yes. Ms. Hubbard disagrees with my adjustment to the Company's accumulated depreciation account, which results in a decrease of $54,643 in accumulated depreciation for the entire Western Group. In support of her argument for adoption of the Company's accumulated depreciation figure, Ms. Hubbard claims that RUCO ignored both the provisions of Decision No. 38733, dated December 2, 1966, and the costs for removal and salvage of assets. Ms. Hubbard also claims that RUCO did not use proper leasehold amortization rates and incorrectly reduced the accumulated depreciation balance by the full original cost of retired non-depreciable plant assets.

Q. What were the provisions of Decision No. 38733, dated December 2, 1966? .

A. Decision No. 38733, which is exhibited in Attachment D, orders that a $368,282,08 deficiency, which occurred over the period March 31, 1955 to December 31, 1965, be amortized over a period of thirty-nine years. RUCO has calculated that this works out to $9,443 per year for the entire Company, or $2,675 per year for the entire Western Group (when the Company's 3 factor allocation ratio's are applied). Assuming that the provisions of Decision No. 38733 have never been superceded in any later orders, the amortized amount, over the period covered in this case, would reduce RUCO's $54,643 adjustment for the entire Western Group to $30,566.

Q. Do you agree with Ms. Hubbard's argument that RUCO failed to take the removal and salvage costs of plant assets into consideration?

A. No. Removal and salvage costs have never been an issue in any of the Company's prior cases that I have been involved with. In fact, if the Company has been adjusting the Commission ordered plant depreciation rates (which RUCO used in its calculation of accumulated depreciation) to take removal and salvage costs into consideration, then the Company has been incorrectly calculating annual depreciation expense and the resulting accumulated depreciation balances are understated.

Q. Did RUCO use incorrect leasehold amortization rates?

A. RUCO did not amortize the identifiable leasehold improvements included in the Company's plant in service account. In calculating RUCO's going forward level of depreciation expense, RUCO only removed that portion of amortization expense that was related to the ten-year amortization of deferred CAP charges and accepted the Company's remaining pro forma depreciation and amortization expense which contains the Company-proposed level of amortization expense attributed to leasehold improvements. This being the case, if what Ms. Hubbard claims is true, RUCO's accumulated depreciation figure would actually be understated and an error in the Company's favor.

Q. Did RUCO incorrectly remove the entire original cost of retired non-depreciable plant assets from the Company's accumulated depreciation balance?

A. No. Ms. Hubbard is incorrect on this point. The correct ratemaking treatment for retired assets, whether they are depreciable or not, is to remove the entire original cost of the asset from the accumulated depreciation balance (whether that balance is zero or not). This is basic to utility ratemaking and is dictated by the uniform system of accounts.

ELIMINATION OF THE PPAM AND PWAM

Q. Have you reviewed the rebuttal testimony of Company witnesses Kennedy and Hubbard that addresses RUCO's recommendation to eliminate the Company's PPAM and PWAM?

A. Yes. I have reviewed the Company's rebuttal testimony, which was filed by the aforementioned witnesses.

Q. Please summarize the positions that Mr. Kennedy and Ms. Hubbard have taken on this issue.

A. Mr. Kennedy's rebuttal testimony expresses his opposition to ACC Staff and RUCO's recommendations to eliminate both the PPAM and PWAM. Mr. Kennedy cites Arizona Law, claiming that A.R.S. § 40-370(A) supports his position. Ms. Hubbard's rebuttal testimony focuses on RUCO's related adjustment that increased the cost of pumping power, which was purchased from APS, by 3.5 percent.

Q. What are ACC Staff and RUCO's positions on the PPAM and PWAM issues in this case?

A. Both ACC Staff and RUCO have recommended that the Company's PPAM and PWAM be eliminated as they were in the Company's Eastern Group proceeding. As I stated on page 10 of my direct testimony, the

Commission's Decision[2] in that proceeding was the main reason for RUCO's recommendation to eliminate the PPAM and PWAM in the Western Group.

Q. Has RUCO changed its position on the elimination of the PPAM and PWAM based on the rebuttal testimony presented by Mr. Kennedy?

A. No. RUCO supports ACC Staff's recommendation to eliminate both the PPAM and the PWAM.

Q. Do you believe that the Commission is required to keep the Company's PPAM and PWAM in place under the provisions of A.R.S. § 40-370(A)?

A. This question requires a legal opinion and I am not a lawyer. However, speaking strictly as a financial analyst who has read the statute (as it was cited by Mr. Kennedy) and who has witnessed the Commission's past actions, I believe that the Commission has always relied on its own constitutional authority when making a decision on whether or not to approve an adjustor mechanism. Based on my experience with cases that have come before the Commission, including the prior Arizona Water Eastern Group rate case and the recent APS rate case where a power supply adjustor ("PSA") was central to the proceeding, I don't believe the Commission is required to approve *any* adjustor mechanism that a utility requests. In the APS case, the arguments for the PSA were much more

[2] Decision No. 66849, dated March 19, 2004.

compelling than the arguments presented by Arizona Water in this proceeding and the APS PSA still faced strong opposition by certain members of the Commission. In fact, during the APS case, the provisions of A.R.S. § 40-370(A) were never even raised by APS. It would appear that APS realized what Arizona Water has not, that the Commission has the authority to grant or deny pass-through mechanisms.

Q. Did RUCO make an adjustment that took the recent APS rate increase into consideration?

A. Yes, RUCO's Operating Adjustment #4 – Purchased Power, which is described on Page 27 of my Direct Testimony, increased the cost of pumping power that the Company purchased from APS (during the Test Year) under the Rate 32 Tariff. RUCO's adjustment increased the cost of these Test Year APS purchases by 3.5 percent.

Q. What was the Company's position on RUCO's adjustment to increase purchased power expense that is attributed to APS?

A. Company witness Hubbard did not take issue with RUCO's adjustment, but did point out that the Company also purchases power from APS under the Rate 221 Tariff.

Q. Did RUCO's purchased power adjustment include the power purchased by the Company under APS' Rate 221 tariff?

A. No. RUCO asked the Company for a breakdown of the total Test Year purchased pumping power expense by electric service provider for each of the five Western Group systems[3]. The Company referred RUCO to a work paper that only provided information on power purchased under APS' Rate 32 Tariff.

Q. Is RUCO willing to make an adjustment that takes purchases under APS' Rate 221 Tariff into consideration?

A. RUCO is willing to make such an adjustment if Arizona Water will provide RUCO with copies of the APS statements that billed the Company for power that was purchased under the Rate 221 Tariff.

COST OF CAPITAL

Q. Has the Company accepted RUCO's recommended capital structure and cost of debt?

A. Yes. There is no debate among the parties to the case on these two points. Both ACC Staff witness Alejandro Ramirez and myself have recommended that the Commission adopt the Company-proposed capital structure, which is comprised of 73 percent common equity and 27

[3] RUCO Data Request No. 6.2.

percent long-term debt, and the Company-proposed 8.43 percent weighted cost of long-term debt.

Q. Please summarize the estimated costs of common equity being recommended by each of the parties in this case at this stage of the proceeding.

A. The estimated costs of common equity being recommended by each of the parties at this stage of the proceeding are as follows:

Company	11.25 percent
ACC Staff	9.10 percent
RUCO	9.44 percent

As can be seen above, the parties' estimates range from ACC Staff's low of 9.10 percent to the Company's high of 11.25 percent, a difference of two-hundred and fifteen basis points.

Q. Has the Company revised its cost of common equity estimate in its rebuttal testimony?

A. No.

Q. How does Staff witness Ramirez arrive at his recommended cost of equity?

A. Mr. Ramirez averaged the results produced by his single and multi-stage DCF models to arrive at an estimate of 9.3 percent and then averaged the results of his CAPM analysis to arrive at an estimate of 9.2 percent. He then averaged these two figures to arrive at an overall estimate of 9.3 percent. For his final recommendation, Mr. Ramirez chose a 9.1 percent figure, which represents the low end of his estimates. In comparison, my estimate of 9.44 percent is the unadjusted result that was derived solely from my single stage DCF analysis.

Q. What would your cost of equity estimate be if you averaged the results produced by your DCF and CAPM models as Mr. Ramirez has?

A. The average of the results produced by my CAPM model would equal 9.08 percent. An overall average of my DCF result of 9.44 percent and my averaged CAPM result of 9.08 percent would result in the same 9.3 percent overall average that Mr. Ramirez calculated.

Q. Have you recalculated the cost of equity recommended in your direct testimony using more recent data?

A. Yes. After filing my direct testimony, I performed a similar DCF and CAPM analysis using updated Value Line Investment Survey ("Value Line") figures that were published on April 29, 2005. The updated Value

Line figures produced a DCF result of 9.49 percent and an average CAPM result of 9.11 percent. The overall average of these results equals the same 9.3 percent return calculated in the examples above.

Q. Are you revising your original 9.44 percent estimate based on the updated results that you just described?

A. No. As I explained on page 27 of my direct testimony, Arizona Water's capital structure of 73 percent equity and 27 percent debt is not as leveraged as the capital structures of the water utilities included in my proxy. Even though an argument could be made to make a downward adjustment to my DCF result of 9.44 percent (given the fact that Arizona Water is less risky than the water utilities in my proxy when the Company's equity heavy capital structure is taken into consideration), I decided not to make such an adjustment. Since I elected not to make a downward adjustment at that point in time, I have decided not to make an upward adjustment now. My recommended cost of equity estimate for Arizona Water remains at 9.44 percent.

Q. Please summarize the weighted costs of capital being recommended by each of the parties in this case at this stage of the proceeding.

A. The weighted costs of capital (i.e. weighted cost of debt and weighted cost of equity) being recommended by each of the parties at this stage of the proceeding are as follows:

Company	10.50 percent
ACC Staff	8.90 percent
RUCO	9.17 percent

The weighted costs of capital being recommended by the parties range from ACC Staff's low of 8.90 percent to the Company's high of 10.50 percent or a difference of one-hundred and sixty basis points.

Q. Have you reviewed the Company's rebuttal testimony on cost of capital issues in this case?

A. Yes. Both Mr. Kennedy and Dr. Zepp, the Company's cost of capital consultant, addressed cost of capital issues in their rebuttal testimony.

Q. Please summarize Mr. Kennedy's rebuttal testimony on the cost of capital issues in the case.

A. Mr. Kennedy provides a comparison of the estimates being recommended by the parties to the case and then argues that ACC Staff and RUCO's cost of common equity estimates are too low. Mr. Kennedy cites a series of reasons why Arizona Water's cost of common equity should be higher, based on its unique, or company specific, risks. According to Mr. Kennedy, these unique risks include Arizona's use of an historic test year, the elimination of the PPPAM and PWAM, arsenic recovery costs and tiered rate designs. After his discussion of unique risk, Mr. Kennedy

averages the actual and authorized returns (which results in range of 10.0 percent to 10.4 percent) of six of the sample water utilities that were included in ACC Staff's proxy, and three of the water utilities used in my proxy, for estimating Arizona Water's cost of common equity.

Q. Do any of Mr. Kennedy's arguments justify an upward adjustment to your recommended cost of common equity?

A. No. All of the points raised by Mr. Kennedy were either addressed in my direct testimony and/or were considered by me in arriving at my recommended cost of common equity for Arizona Water. Out of the six sample water utilities used in ACC Staff's proxy, and three of the sample water utilities used in my proxy, whose actual and authorized returns were averaged by Mr. Kennedy, all have capital structures that are heavier in debt than Arizona Water's. Although Mr. Kennedy states that Arizona Water's level of debt will increase to finance arsenic removal equipment, the actual level of debt is not known and measurable at this time, and the Company remains equity rich.

Q. Has the Company projected what its levels of debt and equity will be?

A. The Company's schedule D-1 projects a capital structure of 63 percent equity and 37 percent debt at the end of the 2004 operating period. However, the projected level of 37 percent debt is still below the average

of 49.5 percent for the six water utilities used in Mr. Kennedy's example. Thus Arizona Water would still be perceived as having lower financial risk.

Q. Please describe Dr. Zepp's rebuttal testimony.

A. Dr. Zepp's rebuttal testimony takes issue with RUCO's recommended cost of equity capital and the methods that were used to derive my recommended 9.44 percent cost of common equity for Arizona Water. Dr. Zepp states that Arizona Water should be entitled to a 50-basis point adjustment noting the placement of the Company's Series K bonds as support for this claim. He then lists a number of other reasons why Mr. Ramirez' and my estimates of common equity costs are too low. Dr. Zepp then restates the results of both Mr. Ramirez' and my estimates of common equity by injecting his own assumptions and selected forecasted interest rates into our respective models.

Q. Please address Dr. Zepp's justification for a risk premium based on Arizona Water Company's inability to place bonds at reasonable rates.

A. This is a moot point since Arizona Water successfully placed its Series K, 8.04 percent general mortgage bonds, due in 2031, during April 2001. While it may have taken Arizona Water longer to place this particular bond issue than others in the past (do to changing market conditions for the size of the issues being offered), the fact remains that the issue was indeed placed by the Company. Given the fact that the placement of debt is not

even an issue in this case, and that there is no reason to believe that Arizona Water won't be able to successfully place debt as it did four years ago, no justification for a risk premium exists.

Q. Do you agree with Dr. Zepp's restatement of the results of your DCF analysis?

A. No, I do not. Dr. Zepp has restated the growth component ("g") in my DCF analysis, which is the sum of a utility's internal, or sustainable growth rate ("br"), and the external growth rate estimate ("sv"). As I stated in my direct testimony, my estimate of *g* is higher than the projections presented by Zacks Investment Research, Inc.[4] and are more optimistic than the projections of independent analysts at Value Line Investment Survey. This comparison was presented in Schedule WAR-6 of my direct testimony. The numbers of independent analysts exhibited in schedule WAR-6 speak for themselves and are a far better check on my estimate of *g* than the restatement that Dr. Zepp presents in his rebuttal testimony.

Q. Do you agree with Dr. Zepp's criticisms of your DCF methodology?

A. No. In particular I strongly disagree with Dr. Zepp's views on the method that I used in the calculation of "v" for the external growth rate estimate portion of the DCF's growth component. This calculation takes into

[4] Zacks Investment Research was formed in 1978 to compile, analyze, and distribute investment research to both institutional and individual investors. Zack's presently compiles investment data that is obtained through its relationships with over 250 different brokerage firms.

consideration the fact that, while in theory a utility's stock price should move toward a market to book ratio of 1.0 if regulators authorize a rate of return that is equal to a utility's cost of capital, in reality a utility will continue to issue shares of stock that are priced above book value.

Q. Can you provide any evidence that water utility stock prices are actually moving to a market to book ratio of 1.0?

A. A recent analysis that I performed indicated that they are. Attachment E to my testimony contains line graphs for each of the three water utilities that I included in my proxy. The graphs show that at the present time, the stock prices of all three of the utilities included in my sample appear to be moving in the direction of a market to book ratio of 1.0.

Q. Please comment on Dr. Zepp's restatement of the results of your CAPM analysis.

A. In restating the results of my CAPM analysis, Dr. Zepp has chosen a higher forecasted long-term rate of 5.8 percent as opposed to the average return of 2.70 percent on a 91-day Treasury Bill which I used. The forecasted rate that Dr. Zepp has used is a full one hundred and twenty-eight basis points higher than the most recent 4.52 percent 30-year Treasury yield published in the May 20, 2005 edition of Value Line's Selection and Opinion publication. If the actual 4.52 percent rate were substituted into my CAPM models it would produce an expected return

that ranges from 8.8 percent, based on a geometric mean, to 10.3 percent, based on an arithmetic mean. An average of this range produces an expected return of 9.6 percent, which is only slightly higher than my recommended 9.44 percent return on common equity.

Q. What is your response to Dr. Zepp's position that the yields on longer-term instruments should be used in the CAPM model as opposed to the average return on a 91-day Treasury Bill that you used?

A. Even though an ongoing debate in the academic community exists over what type of instrument best fits the definition of a risk free asset, I believe that the consistent use of a normalized 91-day Treasury Bill ("T-Bill") rate is the most theoretically correct parameter for use in the CAPM model.

Q. In his rebuttal testimony, Dr. Zepp explains why he believes that the use of longer-term instruments should be used in the CAPM model. Can you explain why you believe the use of a 91-day T-Bill is more appropriate than longer-term instruments?

A. The logic in the use of a 91-day T-Bill has been presented in prior proceedings before the Commission by Mr. Stephen Hill, a cost of capital consultant who has testified for RUCO, whom I cited in the DCF section of my direct testimony. I believe, as does Mr. Hill, that the use of the 91-day T-bill is justified for two reasons. First, investors face no maturity risk with the purchase of the 91-day T-Bill. As stated in my direct testimony,

longer-term U.S. Treasury instruments, such as the forecasted long-term yield used by Dr. Zepp in his restatement, have higher yields due to maturity risk. These higher yields compensate investors for forgone future investment opportunities and for future unexpected changes in the rate of inflation. Individuals who invest in 91-day T-bills do not face these risks. I believe that a good argument can be made that when maturity risk is taken into consideration, the yields on 91-day T-Bills emerge as a better proxy for the risk free rate of return that is an integral component of the CAPM.

Second, I believe, as does Mr. Hill, that the use of longer-term treasury instruments conflicts with the CAPM model's exclusive reliance on systematic risk. Systematic risk (also referred to as market risk) is defined as that part of a security's risk that is common to all securities of the same general class. It is risk that cannot be eliminated by diversification (the beta coefficient used in the CAPM is the measurement of systematic risk). CAPM theory asserts that the degree of systematic risk that is inherent in any stock, or investment portfolio, is captured by, and reflected in, the beta coefficient. A contributor to overall systematic risk is the risk of unexpected changes in the long-term inflation rate. Since the risk associated with unexpected changes in the long-term inflation rate is already included in the beta coefficient, the use of longer-term U.S. Treasury instruments as a risk free asset accounts for this risk twice – once with the beta and once with the long-term U.S. Treasury instrument

yield. In short, I believe that the use of longer-term U.S. Treasury instruments in the CAPM model incorrectly double counts the long-term inflation return requirements of investors and produces overstated results.

Q. Have any of the rebuttal testimony arguments advanced by Dr. Zepp persuaded you to make any changes in your recommended 9.44 percent cost of common equity for Arizona Water?

A. No.

Q. Does your silence on any of the issues or positions addressed in the rebuttal testimony of the Company's witnesses constitute acceptance?

A. No, it does not.

Q. Does this conclude your surrebuttal testimony on Arizona Water?

A. Yes, it does.

ARIZONA WATER COMPANY
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ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
DIRECT TESTIMONY POSITIONS
REVENUE SUMMARY COMPARISON

LINE NO.	DESCRIPTION	AJO (A) COMPANY REQUESTED	AJO (B) STAFF RECOMMENDED	AJO (C) RUCO RECOMMENDED	CASA GRANDE (A) COMPANY REQUESTED	CASA GRANDE (B) STAFF RECOMMENDED	CASA GRANDE (C) RUCO RECOMMENDED	COOLIDGE (A) COMPANY REQUESTED	COOLIDGE (B) STAFF RECOMMENDED	COOLIDGE (C) RUCO RECOMMENDED
1	ADJUSTED RATE BASE	$ 847,167	$ 837,088	$ 846,711	$ 21,996,652	$ 17,352,671	$ 17,380,813	$ 3,817,510	$ 2,713,030	$ 2,868,652
2	ADJUSTED OPERATING INCOME	34,696	35,675	37,857	1,180,182	1,279,158	1,584,337	100,737	165,567	231,813
3	CURRENT RATE OF RETURN (L2 / L1)	4.10%	4.26%	4.47%	5.37%	7.37%	9.12%	2.64%	6.10%	8.08%
4	REQUIRED RATE OF RETURN	10.50%	8.90%	9.17%	10.50%	8.90%	9.17%	10.50%	8.90%	9.17%
5	REQUIRED OPERATING INCOME (L4 * L1)	88,953	74,501	77,643	2,309,648	1,544,388	1,593,821	400,839	241,460	263,055
6	OPERATING INCOME DEFICIENCY (L5 - L2)	54,256	38,826	39,786	1,129,466	265,230	9,483	300,101	75,892	31,243
7	GROSS REVENUE CONVERSION FACTOR	1.63245	1.63246	1.31426	1.63245	1.63246	1.63249	1.63245	1.63246	1.61740
8	GROSS REVENUE INCREASE	$ 88,571	$ 63,382	$ 52,289	$ 1,843,802	$ 432,977	$ 15,481	$ 489,901	$ 123,891	$ 50,532
9	CURRENT REVENUES T/Y ADJUSTED	409,259	412,203	404,072	7,298,464	7,921,381	7,366,204	1,363,049	1,427,285	1,358,121
10	PROPOSED ANNUAL REVENUE (L8 + L9)	497,830	475,585	456,361	9,142,266	8,354,358	7,381,685	1,852,950	1,551,176	1,408,653
11	PERCENTAGE AVERAGE INCREASE	21.64%	15.38%	12.94%	25.26%	5.47%	0.21%	35.94%	8.68%	3.72%
12										
13		STANFIELD			WHITE TANK			WESTERN GROUP		
14		(A) COMPANY REQUESTED	(B) STAFF RECOMMENDED	(C) RUCO RECOMMENDED	(A) COMPANY REQUESTED	(B) STAFF RECOMMENDED	(C) RUCO RECOMMENDED	(A) COMPANY REQUESTED	(B) STAFF RECOMMENDED	(C) RUCO RECOMMENDED
15	DESCRIPTION									
16	ADJUSTED RATE BASE	$ 314,131	$ 310,269	$ 326,426	$ 2,441,155	$ 1,898,133	$ 1,919,400	$ 29,416,615	$ 23,111,191	$ 23,342,002
17	ADJUSTED OPERATING INCOME	25,878	23,872	29,512	121,440	135,790	181,559	1,462,933	1,640,062	2,065,079
18	CURRENT RATE OF RETURN (L2 / L1)	8.24%	7.69%	9.04%	4.97%	7.15%	9.46%	4.97%	7.10%	8.85%
19	REQUIRED RATE OF RETURN	10.50%	8.90%	9.17%	10.50%	8.90%	9.17%	10.50%	9.17%	9.17%
20	REQUIRED OPERATING INCOME (L4 * L1)	32,984	27,614	29,933	256,321	168,934	176,009	3,088,745	2,056,896	2,140,462
21	OPERATING INCOME DEFICIENCY (L5 - L2)	7,106	3,742	421	134,881	33,144	(5,550)	1,625,812	416,834	75,382
22	GROSS REVENUE CONVERSION FACTOR	1.63245	1.63246	1.26758	1.63245	1.63246	1.54366	1.63245	1.63246	1.46278
23	GROSS REVENUE INCREASE	$ 11,601	$ 6,108	$ 534	$ 220,188	$ 54,106	$ (8,568)	$ 2,654,063	$ 680,464	$ 110,268
24	CURRENT REVENUES T/Y ADJUSTED	115,201	131,003	116,474	761,530	783,483	758,382	9,947,503	10,675,355	10,003,253
25	PROPOSED ANNUAL REVENUE (L8 + L9)	126,802	137,111	117,007	981,718	837,589	749,814	12,601,565	11,355,819	10,113,521
26	PERCENTAGE AVERAGE INCREASE	10.07%	4.66%	0.46%	28.91%	6.91%	-1.13%	26.68%	6.37%	1.10%

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
DIRECT TESTIMONY POSITIONS
RATE BASE COMPARISON

LINE NO.	DESCRIPTION	AJO (A) COMPANY REQUESTED	AJO (B) STAFF RECOMMENDED	AJO (C) RUCO RECOMMENDED	CASA GRANDE (A) COMPANY REQUESTED	CASA GRANDE (B) STAFF RECOMMENDED	CASA GRANDE (C) RUCO RECOMMENDED	COOLIDGE (A) COMPANY REQUESTED	COOLIDGE (B) STAFF RECOMMENDED	COOLIDGE (C) RUCO RECOMMENDED
1	PLANT IN SERVICE	$ 1,656,478	$ 1,656,478	$ 1,656,478	$ 48,030,396	$ 47,206,022	$ 47,206,022	$ 6,083,129	$ 6,083,129	$ 6,083,129
2	PHOENIX OFFICE & METER SHOP ALLOCATION	43,498	43,498	48,571	947,818	947,818	1,058,334	201,010	201,010	224,449
3	DEFERRED CAP CHARGES	-	-	-	3,525,803	-	-	1,046,011	-	-
4	ACCUMULATED DEPRECIATION	(624,244)	(624,244)	(630,349)	(12,072,217)	(12,072,217)	(12,241,403)	(2,271,697)	(2,271,697)	(2,163,930)
5	NET PLANT IN SERVICE	$ 1,075,732	$ 1,075,732	$ 1,074,700	$ 40,431,800	$ 36,081,623	$ 36,022,953	$ 5,058,453	$ 4,012,442	$ 4,143,648
6	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-	-	-	-	-	-	-
7	TOTAL NET PLANT	$ 1,075,732	$ 1,075,732	$ 1,074,700	$ 40,431,800	$ 36,081,623	$ 36,022,953	$ 5,058,453	$ 4,012,442	$ 4,143,648
8	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(36,395)	(36,395)	(36,395)	(8,891,444)	(8,891,444)	(8,891,444)	(406,644)	(406,644)	(406,644)
9	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(41,263)	(41,263)	(41,263)	(7,754,812)	(7,754,812)	(7,754,812)	(437,102)	(437,102)	(437,102)
10	ACCUMULATED AMORTIZATION OF CIAC	10,797	10,797	10,797	1,348,820	1,348,820	1,348,820	74,970	74,970	74,970
11	DEFERRED INCOME TAXES	(157,495)	(157,495)	(157,495)	(3,387,966)	(3,387,966)	(3,387,966)	(504,369)	(504,369)	(504,369)
12	WORKING CAPITAL	(4,209)	(14,288)	(3,633)	250,254	(43,550)	43,262	32,202	(26,267)	(1,851)
13	TOTAL RATE BASE	$ 847,167	$ 837,088	$ 846,711	$ 21,996,652	$ 17,352,671	$ 17,380,813	$ 3,817,510	$ 2,713,030	$ 2,866,652
14										

15		STANFIELD			WHITE TANK			WESTERN GROUP		
16		(A) COMPANY	(B) STAFF	(C) RUCO	(A) COMPANY	(B) STAFF	(C) RUCO	(A) COMPANY	(B) STAFF	(C) RUCO
17	DESCRIPTION	REQUESTED	RECOMMENDED	RECOMMENDED	REQUESTED	RECOMMENDED	RECOMMENDED	REQUESTED	RECOMMENDED	RECOMMENDED
18	PLANT IN SERVICE	$ 602,560	$ 602,560	$ 602,560	$ 5,580,520	$ 5,580,520	$ 5,580,520	$ 61,953,083	$ 61,128,709	$ 61,128,709
19	PHOENIX OFFICE & METER SHOP ALLOCATION	14,195	14,195	15,849	90,661	90,661	101,232	1,297,182	1,297,182	1,448,435
20	DEFERRED CAP CHARGES	-	-	-	506,268	-	-	5,078,082	-	-
21	ACCUMULATED DEPRECIATION	(195,716)	(195,716)	(187,747)	(1,088,906)	(1,088,906)	(1,083,994)	(16,252,780)	(16,252,780)	(16,307,423)
22	NET PLANT IN SERVICE	$ 421,038	$ 421,039	$ 430,661	$ 5,088,543	$ 4,582,275	$ 4,597,758	$ 52,075,566	$ 46,173,111	$ 46,269,720
23	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-	-	-	-	-	-	-
24	TOTAL NET PLANT	$ 421,038	$ 421,039	$ 430,661	$ 5,088,543	$ 4,582,275	$ 4,597,758	$ 52,075,566	$ 46,173,111	$ 46,269,720
25	ADVANCES IN AID OF CONSTRUCTION (AIAC)	-	-	-	(1,887,880)	(1,887,880)	(1,887,880)	(11,222,363)	(11,222,363)	(11,222,363)
26	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(49,164)	(49,164)	(49,164)	(554,839)	(554,839)	(554,839)	(8,837,180)	(8,837,180)	(8,837,180)
27	ACCUMULATED AMORTIZATION OF CIAC	7,813	7,813	7,813	111,896	111,896	111,896	1,554,296	1,554,296	1,554,296
28	DEFERRED INCOME TAXES	(62,528)	(62,528)	(62,528)	(352,670)	(352,670)	(352,670)	(4,465,028)	(4,465,028)	(4,465,028)
29	WORKING CAPITAL	(3,029)	(6,891)	(357)	36,105	(649)	5,135	311,323	(91,645)	42,556
30	TOTAL RATE BASE	$ 314,131	$ 310,269	$ 326,426	$ 2,441,155	$ 1,898,133	$ 1,919,400	$ 29,416,615	$ 23,111,191	$ 23,342,002

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
DIRECT TESTIMONY POSITIONS
INCOME COMPARISON

LINE NO.	DESCRIPTION	AJO (A) COMPANY REQUESTED	AJO (B) STAFF RECOMMENDED	AJO (C) RUCO RECOMMENDED	CASA GRANDE (A) COMPANY REQUESTED	CASA GRANDE (B) STAFF RECOMMENDED	CASA GRANDE (C) RUCO RECOMMENDED	COOLIDGE (A) COMPANY REQUESTED	COOLIDGE (B) STAFF RECOMMENDED	COOLIDGE (C) RUCO RECOMMENDED
	REVENUES - WATER:									
1	REVENUE FROM WATER SALES	$ 409,259	$ 475,585	$ 456,361	$ 7,298,464	$ 8,354,358	$ 7,381,685	$ 1,363,049	$ 1,551,176	$ 1,408,653
2	OTHER REVENUES	2,944	-	2,944	622,917	-	622,917	64,236	-	64,236
3	TOTAL OPERATING REVENUES	$ 412,203	$ 475,585	$ 459,305	$ 7,921,381	$ 8,354,358	$ 8,004,602	$ 1,427,285	$ 1,551,176	$ 1,472,889
	OPERATING EXPENSES:									
4	PURCHASED WATER	$ 162,114	$ 162,114	$ 162,114	$ 498,013	$ 338,564	$ 338,564	$ 56,000	$ -	$ -
5	OTHER	316	316	91	45,935	45,935	58,284	7,914	7,914	7,371
6	PURCHASED POWER	2,976	2,976	2,982	810,343	811,810	822,257	97,408	97,691	98,496
7	PURCHASED GAS	-	-	-	-	-	-	603	603	603
8	OTHER	14,594	14,594	12,586	286,696	286,696	278,354	37,838	37,838	37,807
9	WATER TREATMENT	3,443	3,443	3,391	187,995	187,995	190,237	13,267	13,267	13,176
10	TRANSMISSION & DISTRIBUTION	38,687	38,687	38,893	786,616	786,616	755,729	196,681	196,681	195,760
11	CUSTOMER ACCOUNTS	27,613	27,761	27,288	604,959	605,973	602,122	191,070	191,360	190,344
12	SALES	142	142	142	2,962	2,962	2,962	259	259	259
13	ADMINISTRATIVE & GENERAL	45,617	45,152	45,617	952,718	932,223	952,718	235,586	233,619	235,586
14	DEPRECIATION & AMORTIZATION	39,981	39,981	39,981	1,368,007	1,368,007	1,015,427	275,122	275,122	170,521
15	PROPERTY TAXES	27,099	26,901	26,452	612,639	635,569	560,835	127,110	116,516	113,345
16	OTHER TAXES	3,759	3,759	3,759	76,751	76,751	76,751	24,577	24,577	24,577
17	FEDERAL INCOME TAXES	9,756	35,257	12,999	439,020	730,869	619,973	55,589	114,269	99,647
18	STATE INCOME TAXES	1,409	-	5,366	68,546	-	136,570	7,524	-	22,341
19	TOTAL OPERATING EXPENSES	$ 377,507	$ 401,084	$ 381,662	$ 6,741,199	$ 6,809,970	$ 6,410,781	$ 1,326,548	$ 1,309,716	$ 1,209,834
20	NET INCOME	$ 34,696	$ 74,501	$ 77,643	$ 1,180,182	$ 1,544,388	$ 1,593,821	$ 100,737	$ 241,460	$ 263,055
21										

22		STANFIELD (A) COMPANY REQUESTED	STANFIELD (B) STAFF RECOMMENDED	STANFIELD (C) RUCO RECOMMENDED	WHITE TANK (A) COMPANY REQUESTED	WHITE TANK (B) STAFF RECOMMENDED	WHITE TANK (C) RUCO RECOMMENDED	WESTERN GROUP (A) COMPANY REQUESTED	WESTERN GROUP (B) STAFF RECOMMENDED	WESTERN GROUP (C) RUCO RECOMMENDED
23										
24										
25	REVENUES - WATER:									
26	REVENUE FROM WATER SALES	$ 115,201	$ 137,111	$ 117,007	$ 761,530	$ 837,590	$ 749,814	$ 9,947,503	$ 11,355,820	$ 10,113,521
27	OTHER REVENUES	15,802	-	15,802	21,953	-	21,953	727,852	-	727,852
28	TOTAL OPERATING REVENUES	$ 131,003	$ 137,111	$ 132,809	$ 783,483	$ 837,590	$ 771,767	$ 10,675,355	$ 11,355,820	$ 10,841,373
29	OPERATING EXPENSES: PURCHASED WATER	$ -	$ -	$ -	$ 37,383	$ 10,279	$ 10,279	$ 753,510	$ 510,957	$ 510,957
30	OTHER	396	396	651	2,880	2,880	2,470	57,441	57,441	68,865
31	PURCHASED POWER	17,409	17,409	18,018	78,404	78,860	81,148	1,006,540	1,008,746	1,022,901
32	PURCHASED GAS	-	-	-	-	-	-	603	603	603
33	OTHER	4,120	4,120	4,118	27,057	27,057	26,486	370,305	370,305	359,351
34	WATER TREATMENT	430	430	453	9,655	9,655	9,609	214,790	214,790	216,867
35	TRANSMISSION & DISTRIBUTION	12,240	12,240	12,183	79,261	79,261	75,967	1,113,485	1,113,485	1,078,532
36	CUSTOMER ACCOUNTS	8,604	8,618	8,687	54,850	54,977	54,868	887,096	888,689	883,109
37	SALES	44	44	44	263	263	263	3,670	3,670	3,670
38	ADMINISTRATIVE & GENERAL	14,451	14,301	14,451	87,371	86,411	87,371	1,335,743	1,311,706	1,335,743
39	DEPRECIATION & AMORTIZATION	24,713	24,713	24,713	182,626	182,626	131,999	1,890,449	1,890,449	1,382,640
40	PROPERTY TAXES	13,290	13,003	12,424	41,993	49,833	37,146	822,131	841,822	750,202
41	OTHER TAXES	1,154	1,154	1,154	6,608	6,608	6,608	112,849	112,849	112,849
42	FEDERAL INCOME TAXES	7,221	13,068	3,990	46,569	79,947	57,485	558,155	973,410	794,095
43	STATE INCOME TAXES	1,053	-	1,992	7,123	-	14,259	85,655	-	180,527
44	TOTAL OPERATING EXPENSES	$ 105,125	$ 109,497	$ 102,876	$ 662,043	$ 668,656	$ 595,758	$ 9,212,422	$ 9,298,922	$ 8,700,912
45										
46	NET INCOME	$ 25,878	$ 27,614	$ 29,933	$ 121,440	$ 168,934	$ 176,009	$ 1,462,933	$ 2,056,897	$ 2,140,462

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
WESTERN GROUP
REVENUE SUMMARY COMPARISON OF CAP COSTS

DOCKET NO. W-01445A-04-0650
SURREBUTTAL SCHEDULE WAR-2

		CASA GRANDE				COOLIDGE				WHITE TANK			
LINE NO.	DESCRIPTION	(A) RUCO RECOMMENDED	(B) INCLUDING CAP COSTS	(C) DIFFERENCE ($)	(D) DIFFERENCE (%)	(A) RUCO RECOMMENDED	(B) INCLUDING CAP COSTS	(C) DIFFERENCE ($)	(D) DIFFERENCE (%)	(A) RUCO RECOMMENDED	(B) INCLUDING CAP COSTS	(C) DIFFERENCE ($)	(D) DIFFERENCE (%)
1	ADJUSTED RATE BASE	$ 17,380,813	$ 20,899,061	$ 3,518,248	20.24%	$ 2,868,652	$ 3,909,906	$ 1,041,253	36.30%	$ 1,919,400	$ 2,418,960	$ 499,560	26.03%
2	ADJUSTED OPERATING INCOME	1,584,337	1,300,449	(283,888)	-17.92%	231,813	140,683	(91,130)	-39.31%	181,559	132,674	(48,885)	-26.93%
3	CURRENT RATE OF RETURN (L2 / L1)	9.12%	6.22%	-2.89%	-31.74%	8.08%	3.60%	-4.48%	-55.47%	9.46%	5.48%	-3.97%	-42.02%
4	REQUIRED RATE OF RETURN	9.17%	9.17%	0.00%	0.00%	9.17%	9.17%	0.00%	0.00%	9.17%	9.17%	0.00%	0.00%
5	REQUIRED OPERATING INCOME (L4 * L1)	1,593,821	1,916,444	322,623	20.24%	263,055	358,538	95,483	36.30%	176,009	221,819	45,810	26.03%
6	OPERATING INCOME DEFICIENCY (L5 - L2)	9,483	615,995	606,511	6395.70%	31,243	217,856	186,613	597.31%	(5,550)	89,144	94,695	-1706.12%
7	GROSS REVENUE CONVERSION FACTOR	1.63249	1.63249	1.63249	0.00%	1.61740	1.63249	1.63249	0.93%	1.54366	1.58988	1.63249	2.99%
8	GROSS REVENUE INCREASE	$ 15,481	$ 1,005,606	$ 990,125	6395.70%	$ 50,532	$ 355,647	$ 305,116	603.81%	$ (8,568)	$ 141,729	$ 150,296	-1754.21%
9	CURRENT REVENUES T/Y ADJUSTED	7,366,204	7,366,204	-	0.00%	1,358,121	1,358,121	-	0.00%	758,382	758,382	-	0.00%
10	PROPOSED ANNUAL REVENUE (L8 + L9)	7,381,685	8,371,810	990,125	13.41%	1,408,653	1,713,769	305,116	21.66%	749,814	900,111	150,296	20.04%
11	PERCENTAGE AVERAGE INCREASE	0.21%	13.65%	13.44%	6395.70%	3.72%	26.19%	22.47%	603.81%	-1.13%	18.69%	19.82%	-1754.21%

ATTACHMENT A

MONTHLY M&I DELIVERIES

CALENDAR YEAR 2001

(By Classification)

Table #1

(Deliveries are actuals through December. Monthly projections for the remainder of the year are not shown.)

SUBCONTRACT $58/AF	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Apache Junction Water Co	1	2	4	4	7	5	6	3	6	4	3	2	47
AZ-American Wtr Co (1)	0	324	323	324	323	314	331	323	323	323	323	0	3,231
AZ State Land/ADOT(1)	1	1	0	0	0	0	0	0	91	192	155	23	463
AWC/Apache Junction	219	219	308	328	602	505	648	577	610	718	211	218	5,163
AWC/Casa Grande	0	0	0	0	0	111	120	99	178	239	242	213	1,202
Avondale, City of (1)	0	1,265	630	616	630	611	658	336	0	0	0	0	4,746
Carefree Water Co.	1	0	3	25	44	45	63	54	42	40	37	6	360
Cave Creek Water Co.	46	46	58	98	126	141	144	133	146	134	0	38	1,110
Chandler, City of (1) (8)	0	695	769	821	832	758	740	0	0	67	150	148	4,980
Chaparral City Water	185	204	295	430	657	680	698	662	648	650	491	403	6,003
Citizens Water Resources	0	0	1,000	1,333	1,333	1,333	1,333	1,333	1,096	1,000	0	0	9,761
Eloy, City of	6	5	16	20	32	1,647	38	30	38	31	22	13	1,898
Florence, Town of	0	0	0	2,048	0	0	0	0	0	0	0	0	2,048
Gilbert, Town of (1)	0	0	0	0	0	0	0	0	0	0	0	0	0
Glendale, City of (1)(12)	0	0	0	0	0	2,207	2,557	2,459	2,419	2,594	1,734	213	14,183
Maricopa County P&R	8	10	16	28	74	69	100	69	75	58	31	16	554
Mesa, City of (1) (8)	0	0	0	1,406	2,694	3,285	3,549	3,145	3,204	3,238	0	1,332	21,853
Peoria, City of (1)	237	211	244	239	255	262	272	270	247	257	245	255	2,994
Phoenix, City of (1) (8)	7,944	7,428	6,488	8,606	12,881	13,161	1,649	11,911	11,630	10,524	7,118	7,441	106,781
Queen Creek Water Co.	1	156	40	93	58	0	0	0	0	0	0	0	348
Rio Verde Utilities (1)	0	0	0	0	0	0	0	0	176	0	0	0	176
Scottsdale, City of(1)(8)	2,085	1,869	2,213	2,548	3,060	4,337	4,164	4,100	3,941	4,028	2,919	2,377	37,641
Tempe, City of (1)(12)	68	251	348	551	600	581	549	549	452	349	0	17	4,315
Tonto Hills Utility Co.	0	0	0	0	0	0	0	0	0	0	0	0	0
Tucson, City of (2)	1,502	1,706	1,416	1,835	1,347	2,254	2,771	2,524	1,616	1,084	67	1,054	19,176
Sub Total	12,304	14,392	14,171	21,353	25,555	32,306	20,390	28,577	26,938	25,530	13,748	13,769	249,033

EXCESS AWBA & INCENTIVE $45, XS $101	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL
Ancala Country Club	8	14	22	27	59	57	68	40	41	69	27	17	449
Apache Junction/Incentive	0	0	0	0	0	2,883	0	0	0	0	0	0	2,883
Arizona-American Wtr Co	0	0	0	0	0	0	0	0	0	0	2	0	2
Arizona Pacific Materials	5	3	6	5	7	6	6	3	8	10	7	7	73
Arizona Wholesale Grwrs	1	1	1	1	2	0	0	0	0	0	0	0	6
Agua Fria/AWBA	0	0	0	0	0	0	0	0	0	0	714	2,907	3,621
Avondale/Incentive (1)	0	0	0	0	0	0	0	293	632	628	0	0	1,553
AVRP/AWBA	634	306	459	566	528	622	704	563	751	708	0	470	6,311
C & M Ranch, Inc.	0	0	0	0	0	0	0	0	0	0	0	0	0
CAGRD/Incentive	0	103	0	0	0	0	0	141	0	0	1,011	0	1,255
CAGRD/Excess	508	40	0	0	0	0	0	90	32	3,230	1,227	0	5,127
Central AZ IDD/AWBA	0	0	0	0	0	0	0	889	6,881	2,333	109	804	11,016
Chandler/Incentive (1)	0	0	0	7,898	4,120	3,449	0	7,946	0	0	0	475	23,888
Chandler Hts CID/AWBA	0	100	0	0	18	0	70	67	244	46	0	0	545

Duke Energy/Incentive	0	0	0	0	0	0	0	0	0	0	0	0	0
Eagletail Ranch	0	0	0	0	0	0	0	0	0	0	0	0	0
Gardner Turfgrass (11)	2	1	2	2	3	2	1	1	1	1	0	0	16
GRIC-Toka Sticks/Excess	0	0	0	0	0	0	0	3	5	18	0	0	26
Glendale/Excess (1)(12)	**1,940**	**45**	**484**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**1,500**	**3,969**
Goodyear/MWD/Incentive	0	0	1,000	1,333	1,333	1,333	1,333	1,333	1,335	1,000	0	0	10,000
Goodyear/TONO/Incentive	0	0	0	0	0	1,916	1,782	2,354	925	273	188	232	7,670
GRUSP/AWBA (1)	**91**	**5,376**	**6,898**	**7,242**	**6,520**	**7,426**	**7,096**	**4,898**	**3,822**	**4,423**	**4,456**	**5,328**	**63,576**
H20, Inc.	5	7	2	5	5	6	5	3	7	2	0	0	47
Hohokam IDD/AWBA	1,088	2,259	6,598	6,761	10,151	7,955	3,789	7,886	4,483	2,466	0	1,492	54,928
Kai Farms/AWBA	0	0	0	0	0	0	0	0	733	130	0	247	1,110
Lower Santa Cruz/AWBA	2,621	2,621	3,177	1,613	2,354	3,051	908	1,796	2,580	2,578	0	428	23,727
Marana/Excess	0	0	0	0	0	0	0	0	0	0	0	0	0
Marana/Incentive	0	100	495	279	161	783	121	108	0	0	0	0	2,047
Maricopa Drilling & Equipm	0	0	0	0	0	0	6	1	1	0	0	0	8
MSIDD/AWBA	429	521	4,086	830	8,798	11,326	3,530	2,178	6,237	6,210	1,112	2,498	47,755
Mazatzal Tree Farm	0	1	1	2	3	3	4	3	3	3	2	1	26
Mesa/Incentive (1)	**1,369**	**2,509**	**6,721**	**9,246**	**17,072**	**14,614**	**13,118**	**9,947**	**5,404**	**0**	**0**	**0**	**80,000**
Mesa Golf Center	0	0	1	8	0	13	9	11	12	16	0	0	70
Metro Water/Incentive	0	176	500	324	102	934	2,733	2,318	913	0	0	0	8,000
New Magma IDD/AWBA	615	1,738	767	1,896	3,000	2,873	5,696	12,595	7,375	5,341	266	2,673	44,835
Oasis Golf Resort & Comm	4	0	0	0	0	12	14	16	12	2	0	0	60
Oro Valley/Incentive	236	332	265	795	872	0	0	0	0	0	0	0	2,500
Picacho Elementary Schoo	0	0	0	0	6	9	4	2	2	0	0	0	23
Pima Mine Rd/AWBA	1,548	545	1,205	1,493	1,436	1,470	1,597	1,285	304	1,490	0	801	13,174
Pinal County Dept of PW	29	26	26	45	47	45	47	47	33	35	2	6	388
Pinal Augmnt Authy/Incent	0	0	0	0	0	0	0	0	0	0	0	0	0
Pinnacle West/Incentive	0	0	0	0	0	36	165	116	309	200	92	115	1,033
PPL Sindance Energy LLC	0	0	0	0	0	0	0	0	0	0	0	0	0
Queen Creek ID/AWBA	0	0	0	0	0	0	958	4,255	1,682	1,274	162	949	9,280
Queen Creek WC/Excess	0	0	0	0	67	107	178	118	100	75	0	4	649
Quintero Golf CC	21	20	43	48	43	104	107	81	96	112	54	35	764
Recreational Center (1)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**74**	**74**
Red Mt. Ranch Cntry Club	5	15	25	54	83	66	86	70	52	41	25	23	545
Red Mt. Ranch Ownrs Ass	1	0	1	0	1	1	2	1	2	2	1	0	12
Robson Comm/Incentive	0	0	0	1,000	0	0	0	0	0	0	0	0	1,000
Scottsdale/Incentive (1)	**21**	**54**	**1,112**	**112**	**2,922**	**3,660**	**560**	**77**	**225**	**184**	**188**	**0**	**9,115**
Shea Sunbelt Pleasant Pt	0	0	0	0	0	0	0	0	0	0	0	0	0
Sonoran Land Group	11	13	18	33	72	61	86	57	43	25	0	0	419
Spectrum at Val Vista, The	0	0	0	0	0	0	0	0	0	0	0	0	0
Springfield Lakes Golf Crs	33	18	30	42	64	72	62	64	70	103	0	0	558
SRP/AWBA (1)	**0**	**0**	**2,122**	**2,125**	**2,120**	**2,076**	**1,707**	**1,581**	**1,605**	**1,599**	**0**	**0**	**14,935**
Southern Dunes Golf	0	0	0	0	0	0	0	0	0	0	0	0	0
Sun Environments	0	0	0	0	0	0	0	0	0	0	0	0	0
Sun Groves Hmownrs Ass.	0	0	0	0	0	0	0	0	0	0	0	0	0
Sun Lakes Casa Grande	0	0	0	0	0	0	0	0	0	0	0	0	0
Sun State Rock & Matrls	0	1	1	1	1	2	3	2	2	2	1	1	17
Tempe/Incentive (1)	**0**	**0**	**6,887**	**0**	**3,120**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**10,007**
Tempe/Excess (1)(12)	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**82**	**82**
Tonopah ID/AWBA	0	0	0	0	0	0	0	0	0	0	0	0	0
Tonto Nat'l Forest (1)	**0**	**4**	**5**	**6**	**4**	**5**	**7**	**7**	**7**	**6**	**5**	**7**	**63**
Tucson/Incentive (2)	26	194	128	481	280	601	752	611	1,152	74	0	7	4,306
VAII Water Co/Incentive	0	0	393	393	0	0	0	0	0	0	0	0	786
Vidler Water Co/AWBA	0	0	0	0	0	0	0	0	0	0	0	0	0
Vidler Water Co/Incentive	106	317	128	91	55	100	97	120	193	167	136	1,220	2,730

Viewpoint RV & Golf Res	5	8	18	23	56	52	70	48	35	61	37	13	426
Sub Total	**11,362**	**17,468**	**43,627**	**44,780**	**65,485**	**67,731**	**47,481**	**64,025**	**48,349**	**34,937**	**9,824**	**22,416**	**477,485**

TEMP. PERMITS													
$200, $100, $75	**JAN**	**FEB**	**MAR**	**APR**	**MAY**	**JUN**	**JUL**	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**	**TOTAL**
Temp. Water Permits (3)	13	12	19	26	39	40	29	22	38	43	38	33	352
Sub Total	**13**	**12**	**19**	**26**	**39**	**40**	**29**	**22**	**38**	**43**	**38**	**33**	**352**
TOTAL (M&I)	**23,679**	**31,872**	**57,817**	**66,159**	**91,079**	**100,077**	**67,900**	**92,624**	**75,325**	**60,510**	**23,610**	**36,218**	**726,870**

(1) Customers taking all, or part of their water through the SRP interconnect.
(2) Tucson subcontract and incentive water used by ASARCO, BKW, CAVSARP, Mile-wide GSF, LSC irrigation, plant, & PMR under exchange & recharge agreements.
(3) Scheduled amount is estimate only, since permit use varies.
(4) GRIC Pool 3 price is $34/AF (does not include $2/AF of Ag capital charge). Also includes San Carlos Lake water.
(5) Settlement water used on the reservation.
(6) Settlement water used for lease agreements off the reservation.
(7) Also includes San Carlos Lake exchange water (if any).
(8) None of the 4 cities taking Hohokam/Cliff Dam Replacement water exceeded their entitlement in CY01.
(9) Taking all of RWCD & STID Pool 1 allotments for the year. Also taking 5,000 AF of QCID Pool 1.
(10) NMIDD & Tonopah will take 1,386 AF & 1,177 AF respectively, of STID Pool 2 water.
(11) Formerly Sunbelt Ornamental.
(12) The cities of Glendale & Tempe exceeded their total entitlement in CY01 and had a portion of their December deliveries roll into the excess M&I rate.

ATTACHMENT B

MONTHLY M&I DELIVERIES

CALENDAR YEAR 2003

(By Classification)

Table #1

(Deliveries are actuals through December. Monthly projections for the remainder of the year are not shown.)

SUBCONTRACT $66/AF	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL	SCHEDULE	ENTITLE-MENT (13)
Apache Junction Water Co	36	37	36	32	36	42	44	35	31	38	36	44	447	480	2919
Arizona-American/PV	0	260	113	506	290	290	290	290	290	283	287	0	2899	2900	3231
Arizona-American/SC	0	0	1028	2155	1833	1833	2333	2333	446	0	0	0	11961	11961	17654
AZ State Land/ADOT	4	2	4	2	0	0	0	0	0	0	0	286	298	300	32076
AWC/Apache Junction	288	225	286	412	501	554	533	498	369	570	420	402	5058	4965	6000
AWC/Casa Grande	180	12	295	280	134	201	205	341	164	193	164	110	2279	2256	8884
Avondale, City of	1200	750	398	1574	824	0	0	0	0	0	0	0	4746	4746	4746
Carefree Water Co.	41	25	41	45	43	53	60	51	62	53	44	40	558	560	1300
Cave Creek Water Co.	93	83	90	108	140	141	150	133	49	100	96	105	1288	1350	1600
Chandler, City of (3) (4)	210	1011	1035	1874	433	0	0	0	0	985	1336	1347	8231	8231	8231
Chaparral City Water	440	381	435	526	612	655	640	569	506	596	534	489	6383	5875	6978
Eloy, City of	20	9	22	54	69	1604	63	66	67	107	36	33	2150	2136	2171
Florence, Town of	0	0	0	0	0	2048	0	0	0	0	0	0	2048	2048	2048
Gilbert, Town of	0	0	0	0	0	0	0	0	0	0	0	0	0	0	7235
Glendale, City of (4)	0	0	470	2076	2388	2374	2444	2159	2181	91	0	0	14183	14183	14183
Green Valley Water Co	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1900
Maricopa County P&R	14	13	27	55	63	125	102	73	61	43	29	19	624	620	665
Mesa, City of	1681	1743	2244	3129	2727	1550	1062	3171	3170	3472	3002	3108	30059	27734	49462
Metro Water District	0	0	827	2320	748	920	2113	1217	0	0	0	0	8145	8145	8858
Peoria, City of	1973	1899	1935	525	629	747	805	762	713	719	646	1054	12407	12421	19709
Phoenix, City of (3)	4930	6504	7881	7716	7134	10466	11248	8628	26566	18195	14554	14515	138337	139770	169793
Queen Creek Water Co (4)	31	28	17	61	90	121	0	0	0	0	0	0	348	348	348
Rio Verde Utilities	0	36	20	19	25	31	28	26	25	36	7	22	275	276	812
Scottsdale, City of	2878	2296	3026	3638	4983	5307	5467	2846	4647	5024	4210	3973	48295	51412	58545
Tempe, City of (4)	611	710	800	900	950	344	0	0	0	0	0	0	4315	4312	4315
Tonto Hills Utility Co.	0	0	0	0	0	2	2	1	1	1	1	1	9	12	71
Tucson, City of (1)	1474	1103	1823	1771	3666	5791	5426	6177	6629	6299	2404	34	42597	42167	138920
Sub Total	**16104**	**17127**	**22853**	**29778**	**28318**	**35199**	**33015**	**29376**	**45977**	**36805**	**27806**	**25582**	**347940**	**349208**	**572654**

MONTHLY M&I DELIVERIES

CALENDAR YEAR 2004

(By Classification)

Table #1

(Deliveries are actuals through December. Monthly projections for the remainder of the year are not shown.)

SUBCONTRACT $74/AF	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL	SCHEDULE	ENTITLMNT
Apache Junction WC	43	40	39	31	33	39	44	52	32	35	34	40	462	480	2919
Arizona-American/PV	0	323	323	323	323	323	323	323	323	323	323	1	3231	3231	3231
Arizona-American/WV	0	0	1500	1833	1833	1833	1833	1833	1833	563	0	0	13061	13061	17654
AZ State Land/ADOT	34	67	50	37	51	58	70	81	27	12	12	195	694	694	32076
AWC/Apache Junction	214	231	278	382	521	572	423	480	372	515	245	198	4431	4645	6000
AWC/Casa Grande	135	135	205	176	178	223	310	267	204	213	156	69	2271	2356	8884
Avondale, City of	0	1128	600	100	120	1000	1018	780	0	0	0	0	4746	4746	4746
CAGRD	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Carefree Water Co.	45	38	51	45	63	64	48	60	51	48	44	42	599	610	1300
Cave Creek Water Co.	101	92	100	117	151	152	160	153	120	129	104	95	1474	1400	1600
Chandler, City of	0	1169	1632	1296	74	0	0	0	456	1145	972	1095	7839	7839	7839
Chaparral City Water	397	426	485	537	650	650	711	618	479	566	489	452	6460	6370	6978
Eloy, City of	25	14	47	58	72	1579	71	41	126	87	51	0	2171	2136	2171
Florence, Town of	0	0	0	0	0	2048	0	0	0	0	0	0	2048	2048	2048
Gilbert, Town of	0	0	0	0	0	0	0	0	0	0	0	0	0	0	7235
Glendale, City of	0	0	82	901	1411	1665	1670	1770	1465	1699	1712	1808	14183	14183	14183
Green Valley Water Dist.	0	0	0	0	0	0	0	0	0	0	0	597	597	597	1900
Maricopa County P&R	15	19	25	46	79	76	79	93	69	56	20	15	592	620	665
Mesa, City of	2371	2990	3175	3185	456	3573	3737	3686	3041	3138	2640	2049	34041	31457	48338
Metro Water District	42	319	54	219	630	567	2219	2097	1199	252	0	1260	8858	8858	8858
Peoria, City of	648	1633	2657	761	736	687	2790	1377	1288	1151	1018	911	15657	15594	19709
Phoenix, City of	8598	6352	7079	9231	9622	10191	8554	16434	14681	14235	11192	14469	130638	131757	164987
Queen Creek WC	13	12	48	65	190	20	0	0	0	0	0	0	348	348	348
Rio Verde Utilities	0	39	20	20	25	31	28	27	25	25	18	23	281	281	812
Scottsdale, City of	2851	3045	3915	4174	5377	5855	5001	5488	5347	4431	3310	3414	52208	55059	57795
Tempe, City of	612	800	800	900	900	303	0	0	0	0	0	0	4315	4312	4315
Tonto Hills Utility Co.	1	1	1	1	3	3	3	3	3	3	3	2	27	17	71
Tucson, City of (1)	1393	4639	4734	4306	4463	6651	7549	7066	6228	5969	3554	38	56590	56200	135966
Sub Total	**17538**	**23512**	**27900**	**28744**	**27961**	**38163**	**36641**	**42729**	**37369**	**34595**	**25897**	**26773**	**367822**	**368899**	**562628**

MONTHLY M&I DELIVERIES

CALENDAR YEAR 2005

(By Classification)

Table #1

(Deliveries are actuals through March. Monthly projections for the remainder of the year are not shown.)

SUBCONTRACT $79/AF	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	TOTAL	SCHEDULE	ENTITLMNT
Apache Junction WC	1	0	21	0	0	0	0	0	0	0	0	0	22	400	2919
Arizona-American/PV	0	0	0	0	0	0	0	0	0	0	0	0	0	2730	3231
Arizona-American/WV	0	0	0	0	0	0	0	0	0	0	0	0	0	14161	17654
AZ State Land/ADOT	0	0	0	0	0	0	0	0	0	0	0	0	0	320	32076
AWC/Apache Junction	41	25	264	0	0	0	0	0	0	0	0	0	330	4192	6000
AWC/Casa Grande	92	98	174	0	0	0	0	0	0	0	0	0	364	2806	8884
Avondale, City of	0	0	0	0	0	0	0	0	0	0	0	0	0	5416	5416
CAGRD	759	312	312	0	0	0	0	0	0	0	0	0	1383	7746	7746
Carefree Water Co.	42	31	40	0	0	0	0	0	0	0	0	0	113	660	1300
Cave Creek Water Co.	80	62	109	0	0	0	0	0	0	0	0	0	251	1450	1600
Chandler, City of	0	0	0	0	0	0	0	0	0	0	0	0	0	3971	7639
Chaparral City Water	165	245	444	0	0	0	0	0	0	0	0	0	854	6935	6978
Eloy, City of	9	9	38	0	0	0	0	0	0	0	0	0	56	2136	2171
Florence, Town of	0	0	0	0	0	0	0	0	0	0	0	0	0	2048	2048
Gilbert, Town of	0	0	0	0	0	0	0	0	0	0	0	0	0	86	7235
Glendale, City of	0	0	0	0	0	0	0	0	0	0	0	0	0	14183	14183
Green Valley Water Dist.	0	0	0	0	0	0	0	0	0	0	0	0	0	604	1900
Maricopa County P&R	11	2	35	0	0	0	0	0	0	0	0	0	48	660	665
Mesa, City of	0	0	0	0	0	0	0	0	0	0	0	0	0	36388	47765
Metro Water District	0	0	0	0	0	0	0	0	0	0	0	0	0	8858	8858
Peoria, City of	427	2340	2959	0	0	0	0	0	0	0	0	0	5726	17200	19709
Phoenix, City of	9182	11976	10785	0	0	0	0	0	0	0	0	0	31943	121983	162537
Queen Creek WC	26	47	0	0	0	0	0	0	0	0	0	0	73	348	348
Rio Verde Utilities	0	0	0	0	0	0	0	0	0	0	0	0	0	285	812
Scottsdale, City of	1277	1559	3369	0	0	0	0	0	0	0	0	0	6205	48697	57413
Tempe, City of	0	0	0	0	0	0	0	0	0	0	0	0	0	4315	4315
Tonto Hills Utility Co.	2	2	2	0	0	0	0	0	0	0	0	0	6	29	71
Tucson, City of (1)	5960	5269	5448	0	0	0	0	0	0	0	0	0	16677	61300	135966
Sub Total	**18074**	**21977**	**24000**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**64051**	**369907**	**567439**

ATTACHMENT C

ORIGINAL

WATER RATES

ARIZONA WATER COMPANY		A.C.C. No.	440
Phoenix, Arizona		Cancelling A.C.C. No.	(not applicable)
Filed by:	William M. Garfield	Tariff or Schedule No.	NP-260
Title:	President	Filed:	March 31, 2004
Date of Original Filing:	March 7, 1994	Effective:	March 10, 2004
System:	CASA GRANDE, COOLIDGE, WHITE TANK		

NON-POTABLE CENTRAL ARIZONA PROJECT WATER

AVAILABILITY:

In the Company's Casa Grande, Coolidge and White Tank water systems, where and when Central Arizona Project ("CAP") water is available.

SUITABILITY:

It is the customer's responsibility to determine the initial and continuing suitability of the non-potable CAP water furnished under this tariff for any intended uses. The Company does not treat, test or monitor non-potable CAP water and furnishes it to customers strictly on an "as received" basis from the Central Arizona Water Conservation District ("CAWCD"). The customer agrees to accept no n-potable CA P w ater " as received." Compliance with any requirement of the Arizona Department of Environmental Quality, or any other agency having jurisdiction, concerning the use or quality of non-potable CAP water shall be the sole responsibility of the customer. The Company will not be liable for, and the customer will hold harmless, indemnify and defend the Company against, any injuries or damages arising from its service of non-potable CAP water.

FACILITIES AND DEMAND:

When applying for non-potable CAP water service, the customer shall specify the maximum annual quantity of CAP water in acre feet (AF) that it intends to use under this tariff schedule and pursuant to a Non-Potable Water Facilities Contribution Agreement. This quantity of water will be used to determine the facilities required to serve the customer and will be the customer's maximum demand for non-potable CAP water ("CAP Demand") during any calendar year. The customer will be responsible for both the deferred (including holding costs) and the current annual CAWCD M&I Water Service Capital Charges on the CAP Demand and on any water use in excess of the CAP Demand.

The customer will contribute the funds required to install all facilities needed to provide CAP water. Such facilities will be owned by the Company.

The Deferred CAP Demand Charge includes the deferred annual CAWCD M&I Water Service Capital Charges and associated holding costs for the customer's CAP Demand. The Deferred CAP Demand Charge is payable prior to the start of service or within fifteen (15) days of any approved increase in CAP Demand. The Deferred CAP Demand Charge will be payable only on any future increase in CAP Demand for those customers receiving service under this tariff as of the effective date. The Deferred CAP Demand Charge is not refundable if the customer's CAP Demand is later reduced.

APPROVED FOR FILING
DECISION #: 66849

Effective 3/10/04
Effective 4/6/94
Revised 1/18/95
Revised 1/15/99

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ORIGINAL

MONTHLY BILL:

The monthly billing will consist of the following components:

1. A monthly CAP Demand charge equal to 1/12th of the customer's CAP Demand in AF times the applicable CAWCD M&I Water Service Capital Charge per AF plus four percent (4%) of such costs to cover the Company's administrative and handling costs. Should the customer's actual water use exceed the customer's CAP Demand, the customer will be billed an additional demand charge, based on the applicable CAWCD M&I Water Service Capital Charge, on the excess water use, plus a four percent (4%) administrative and handling fee.

2. A meter charge based on the applicable monthly minimum charge by meter size as set forth in each system's General Service tariff schedule. This meter charge shall not include any water.

3. A commodity charge designed to pass on all costs of non-potable CAP water, except the monthly CAP Demand charge, as billed to the Company during the previous month by the CAWCD or any other authorized governmental agency, plus one percent (1%) of such costs to cover the Company's administrative and handling costs.

4. A power, maintenance and depreciation charge based on the specific requirements of each customer.

A. The power component will be the direct and separately metered cost of the power billed to the Company during the previous month for CAP water delivered to the customer, plus one percent (1%) of the power cost to cover the Company's administrative and handling costs. If multiple customers are being served by common facilities, the power component will be prorated based on CAP water actually used during the month by each customer.

B. The maintenance component will be the actual costs of maintaining the facilities required to serve the customer, plus a ten percent (10%) charge to provide for overhead and margin. If multiple customers are being served by common facilities, the maintenance component will be prorated based on each customer's CAP Demand.

C. The depreciation component will be 1/12th of the product of the Company's book depreciation rate, as authorized by the Arizona Corporation Commission, times the original cost of the plant facilities serving the customer. If multiple customers are being served by common facilities, the depreciation component will be prorated based on each customer's CAP Demand.

Late Charge: Any payment not received within fifteen (15) days from the postmark date of the bill will be delinquent and subject to a late charge of one and one-half percent (1 1/2%) per month.

Adjustment: An adjustment for state and local taxes, which will be the applicable proportionate part of any taxes or governmental impositions which are, or in the future may be, assessed on the basis of the gross revenues of the Company and/or the price or revenue from the water or service sold and/or the volume of water pumped or purchased for sale and/or sold hereunder. In the event of any increase or decrease in taxes or other governmental impositions, rates shall be adjusted to reflect such tax increase or decrease.

TERMS AND CONDITIONS:

Subject to the Company's Tariff Schedule TC-243.

APPROVED FOR FILING
DECISION #: 64849

Effective 3/10/04
Effective 4/6/94
Revised 1/18/95
Revised 1/15/99

ATTACHMENT D

el

Arizona Corporation Commission
DOCKETED
DEC 2 1966
DOCKETED BY

BEFORE THE ARIZONA CORPORATION COMMISSION

MILTON J. HUSKY
Chairman
R. T. "BUCK" WILLIAMS, JR.
Commissioner
DICK HAMMERT
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF PROPER RESERVE FOR DEPRECIATION.

DOCKET NO. U-1445 DECISION NO. 38733

OPINION AND ORDER

BY THE COMMISSION:

On November 28, 1966, in Phoenix, Arizona, a hearing was held on the above entitled matter, upon the application of Arizona Water Company.

At said hearing evidence was adduced by Petitioners with which the Commission Staff agreed, and upon that evidence the Commission finds that the entire Arizona Water Company reserve for depreciation, as of December 31, 1965, was deficient in the amount of $514,353.02, and that $145, 970.94 of such deficiency accrued prior to March 31, 1955, and that the Company should charge said deficiency off to capital surplus; further that the reserve for depreciation from March 1, 1955, to December 31, 1965, was inadequate and deficient in the amount of $368,282.08, and that this deficiency should be amortized over the average remaining life of the assets, which is approximately thirty nine years.

WHEREFORE IT IS ORDERED that the $145,970.94 of deficiency in the reserve for depreciation which accrued prior to March 31, 1955 be charged off to capital surplus, and that the deficiency in the March 31, 1955, to December 31, 1965 reserve for depreciation in the amount of $368,282.08 be amortized over the remaining life of the assets, which is approximately thirty nine (39) years.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

DOCKET NO. U-1445 DECISION NO. 38733

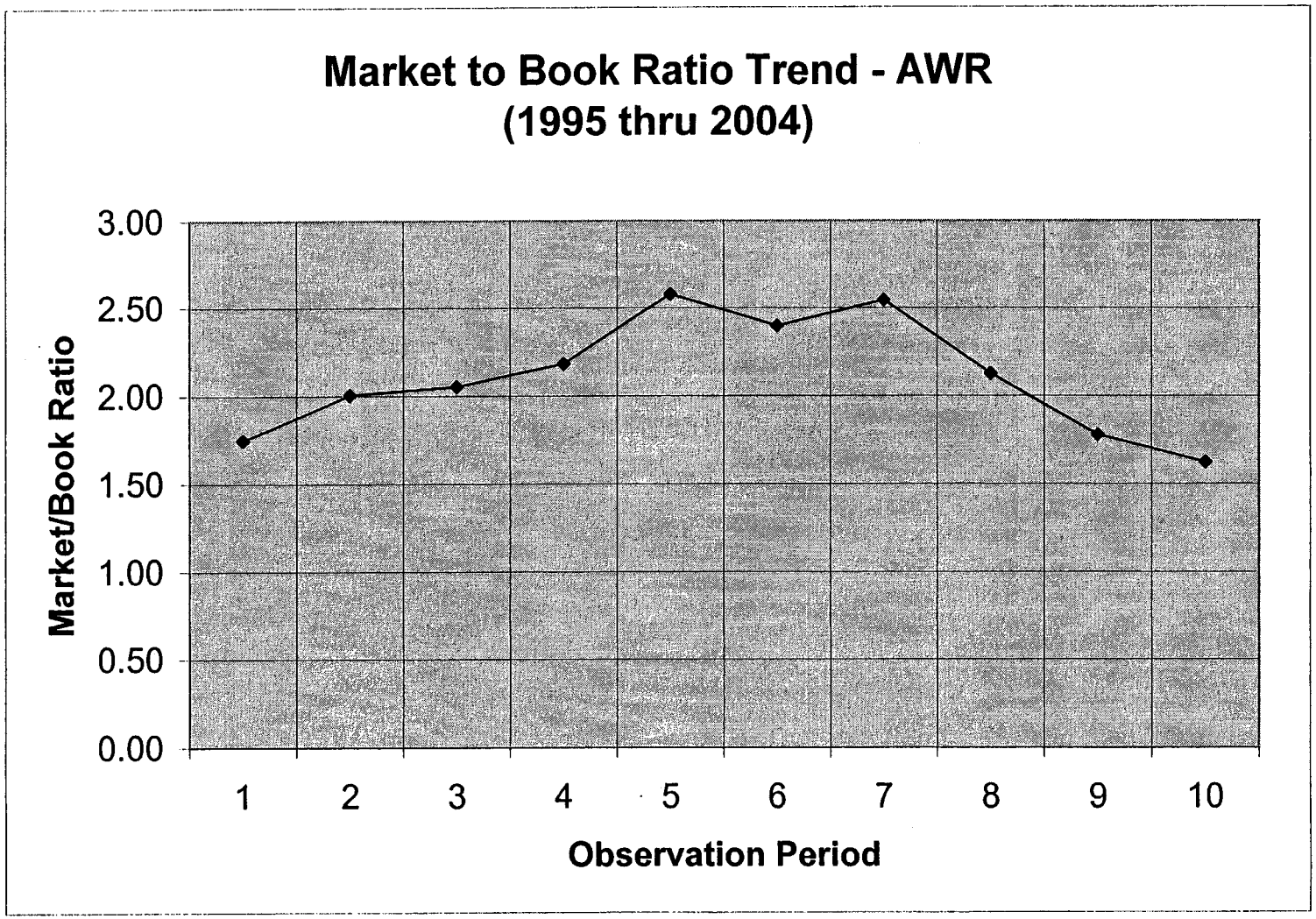
IN WITNESS WHEREOF, I, GEORGE S. LIVERMORE, Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of this Commission, to be affixed at the Capitol in the City of Phoenix, this 2nd day of [illegible] 1966.

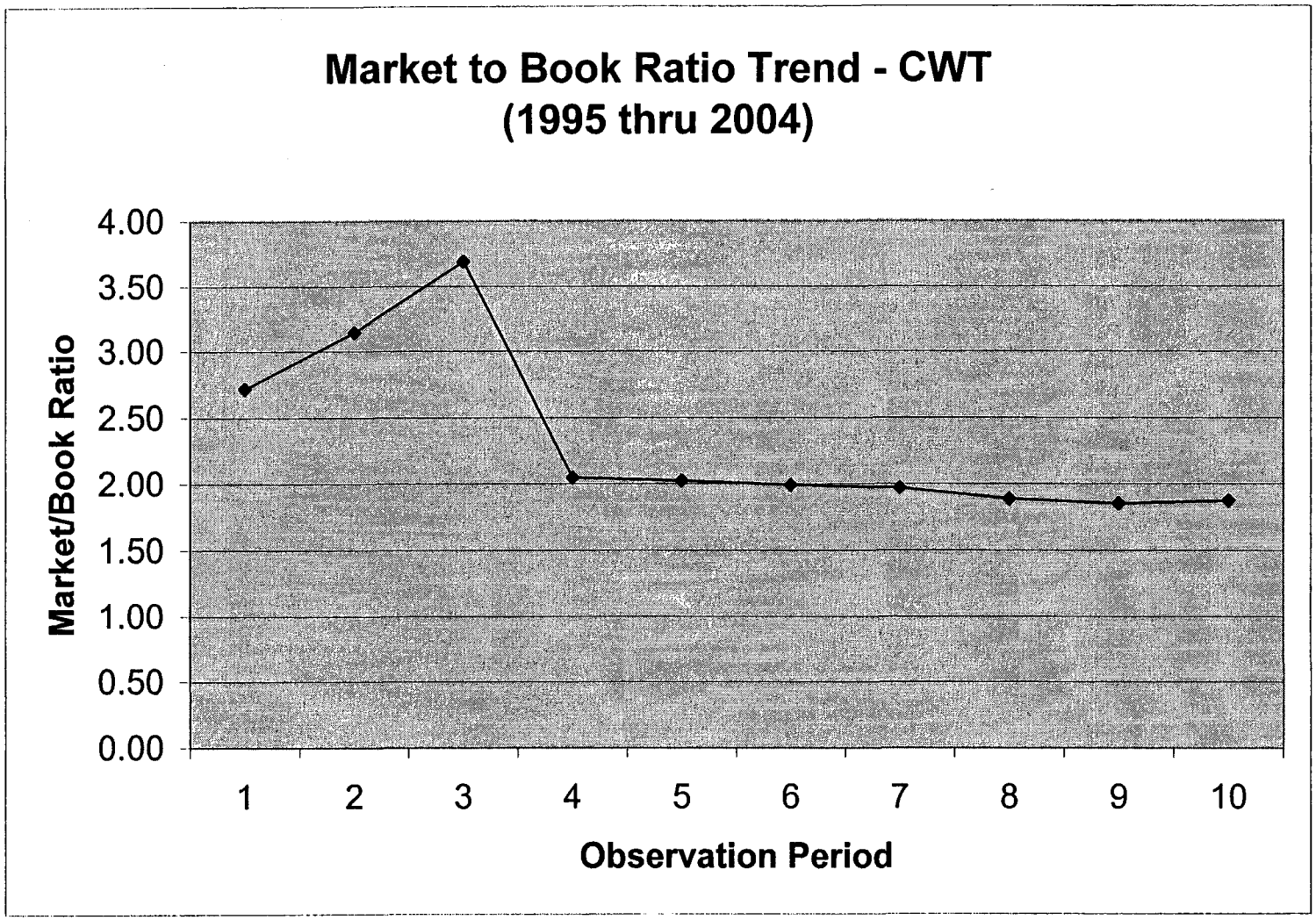
GEORGE S. LIVERMORE
SECRETARY

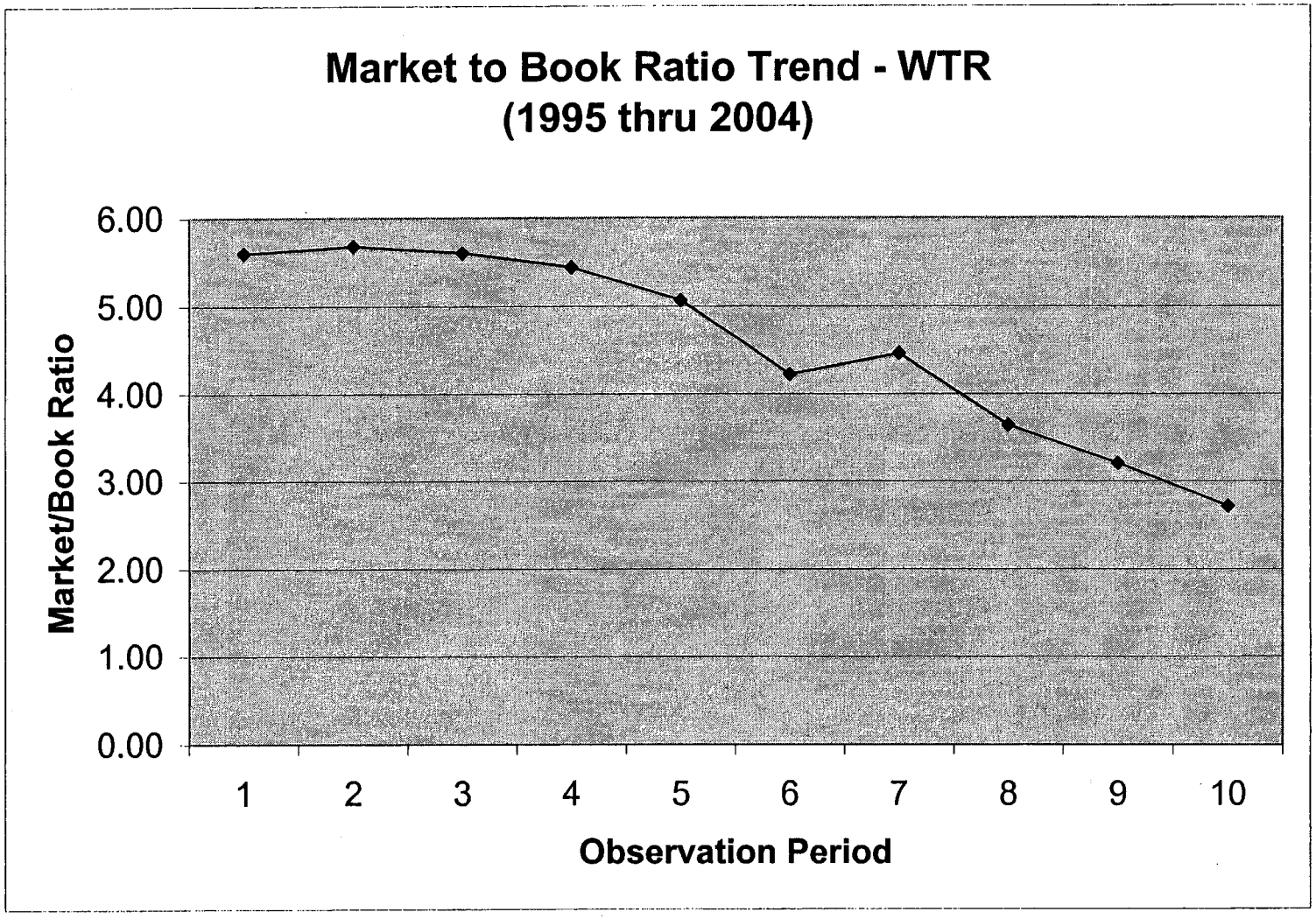
COMMISSIONER

COMMISSIONER

ATTACHMENT E


Market to Book Ratio Trend - AWR
(1995 thru 2004)
Market/Book Ratio
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1
2
3
4
5
6
7
8
9
10
Observation Period


Market to Book Ratio Trend - CWT
(1995 thru 2004)
Market/Book Ratio
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
1
2
3
4
5
6
7
8
9
10
Observation Period


Market to Book Ratio Trend - WTR
(1995 thru 2004)
Market/Book Ratio
6.00
5.00
4.00
3.00
2.00
1.00
0.00
1
2
3
4
5
6
7
8
9
10
Observation Period

SUPERIOR COURT OF ARIZONA
PINAL COUNTY

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CLERK OF THE COURT
FORM V000

HON. COLIN F. CAMPBELL

E.SCHNEIDER
Deputy

EXHIBIT
R-6
admitted

CV 99046814 (PINAL COUNTY)

FILED: _____

CITY OF CASA GRANDE

THOMAS K. IRVINE

v.

ARIZONA WATER CO., ET AL.

STEVEN A. HIRSCH 364-7000

PINAL COUNTY ATTY
BY: ROBERT CARTER OLSON

PINAL COUNTY CLERK

The Court took defendant's motion to dismiss under advisement concerning the meaning of A.R.S. sec. 9-514 after oral argument. The issues have been exceptionally well-briefed and argued by both sides.

The City of Casa Grande has adopted an ordinance to acquire under the power of eminent domain a portion of a public utility, the Arizona Water Company, in Pinal County. The Arizona Water Company claims that the City cannot act without first conducting an election, citing A.R.S. sec. 9-514, which states:

> Before construction, purchase, acquisition or lease by a municipal corporation, as authorized in sections 9-511 to 9-513, inclusive, of any plant or property or portion thereof devoted to the business of or services rendered by a public utility shall be undertaken, the construction, purchase, acquisition or lease shall be authorized by the affirmative vote of a majority of the qualified electors who are taxpayers of the municipal corporation voting at a general or special municipal election duly called and held for the purpose of voting upon the question.

The City of Chandler and the Arizona Water Company are sharply in dispute over the meaning of this statute. Taking into account its section heading, "Authority to engage in utility business," the City argues that this section simply requires an election authorizing the City to engage in the utility business. This election, the City argues, took place in 1975 when the city

SUPERIOR COURT OF ARIZONA
PINAL COUNTY

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CLERK OF THE COURT
FORM V000

HON. COLIN F. CAMPBELL

E.SCHNEIDER
Deputy

CV 99046814 (PINAL COUNTY)

charter was approved. Article XII, section 2, of the city charter states:

> The city shall have the power to own and operate any public utility to construct and install all facilities that are reasonably needed and to lease or purchase any existing utility properties used or useful to public service. The city may also furnish service to adjacent and nearby territories which may be conveniently and economically served by the municipally owned and operated utility, subject to the limitations of the provisions of the general laws of this state. The council may provide by ordinance for the establishment of such utility and provide for its regulation and control and the fixing of rates to be charged. The council may by ordinance provide for the extension, enlargement or improvement of existing utilities and provide reasonable reserves for such purpose.

Article I, section 3, also provides, in general, that the city may acquire property by eminent domain. Having the authority to engage in the utility business by the electorally approved city charter, the City contends it can now exercise its powers of eminent domain under the City Charter and A.R.S. section 9-515.

The Arizona Water Company construes A.R.S. sec. 9-514 more narrowly. It contends that the statute requires a public election on the actual plant or property that the city would like to take; a general power to go into the utility business is not enough.

As so framed, this is a question of first impression. The statutes and prior case law are not a model of clarity. Although each side makes as much as it can from prior case precedent on different issues under the statutory scheme, neither side has presented a case where the City contended that its charter vote alone was sufficient to satisfy the election requirements of section 9-514.

After consideration, the Court concludes that A.R.S. section 9-514 does require an election prior to condemnation of the specific property. Looking at the statutes as a whole, the Court notes that Title Nine, article 1 (granting franchises), article 2

SUPERIOR COURT OF ARIZONA
PINAL COUNTY

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11/15/1999

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E.SCHNEIDER
Deputy

CV 99046814 (PINAL COUNTY)

(municipal ownership) and article 3 (municipal bonds) each require elections. Article 1 and article 3 clearly call for elections on a particular franchise or revenue bond, not the general power to award a franchise or issue bonds. A statutory interpretation of article 2 requiring an election for a particular taking is consistent with this statutory scheme that before embarking on a particular project that voters have a say.

Moreover, the language of section 9-514 implies that the municipality already has the authority to proceed with a utility under section 9-511 to 513, and requires an election before actual "construction, purchase, acquisition or lease." The common sense meaning of the language calls for voter approval of a particular project, not general authority.

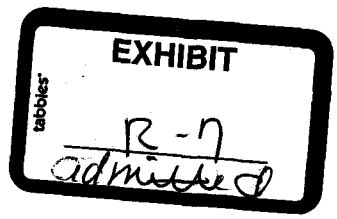
Finally, although the Court recognizes this is a question of first impression, it is a question of first impression because other municipalities with general grants of authority have not interpreted these statutes the way the City of Casa Grande has. For example, in Citizens Utilities Water Co. v. Superior Court, 108 Ariz. 296 (1972), the City of Tucson held an election before condemning a utility plant even though its City Charter was every bit as broad as the City of Casa Grande. The Court cannot ignore the historical background, known by the legislature, under which these statutes have operated. Accordingly,

IT IS ORDERED:

1. The Arizona Water Company's motion to dismiss is granted. The hearing scheduled on the issue of immediate possession is vacated. An election under section 9-514 is a prerequisite to a condemnation of this property under the City Charter.

BRYAN CAVE LLP, #00145700
Steven A. Hirsch, #006360
John T. Jones, #018039
Rodney W. Ott, #016686
Jill Harrison, #018388
Two N. Central Avenue, Suite 2200
Phoenix, AZ 85004-4406
Telephone: (602) 364-7000

Attorneys for Defendant Arizona Water Company



IN THE SUPERIOR COURT FOR THE STATE OF ARIZONA

IN AND FOR THE COUNTY OF PINAL

CITY OF CASA GRANDE, a municipal corporation of the State of Arizona, Plaintiff, vs. ARIZONA WATER COMPANY, an Arizona corporation; PINAL COUNTY TREASURER, JOHN DOE 1 TO 10; BLACK PARTNERSHIPS 1 TO 10; UNKNOWN HEIRS AND DEVISEES OF ANY DEFENDANTS WHO ARE DECEASED, Defendant.	CV-99046814 DECLARATION OF STEVEN A. HIRSCH IN SUPPORT OF ARIZONA WATER COMPANY'S APPLICATION FOR ATTORNEY FEES, COSTS, DISBURSEMENTS AND EXPENSES [Assigned to the Honorable Colin F. Campbell, Maricopa County Superior Court]

Steven A. Hirsch states as follows:

1. I make this declaration on my own personal knowledge, and I am competent to testify to the things stated in this declaration, except where specifically noted otherwise.

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

2. I am, and have been at all times material to these proceedings, a partner with the Phoenix office of Bryan Cave LLP (the "Firm"), which was retained by Arizona Water Company ("AWC") to represent it in connection with this action. I submit this declaration in support of AWC's application for award of attorney fees, costs, disbursements and expenses.

3. I have been substantially involved in this case since it was received by AWC. I have overseen and supervised, and have personal knowledge of the legal services rendered in this litigation proceeding.

4. I received my B.A. (1977) and my J.D. (1980) from the University of Arizona and was admitted to practice law in Arizona in 1980 and have continuously practiced law in Maricopa County, Arizona, since that time. I am a member of the State Bar of Arizona, licensed to practice before the Arizona State Courts, the United States District Court for the District of Arizona, the United States Court of Appeals for the Ninth Circuit. I practice in the areas of commercial litigation, banking and real estate, condemnation and construction law.

5. In connection with my practice, I am responsible for billings of substantial attorney fees (including expenses) and am familiar with the fees and charges customarily charged by attorneys in this community, and have been for the past 18 years.

6. Throughout this litigation, I have been the responsible attorney for client communications, decisions and the conduct of this litigation. However, at all times, I delegated responsibility for performing necessary work on behalf of AWC in a manner that would avoid duplication of effort and would be most economical.

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7. I worked with the following attorneys and legal assistants from the firm in connection with this matter.

John T. Jones, Jr. received his B.E. in Engineering Science from Vanderbilt University in 1973 and his J.D. from George Washington University in 1978. He is admitted to the Arizona Bar, and prior to joining the Firm he had a 20 year military career both as an attorney and engineer. Mr. Jones oversaw the engineering and legal review of the scope of the proposed condemnation, including research into severance damages, and also analyzed the relevant contracts bearing upon certain right to take issues.

Rodney W. Ott received his B.A. from the University of Michigan in 1977, his M.A. from Columbia University in 1979 and his J.D. (cum laude) from Fordham University in 1991. Mr. Ott was admitted to the bar in 1992, and the Arizona bar in 1995. He is a former associate with Debevoise & Plimpton in New York. Mr. Ott is admitted to practice in Arizona and the federal district courts for the Southern District of New York, the Eastern District of New York and the District of Arizona. He practices in the areas of commercial litigation and products liability defense. Mr. Ott was principally involved in the drafting and filing of the special action to Division Two of the Court of Appeals, and attendant briefing regarding the public vote issue.

Merritt L. Bingham is an Associate in the Phoenix office of Bryan Cave. Ms. Bingham received her B.A. in 1990 from New Mexico State University and her J.D. in 1996 from the University of Arizona. Ms. Bingham was admitted to practice law in the State of Arizona in 1996 and has practiced law in Maricopa County, Arizona, continuously since the end of her federal district court clerkship in October of 1997. Ms. Bingham was initially

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involved as the senior associate in the case, and was primarily involved in early factual and legal issues that arose in the case.

Lynn Keeling is an Associate in the Phoenix office of Bryan Cave. Ms. Keeling received her B.A. from Colorado Women's College in 1975, and her J.D. from California Western School of Law in 1992, and was admitted to practice law in 1993. Her practice emphasizes regulatory compliance with state and federal environmental laws. Ms. Keeling researched the National Environmental Policy Act (NEPA), most particularly regarding the severance damages and CAP allocation issues, in connection with preparing for the immediate possession hearing.

Jill Harrison is an Associate in the Phoenix office of Bryan Cave. Ms. Harrison received her B.A. in 1991 from the University of Pennsylvania, her M.A. in 1994 from Louisiana State University, and her J.D. (with honors) in 1997 from the University of Arizona. Prior to entering private practice, Ms. Harrison served as a Judicial Clerk for the Honorable Richard S. Arnold of the United States Court of Appeals for the Eighth Circuit, and externed during law school for the Honorable Roslyn O. Silver of the United States District Court for the District of Arizona. Ms. Harrison's area of practice is commercial litigation. Ms. Harrison was the primary associate involved in all phases of legal research, discovery and client communications in this matter.

W. Neel was a summer associate during 1999, which he spent with Bryan Cave LLP between his second and third years of law school at the Arizona State University School of Law. He received his B.A. from Carnegie-Mellon University in 1997. As part of a

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summer associate assignment, Mr. Neel researched right-to-take and severance damages issues in preparation for pretrial conferences and the immediate possession hearing.

N. B. Shindel was a summer associate during 1999, which she spent with Bryan Cave LLP between her second and third years of law school at the University of Virginia School of Law. She received her B.A. from Northern Arizona University in 1998. As part of a summer associate assignment, she researched right-to-take issues including public use, necessity, ability to pay and other issues.

Pam Ellis was a summer associate during 1999, which she spent with Bryan Cave LLP between her second and third years of law school at the Arizona State University School of Law. She received her B.A. from Dartmouth College in 1983. As part of a summer associate assignment, she researched legislative and constitutional history concerning the public vote and related taking issues.

K. D. Lodge was a summer associate during 1999, which she spent with Bryan Cave LLP between her second and third years of law school at Notre Dame College of Law. She received her B.A. from University of Notre Dame in 1995. As part of a summer associate assignment, she researched the statutory history of Articles 2 and 3 of Title Nine, Chapter 5, involving the public vote issue.

8. The Firm undertook the representation of AWC in the above-entitled and numbered cause of action and provided services which are detailed in the statements attached as Exhibit "A." This exhibit shows the time spent and the amounts actually incurred by Arizona Water Company for this work. Arizona Water Company has timely paid all statements it has received from the Firm.

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ATTORNEY	RATE	HOURS	AMOUNT
S. A. Hirsch	240.00	226.80	54,432.00
J. T. Jones, Jr.	225.00	47.10	10,597.50
R. W. Ott	200.00	90.40	18,080.00
L. A. Keeling	160.00	28.00	4,480.00
M. L. Bingham	135.00	81.30	10,975.50
J. Harrison	125.00/135.00	546.60	69,375.00
P.A. Ellis	110.00	10.00	1,100.00
K. D. Lodge	110.00	23.75	2,612.50
N.B. Shindel	110.00	37.00	4,070.00
W. Neel	110.00	18.50	2,035.00
TOTAL		1,109.45	177,757.50

9. I am familiar with the guidelines for determining reasonableness of attorney fees and billing rates provided in Schweiger v. China Doll Restaurant, Inc., 138 Ariz. 183, 673 P.2d 927 (App. 1983), and considered these guidelines in determining a reasonable fee for the services performed by attorneys and legal assistants in connection with this case. The issues in this case required specialization in a particular area of law, namely, condemnation of public utilities under Title Nine. The matters raised were not routine and required extraordinary skill and experience. The acceptance of this case precluded my involvement in other employment by clients of the Firm; this was a major case that involved substantial understanding of the client's business, regular response to legal and business

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questions arising from the case, and being on call every hour of every day as issues emerged. This case did not involve a contingency or fixed fee. Billings were made at our customary and usual rates, despite the demands presented. The results obtained were excellent, and the rates of the Bryan Cave attorneys and legal assistants were commensurate with the rates charged by other lawyers and legal assistants in this community with comparable experience and education.

10. The Firm and Arizona Water Company entered into a written fee agreement whereby Arizona Water Company agreed to pay the Firm certain hourly rates for attorneys and legal assistants related to their representation.

11. Attached as Exhibit "A" is a detailed summary of the services performed and the time expended by the Firm in connection with this matter. Exhibit "A" specifies the following information:

(a) the date on which the work was performed;

(b) the name of the person performing the work;

(c) the amount of time it took to perform the work;

(d) the description of the work performed; and

(e) the amount charged for the services rendered.

12. These time records are prepared from daily timesheets maintained by the attorneys and legal assistants employed by the Firm. The attorneys and legal assistants in the Firm record their time on an hourly basis. The individuals either fill out time sheets which are typed and submitted to the Firm's accounting department, or enter their time directly into the Firm's computer time entry program as the work is performed. The typed

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time is downloaded into the accounting computer system, which generates the billing statements. The billing statements reflecting the work performed, the charges and the associated costs are sent to the client on a monthly basis. The client is expected to pay the Firm's invoices on a monthly basis. These practices and procedures are standard at the Firm and are within its normal business operations.

13. Exhibit "B" reflects disbursements of $12,757.22 expended by the Firm on behalf of Arizona Water Company in connection with this matter.

14. Arizona Water Company is simultaneously filing a Verified Statement of Costs, requesting taxable costs in the amount of $86.00.

15. I submit that the sum of $190,600.72 ($177,757.50 in attorney fees, $86.00 in taxable costs, and $12,757.22 in non-taxable cost) is reasonable to award for the legal services rendered in connection with this matter.

16. After reviewing the time sheets and evaluating the efforts necessary to conduct this litigation, I believe these amounts to be reasonable and appropriate and, therefore, I request on behalf of Arizona Water Company that these amounts be awarded.

17. Attached as Exhibit "C" is the Declaration of Ralph J. Kennedy, C.P.A., Vice President and Treasurer of Arizona Water Company setting forth the in-house expenses and outside materials and services expenses incurred by personnel at Arizona Water Company related to the successful defense of this action. As declared by Mr. Kennedy, those expenses total $44,440.00.

18. In summary, Arizona Water Company's total claim for attorney fees, costs, disbursements and expenses is $235,040.72.

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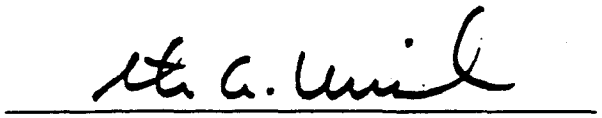
I have read the foregoing and declare under penalty of perjury that the foregoing is true and correct.

Executed on this 7th day of December, 1999.



Steven A. Hirsch

Original of the foregoing
mailed this 7th day of December,
1999, for filing, to:

Mrs. Alma Jennings Haught
Clerk, Pinal County Superior Court
100 N. Florence Street
Florence, AZ 85232-2730

COPY of the foregoing
hand-delivered this 7th
day of December, 1999, to:

The Honorable Colin F. Campbell
Maricopa County Superior Court
125 W. Washington, #202
Phoenix, AZ 85003-

COPY of the foregoing
~~faxed and~~ mailed this 7th
day of December, 1999, to:

Thomas K. Irvine, #006365
Ellen Van Riper, #011751
Irvine Van Riper, P.A.
1419 N. Third Street, Suite 100
Phoenix, AZ 85004
Attorneys for Plaintiff

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Attorneys for Plaintiff Arizona Water Company

FILED ___ LODGED X
RECEIVED ___ COPY X
FEB 25 2000
CLERK U S DISTRICT COURT
DISTRICT OF ARIZONA
BY ___ DEPUTY

EXHIBIT
tabbies
R-8
admitted

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF ARIZONA

ARIZONA WATER COMPANY, an Arizona corporation; Plaintiff, vs. CITY OF CASA GRANDE, a municipal corporation of the State of Arizona, Defendant.	CIV '00 0354 PHX ROS Case No. _____ VERIFIED COMPLAINT AND APPLICATION FOR TEMPORARY RESTRAINING ORDER/ PRELIMINARY INJUNCTIVE RELIEF

Plaintiff Arizona Water Company alleges as follows:

PARTIES AND JURISDICTION

1. Arizona Water Company is an Arizona corporation doing business in the State of Arizona as a regulated public service corporation under Article XV, Section 2, Arizona Constitution and Title 40, Arizona Revised Statutes.

2. Defendant City of Casa Grande ("City") is an Arizona municipal corporation. The City and its agents, acting under color of law, have subjected Arizona Water Company to the deprivation of its property, property interests, rights, privileges and

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immunities secured by the Constitution or laws of the United States. The City has intentionally violated Arizona Water Company's substantive and procedural due process and property rights under the Fifth and Fourteenth Amendments to the United States Constitution, giving rise to this cause of action 42 U.S.C. § 1983, and jurisdiction is appropriate in this Court to redress these federally-recognized injuries under 28 U.S.C. §§ 1331, 1343(a)(3) and 1367(a).

3. Venue is proper in this Court under 28 U.S.C. § 1391(b) and Rule 1.1, Local Rules of Practice of the United States District Court for the District of Arizona.

GENERAL ALLEGATIONS

4. Arizona Water Company has a valid Certificate of Convenience and Necessity ("CCN") duly issued by the Arizona Corporation Commission (the "Commission") for operation as a water utility public service corporation in an area that includes the City and areas outside of the City (the "Casa Grande CCN Area"). Under Arizona law, Arizona Water Company's CCN guarantees it the exclusive right to provide water service to present or prospective customers in the Casa Grande CCN Area.

5. In 1990, the City, desiring to render water service within or without its corporate limits, held a public vote to determine whether the City should be authorized to acquire portions of Arizona Water Company's public utility plant and property and CCN. A public vote is required as a prerequisite to acquiring these assets under A.R.S. § 9-514. The City's voters spoke decisively against the City entering into the water business, with 1025 "No" votes to 746 "Yes" votes.

6. Notwithstanding this decisive negative vote, on May 3, 1999, the City adopted an ordinance providing for the condemnation of a vast portion of Arizona Water Company's public utility plant, property and CCN. The City filed a condemnation action against Arizona Water Company in furtherance of this plan on May 14, 1999.

7. Reliant Energy Basin L.L.C. ("Reliant Energy") is in the process of developing a large steam generation electricity production plant in the City. Reliant Energy's plant is located within Arizona Water Company's Casa Grande CCN Area.

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Arizona Water Company has the exclusive right to provide water service to Reliant Energy under Arizona law. The City cannot provide Reliant Energy with water service unless the City has first acquired Arizona Water Company's facilities and exclusive right to do so under A.R.S. § 9-516(A).

8. The City filed its 1999 condemnation action against Arizona Water Company, among other reasons, to acquire Arizona Water Company's exclusive right to serve Reliant Energy.

9. The City's condemnation action against Arizona Water Company was dismissed by minute order dated November 17, 1999 by Maricopa County Superior Court Judge Colin F. Campbell. This dismissal was reduced to formal Judgment on January 5, 2000. The City has appealed that judgment. The City's action was dismissed because the City had not complied with the requirement of securing an affirmative public vote under A.R.S. § 9-514.

10. Arizona Water Company has for nearly five decades been the water provider for the greater Casa Grande area, and has undertaken substantial master planning for and investment in water supply, production, treatment and delivery plant and property in furtherance of its long-standing position as the steward of the area's water resources.

11. Arizona Water Company, in reliance on its right and obligation to serve Reliant Energy and other customers in the immediate area, including Ross Abbott Laboratories and Frito-Lay, has negotiated towards an agreement with the Maricopa-Stanfield Irrigation & Drainage District ("MSIDD") to convey water from Arizona Water Company's Central Arizona Project ("CAP") allocation through MSIDD's East Main Canal to locations east of these industries on the Maricopa-Casa Grande Highway. Reliant Energy has also held such negotiations with MSIDD in anticipation of Arizona Water Company serving Reliant Energy with CAP water through this line. Arizona Water Company has negotiated with Reliant Energy for the construction and operation of a 24-inch water line to convey this water from the East Main Canal to Reliant Energy. Arizona Water Company plans to use excess capacity from this 24-inch line to serve water to the

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other industrial users in the area, and to further expand this planned distribution system to transport effluent produced by Ross Abbott Laboratories and Frito-Lay to Reliant Energy and other customers in the area.

12. Arizona Water Company is ready, willing and able to provide water service for all of Reliant Energy's needs. Arizona Water Company is the only entity which can lawfully contract with Reliant Energy for the provision of water service. Reliant Energy is an existing customer of the Company; Arizona Water Company has provided potable water to Reliant Energy's plant site since last year.

13. Notwithstanding the fact that it cannot legally do so, the City has attempted to contract with Reliant Energy to sell water produced at the City's wastewater treatment plant and to acquire all of the excess capacity in the 24-inch line described above. The City has done so without first obtaining an affirmative public vote or otherwise acquiring Arizona Water Company's exclusive right to serve Reliant Energy, and thus is illegally competing with Arizona Water Company in the Casa Grande CCN Area.

14. The City's proposed agreement to provide water to Reliant Energy interferes with and thwarts Arizona Water Company's development and expansion of the planned distribution system described above, damaging both Arizona Water Company's ability to serve water in the future in the area and the ability of Ross Abbott Laboratories, Frito-Lay and Reliant Energy, as well as all future industrial or other water customers, to have the most economical, best quality and dependable supplies of water available, as well as Arizona Water Company's ability to convey effluent water produced by Ross Abbott Laboratories and Frito-Lay to Reliant Energy and other customers in the Casa Grande CCN Area.

15. By letter addressed to Arizona Water Company on December 14, 1999, the City, through its City Attorney, raised a series of contrived and false concerns about Arizona Water Company's ability to provide water to Reliant Energy. This letter was copied to Mr. David Greeson, Director, Business Development of Reliant Energy, and was deliberately calculated to interfere with negotiations between Arizona Water Company

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and Reliant Energy. In the letter, the City threatened Arizona Water Company that it would "actively address by means of filings with the various regulatory agencies having oversight of [Arizona Water Company]" its alleged concerns unless Arizona Water Company would agree to allow the City to serve water to Reliant Energy and to drop its pending claim for attorney fees and costs against the City arising from the state court condemnation action.

16. At a meeting held in the offices of outside counsel for the City on January 11, 2000, a representative of the City implied to Arizona Water Company representatives that the City would seek to interfere with Arizona Water Company's rights to serve water to Reliant Energy unless Arizona Water Company acquiesces to the City's demands.

17. On February 11, 2000, the City filed a motion to intervene and other pleadings in a pending application proceeding filed by Reliant Energy before the Commission relating to Reliant Energy's certificate of environmental compatibility, which is a prerequisite to building its power plant. The City urged that the matter be reopened and Reliant Energy's certificate be denied. The City did so for the sole purpose of attempting to delay the Commission's approval of the development of the Reliant Energy plant and to extort Reliant Energy into signing an illegal water service agreement with the City. The City has informed Reliant Energy that it will withdraw its motion and objections before the Commission in exchange for Reliant Energy signing a water service agreement with the City, not Arizona Water Company.

18. The nature and quality of the effluent the City intends to serve Reliant Energy is not as suitable for Reliant Energy's purposes as the comprehensive water service Arizona Water Company would provide. But for the City's threatened and actual interference with Reliant Energy's development by the City, Reliant Energy prefers to continue receiving all of its water service needs from Arizona Water Company.

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19. Reliant Energy is on a "fast track" construction schedule, and the City believes it can gain maximum leverage over Reliant Energy by taking steps to stall and thwart the schedule for development of its power plant.

20. Following the City's motion to intervene in the Commission proceedings involving Reliant Energy, Mr. Greeson informed Arizona Water Company that Reliant Energy and the City were going to hold a meeting on February 15. On February 16, Mr. Greeson informed Arizona Water Company that representatives of the City were insisting that the City, not Arizona Water Company, provide effluent water service to Reliant Energy.

21. Mr. Greeson informed Arizona Water Company that, as a result of these contacts by representatives of the City, and as a result of Reliant Energy's high motivation to eliminate the City's objections in the Commission proceedings, Reliant Energy was negotiating with the City for the City to provide effluent water to Reliant Energy. Mr. Greeson told Arizona Water Company that Reliant Energy would be meeting with the City to finalize the terms of such an agreement the following week (i.e., the week of February 21, 2000). On February 22, Mr. Greeson told Arizona Water Company that the City was insisting that Reliant Energy sign such an agreement within ten days.

22. On February 18, 2000, Arizona Water Company served a written demand on the City to cease and desist its interference with Arizona Water Company's exclusive CCN rights and its contractual negotiations and relationship with Reliant Energy. Arizona Water Company gave the City until 5:00 p.m. on Tuesday, February 22, 2000 to confirm that it would cease and desist from conduct in violation of Arizona Water Company's exclusive right to provide water service within the Casa Grande CCN Area. The City failed to do so, and during the public portion of a City Council meeting on the evening of February 22, stated that it intended to continue with its coercive and abusive actions which violate Arizona Water Company's rights.

23. The City's attempt to provide water service within Arizona Water Company's Casa Grande CCN Area, its intentional interference with Arizona Water

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Company's relationship with Reliant Energy and other customers, and its recent actions intended to misuse and abuse legal and administrative processes to coerce Arizona Water Company and its customers, raise a direct and imminent threat of irreparable injury to Arizona Water Company. Arizona Water Company is prepared to buy the City's treated effluent water on reasonable terms and conditions in order to serve customers with legitimate need for effluent water, including Reliant Energy.

COUNT ONE

(Violation of 42 U.S.C. § 1983)

24. Arizona Water Company realleges, as if fully set forth here, the allegations in paragraphs 1 through 23 above.

25. A CCN is a recognized valuable property right under Arizona law.

26. In anticipation of growth within its Casa Grande CCN Area, Arizona Water Company has invested significant capital resources to increase its water production, treatment and delivery capacity.

27. The City and its agents are state actors under 42 U.S.C. § 1983.

28. The City and its agents, acting under color of law, are poised to enter into a contract to provide water service to Reliant Energy in violation of the exclusive property rights granted to Arizona Water Company, and otherwise to interfere with Arizona Water Company's property rights within its Casa Grande CCN Area.

29. Following the failed public vote and attempted condemnation action, the City's threats and coercion tactics are deliberately calculated to achieve the systematic abuse of Arizona Water Company's and its customers' rights, and constitute a taking of Arizona Water Company's constitutionally-protected property and substantive and procedural due process rights. The City is attempting to accomplish by intimidation and threats what it could not accomplish by a public vote and lawful condemnation process. The City is acting in complete disregard of Arizona Water Company's federally-protected rights.

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30. The City's conduct will cause Arizona Water Company significant damages, by, among other things, interfering with its exclusive right to provide water service, by reducing the usefulness of its capital investment in water production and distribution systems and in its CAP allocation, and by thwarting the development and expansion of its planned distribution system through the MSIDD East Main Canal and associated 24-inch line running to Reliant Energy.

31. The City's actions effect a taking of Arizona Water Company's property interest in its CCN, without just compensation, in violation of the Fifth Amendment to the United States Constitution as applied to the States through the Fourteenth Amendment.

32. The City's actions effect a taking of Arizona Water Company's property interest in its CCN, without adherence to the requirements of substantive and procedural due process, in violation of the Fourteenth Amendment to the United States Constitution.

33. Arizona Water Company is entitled to a declaration that the City has violated its constitutional rights and an injunction requiring the City, and all others acting in concert with the City, to cease and desist from such conduct. Arizona Water Company has been irreparably harmed and will continue to be irreparably harmed by the City's actions unless the City is enjoined by this Court in the manner prayed for below.

34. Arizona Water Company is also entitled to monetary damages under 42 U.S.C. § 1983 arising out of the City's conduct.

COUNT TWO

(Declaratory Judgment)

35. Arizona Water Company realleges, as if fully set forth here, the allegations in paragraphs 1 through 34 above.

36. Arizona Water Company brings this Count pursuant to 28 U.S.C. §§ 2201(a) and 2202 and Rule 57 of the Federal Rules of Civil Procedure for a declaration

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addressing questions of actual controversy between the parties as set forth in this verified complaint.

37. As set forth above, an actual controversy exists between Arizona Water Company and the City as to Arizona Water Company's exclusive rights to serve Reliant Energy. Arizona Water Company is entitled to a judgment declaring its right to serve Reliant Energy to be exclusive and declaring that the City's interference with that right is illegal and improper without initially acquiring those rights by legal means.

38. Arizona Water Company does not have a plain, adequate and speedy remedy by law. Arizona Water Company is entitled to a declaratory judgment as specifically prayed for below.

COUNT THREE

(Tortious Interference with Contractual Relationship, Business Expectancy and Prospective Advantage)

39. Arizona Water Company realleges, as if fully set forth here, the allegations in paragraphs 1 through 38 above.

40. Arizona Water Company has an existing exclusive right and obligation to provide public utility water service to any customer or prospective customer within its Casa Grande CCN Area under the terms and conditions of its CCN and Arizona law.

41. Arizona Water Company has an existing relationship with Reliant Energy and is ready, willing and able to provide water service to Reliant Energy in accordance with the terms and conditions already negotiated with Reliant Energy.

42. Arizona Water Company has a legally exclusive and investment-backed expectation to provide water service to any person or entity needing water service in its Casa Grande CCN Area.

43. The City knew about these relationships and expectancies.

44. The City has intentionally interfered with Arizona Water Company's relationship with Reliant Energy and other customers and prospective customers, and

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further knows with substantial certainty that interference will result from its conduct with respect to Reliant Energy as well as the other customers of Arizona Water Company within the Casa Grande CCN Area.

45. The City's interference is improper and unjustified.

46. The City intends to cause or induce a breach or termination of these relationships and expectancies on the part of Arizona Water Company.

47. Arizona Water Company has suffered and will continue to suffer great damage as a result of the City's interference. The City's interference has damaged both Arizona Water Company's existing and prospective contractual relationship with Reliant Energy, and its overall operations.

COUNT FOUR

(Application for Temporary Restraining Order with Notice and Preliminary and Permanent Injunction)

48. Arizona Water Company realleges, as if fully set forth here, the allegations in paragraphs 1 through 47 above.

49. Arizona Water Company brings this Count pursuant to Rule 65 of the Federal Rules of Civil Procedure.

50. This Verified Complaint and the attached affidavit of William M. Garfield, with exhibits, demonstrate that Arizona Water Company will be irreparably harmed if the City contracts with Reliant Energy to provide water service to Reliant Energy.

51. Arizona Water Company can demonstrate that it is substantially likely to prevail on the merits of its claim and that the balance of hardships tip sharply in its favor.

52. Arizona Water Company is entitled to the issuance of an order to show cause why a temporary restraining order should not be entered as set forth above, with notice of hearing of same to be served upon the City simultaneously with this Verified Complaint.

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53. Following a hearing as provided in Rule 65, Federal Rules of Civil Procedure, and consistent with such other orders as this Court may direct, all or part of the temporary restraining order to be issued should convert to a preliminary injunction, then to a permanent injunction.

54. Arizona Water Company is ready, willing and able to post security in a sufficient amount to indemnify the City in the event it is determined that the restraining order or preliminary injunction requested are improperly or wrongfully issued.

55. By threatening to furnish water service in direct competition with Arizona Water Company without first complying with A.R.S. §§ 9-515 and 9-516, by interfering with Arizona Water Company's contracts with customers and its water supply, by intervening and raising objections in Reliant Energy's Commission proceedings, and by threatening other such abuse of legal and administrative processes, the City is causing Arizona Water Company to suffer irreparable harm and is effecting a taking of Arizona Water Company's property in violation of the Fifth and Fourteenth Amendments to the United States Constitution.

56. Arizona Water Company has no plain and speedy remedy at law to prevent the City from furnishing water service within its Casa Grande CCN Area and from unconstitutionally taking its property.

57. The City will not suffer prejudice if a restraining order is issued, as the City is not legally entitled to provide water service to Reliant Energy or any other person or entity within the Casa Grande CCN Area. A restraining order will merely preserve the status quo. Arizona Water Company has a high probability of success on the merits. Arizona Water Company will be irreparably harmed if the City enters into a water service agreement with Reliant Energy. Arizona Water Company, as the certificated water service provider for the Casa Grande CCN Area, is ready, willing and able to provide water service to Reliant Energy. Arizona Water Company has invested substantial capital in building its operations in order to supply, treat and deliver water to Reliant Energy and its other current and prospective customers in the Casa Grande CCN Area. Arizona Water Company's

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investment will be reduced in value if the City is permitted to violate Arizona law and provide water to these parties.

COUNT FIVE

(Inverse Condemnation)

58. Arizona Water Company realleges, as if fully set forth here, the allegations in paragraphs 1 through 57 above.

59. Under the United States and Arizona Constitutions, the City cannot take or damage Arizona Water Company's property or business without paying Arizona Water Company just compensation.

60. The City's conduct effects a taking of Arizona Water Company's public utility plant and property including its valuable CCN rights.

61. In addition to taking Arizona Water Company's rights to serve Reliant Energy, the City has rendered a portion of the Company's plant and property useless or less useful for the purpose of providing water service within its Casa Grande CCN Area in the future.

62. The City has not compensated Arizona Water Company for the takings and damages of Arizona Water Company's property in violation of the United States and Arizona Constitutions.

63. As a direct and proximate result of the City's taking and damaging of Arizona Water Company's property, Arizona Water Company has suffered and continues to suffer actual and consequential damages in an amount to be proven at trial.

WHEREFORE, Plaintiff Arizona Water Company requests the following relief:

A. As to Count One, for a declaration that the City has violated Arizona Water Company's constitutionally-protected property and substantive and procedural due process rights, for injunctive relief barring the City, and its agents, officers, attorneys, council members, staff, employees, servants and anyone else acting in concert with or on behalf of the City, from delivering effluent water or furnishing other water service to

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Reliant Energy within Arizona Water Company's Casa Grande CCN Area, or from entering into contracts or agreements providing for such service or delivery, and for Arizona Water Company's damages for the City's wrongful conduct in violation of those rights, in an amount to be determined at trial.

B. As to Count Two, for a judgment declaring that the City's entering into a contract to provide, or provision of water service, including delivery of effluent water or other water to Reliant Energy within Arizona Water Company's Casa Grande CCN Area, is illegal.

C. As to Count Three, for an injunction barring the City, and its agents, officers, attorneys, council members, staff, employees, servants and anyone else acting in concert with or on behalf of the City, from delivering effluent water or furnishing other water service to Reliant Energy within Arizona Water Company's Casa Grande CCN Area, or from entering into contracts or agreements providing for such service or delivery; and for Arizona Water Company's damages for the City's intentional interference with its contracts, business expectancies and prospective advantage, in an amount to be determined at trial.

D. As to Count Four, for a temporary restraining order, with notice, and, as appropriate, a preliminary injunction and permanent injunction, restraining and enjoining the City, and its agents, officers, attorneys, council members, staff, employees, servants and anyone else acting in concert with or on behalf of the City, from delivering effluent water or furnishing other water service to Reliant Energy within Arizona Water Company's Casa Grande CCN Area, or from entering into contracts or agreements providing for such service or delivery.

E. As to Court Five, for just compensation for the taking and damaging of Arizona Water Company's public utility plant and property, business operations and CCN rights by the City, in an amount to be proven at trial.

F. For Arizona Water Company's attorney fees and costs of suit under 42 U.S.C. § 1988, A.R.S. § 12-348, and any other applicable law.

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G. For any other relief as the Court deems just and proper under the circumstances.

Jury Trial Demand

Arizona Water Company demands a trial by jury of all remaining claims so triable.

DATED this 25th day of February, 2000.

BRYAN CAVE LLP

By _____

Steven A. Hirsch, #006360
Jill Harrison, #018388
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VERIFICATION

STATE OF ARIZONA)
) ss.
County of Maricopa)

I, William M. Garfield, being first duly sworn, upon his oath, deposes and says:

1. I am the Vice President of Operations for Plaintiff, Arizona Water Company.

2. The factual allegations set forth in the foregoing Complaint are true and accurate to the best of my knowledge, information and belief.

DATED this 24th day of February, 2000.

William M. Garfield

William M. Garfield

SUBSCRIBED AND SWORN TO before me this 24th day of February, 2000.

Cathy A. Tardy

Notary Public

My Commission Expires:

OFFICIAL SEAL
CATHY A. TARDY
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 25, 2002

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DISTRICT OF ARIZONA
BY _____ DEPUTY

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF ARIZONA

Arizona Water Company, an Arizona corporation, Plaintiff, vs. City of Casa Grande, a municipal corporation of the State of Arizona, Defendant.	CIV 00-0354-PHX-PGR **ORDER**

EXHIBIT
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admitted

Pending before the Court is defendant's Motion to Dismiss/ Abstain, and plaintiff's renewed Application for Temporary Restraining Order and Request for Preliminary Injunction. During the December 18, 2000 hearing on plaintiff's renewed application for TRO, the parties again argued the jurisdictional issue before this Court. At the conclusion of the hearing the Court ruled from the bench, granting defendant's Motion to Dismiss for lack of jurisdiction and denying plaintiff's request for injunctive relief. The Court informed the parties that this Order would follow.

BACKGROUND

Plaintiff Arizona Water Company (AWC) is an Arizona corporation doing business as a regulated public service corporation pursuant to Article XV, § 2 of the Arizona Constitution

and Title 40 of the Arizona Revised Statutes. It has a valid Certificate of Convenience and Necessity (CCN) to operate as a water utility public service corporation in an area that includes the City of Casa Grande as well as areas outside the city.

The CCN that AWC currently holds was granted by the Arizona Corporation Commission under A.R.S. §40-281. The CCN provides that AWC has the exclusive right to provide that utility to the customers in that area:

> "Once granted, the certificate (CCN) confers upon its holder an exclusive right to provide the relevant service for as long as the grantee can provide adequate service at a reasonable rate."

James P. Paul Water Co. v. Arizona Corporation Comm., 137 Ariz. 426, 671 P.2d 404 (1983); See generally, A.R.S. §40.

Defendant, the City of Casa Grande (City), has long desired to acquire the CCN plaintiff holds. Arizona state law requires that any municipality desiring to condemn or operate a public utility must first receive authorization from a majority of qualified electors who are taxpayers of the municipal corporation. See A.R.S. §9-514[1]. In 1990, the City held a public vote to receive authorization for bonding to acquire or condemn portions of AWC's public utility plant, property and CCN pursuant to A.R.S. § 9-514. The City's bond proposal was rejected by the voters. On May 3,

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[1] A.R.S. §9-514 states in pertinent part:

> Before construction, purchase, acquisition or lease by a municipal corporation,...(it)shall be authorized by the affirmative vote of a majority of the qualified electors who are taxpayers of the municipal corporation voting at a general or special municipal election duly called and held for the purpose of voting upon the question.

1999, the City adopted an ordinance providing for the condemnation of a vast part of AWC's public utility plant, property and CCN. Then, on May 14, 1999, the City filed a condemnation action against AWC in Pinal County Superior Court. The Pinal County bench recused itself, and the matter was transferred to Maricopa County. On November 17, 1999, Maricopa County Superior Court dismissed the condemnation action because the City had failed to comply with A.R.S. §9-514. Superior Court Judge Colin Campbell granted AWC's Motion to Dismiss, finding that A.R.S. §9-514 required an election prior to condemnation. Judge Campbell also found the City's position defied common sense and historical precedent. Formal judgment was entered on January 5, 2000. The City appealed that decision on January 12, 2000. The appeal is briefed and the matter is pending before the Arizona Court of Appeals.

1. Reliant

Reliant Energy Basin, L.L.C. (Reliant), is currently developing a large electricity production plant in Casa Grande and within plaintiff's CCN area. Plaintiff has been providing potable water to Reliant since last year. Defendant City wants to acquire the CCN property interest held by AWC so that it can provide its effluent and water to Reliant.

Despite the arrangement plaintiff holds with Reliant, the City has attempted to contract with Reliant to sell water produced at the City's wastewater treatment plant. The City has attempted to accomplish this without first obtaining an affirmative public vote or otherwise acquiring plaintiff's exclusive right to serve Reliant according to the CCN. Plaintiff alleges that the City's proposed agreement with Reliant interferes with and thwarts plaintiff's

development and expansion of the planned distribution system and its ability to convey effluent water produced by Ross Abbott Laboratories and Frito-Lay to Reliant and other customers. Defendant relies on Arizona Water Company v. City of Bisbee, 172 Ariz. 176, 836 P.2d 389 (1991), wherein the state Supreme Court permitted the City of Bisbee to freely contract for the disposition of the City's effluent, holding the effluent was neither groundwater or surface water and therefore not subject to AWC's CCN. Bisbee, 172 Ariz. at 178.

2. The Instant Action

Plaintiff AWC filed its Application for Temporary Restraining Order and Request for Injunctive Relief on February 25, 2000 against defendant City, alleging the City's proposed course of conduct with Reliant would violate its substantive and procedural due process rights in violation of the Fifth and Fourteenth Amendments. Specifically, plaintiff addresses the City's attempts to seize its constitutionally protected property, the CCN. Plaintiff also alleges a state law claim for tortious interference with contractual relationship, business expectancy and prospective advantage. Plaintiff seeks injunctive and declaratory relief under 42 U.S.C. §1983 as well as damages.

This Court held a hearing on the TRO on March 9, 2000, at which time plaintiff described that the Reliant plant was still under construction and would not be complete for approximately one year. However, plaintiff believed the contract was being contemplated then, hence its desire for injunctive relief. Defendant City claimed lack of jurisdiction, and requested that the Court dismiss the case or abstain based on the pending state action

on appeal. Plaintiff denied that abstention applies here, since the pending condemnation action before the Arizona Court of Appeals is not related to the same law and legal issues. The Court refrained from granting injunctive relief due to the jurisdictional issues raised. The parties were instructed to fully brief both the Motion to Dismiss/Abstain and plaintiff's request for injunctive relief.

In May 2000, oral argument was held on the fully briefed motions. The parties entered into an oral stipulation that the City would not enter into a contract with Reliant without first notifying the Court, so that the Court may consider taking injunctive action at that time. That avowal by the City was affirmed by this Court's Order of June 27, 2000, which dismissed plaintiff's request for injunctive relief without prejudice.

On December 19, 2000, the parties were again before the Court on plaintiff's renewed TRO. Plaintiff argued that the City had gone forward with its proposal to supply effluent to Reliant by establishing pipe and pump hardware to and from the Reliant facility, despite the avowals made to this Court in May. The Court heard supplemental argument on defendant's Motion to Dismiss as well as the recent developments allegedly warranting injunctive relief. The Court concluded that jurisdiction was lacking, since plaintiff has failed to first exhaust its inverse condemnation takings claim in state court. The Court also found that injunctive relief was not warranted, since it did not appear that the City was acting contrary to the avowal made to this Court in May 2000 that no contract would be signed or entered into with Reliant without first notifying this Court. It is this Court's impression that the City's recent provision of effluent to Reliant to control dust

during construction does not rise to the level of entering into the contract that plaintiff seeks to enjoin, nor does it contradict the representations made in open court by the City in May 2000.

DISCUSSION

A. Motion to Dismiss

Defendant brings its Motion to Dismiss pursuant to Rule 12(b)(1) and (6), Fed.R.Civ.P., alleging the matter should be dismissed for lack of subject matter jurisdiction and failure to state a claim upon which relief may be granted. Defendant sets forth two reasons to support the motion: 1) the federal claims are not ripe for adjudication due to a pending state court condemnation action currently before the Arizona Court of Appeals (City of Casa Grande v. Arizona Water Company, et al., 2 CA-CV 00-0028), and 2) the complaint fails to present a question of federal law. Defendant also urges the Court to decline to extend supplemental jurisdiction over the state law claim of Tortious Interference pursuant to 28 U.S.C.§1367(c)(3). Alternatively, in the event the Court retains jurisdiction, defendant requests that the Court abstain from ruling pending resolution of the state court condemnation action.

B. Analysis

The Fifth and Fourteenth Amendments do not prohibit the taking of property, but rather prohibit the taking of property without just compensation. Therefore, there is no constitutional injury until a taking has occurred, a plaintiff has availed itself of the state's procedures for obtaining compensation, and just compensation has been denied. Williamson County Regional Planning Comm's v. Hamilton Bank, 473 U.S. 172, 194 (1985); Hudson v. Palmer, 468 U.S. 517 (1984)(even when the government takes property

without initiating condemnation proceedings, there is no constitutional violation unless or until the state fails to provide an adequate post-deprivation remedy for the property loss.)

Defendant characterizes plaintiff's action as one of inverse condemnation, or a "taking" under 42 U.S.C. §1983, and alleges the action is not ripe for review since the resolution of the state appeal could moot or otherwise resolve plaintiff's federal claims. Sinclair Oil Corp. v. County of Santa Barbara, 96 F.3d 401 (9th Cir.1996)(a federal takings claim is unripe until the owner has sought and been denied just compensation by the state). Defendant claims that plaintiff is prematurely seeking relief with this Court before it has sought and exhausted relief in state court, "...this Court may not exercise jurisdiction over AWC's claims until the pending state court eminent domain action has been finally resolved and then only if AWC is not justly compensated in that proceeding." Defendant's Motion to Dismiss/Abstain, p. 4.

Defendant cites United States Supreme Court and Ninth Circuit authority supporting the proposition that plaintiff is obligated to exhaust state inverse condemnation remedies first. Among defendant's authority is City of Monterey v. Del Monte Dunes at Monterey, Ltd., 526 U.S. 687, 119 S.Ct. 1624 (1999)(a federal court may not entertain a Fifth Amendment takings claim until state court compensation procedures have been exhausted), and Williamson County Regional Planning Comm'n v. Hamilton Bank, 473 U.S. 172, 105 S.Ct. 3108(1985)(in takings cases, the federal forum should only be used to compensate for the inadequacies of state takings procedures).

An exception has been carved in instances where the state does

not have a "reasonable, certain and adequate provision for obtaining compensation" at the time of the taking. In that instance, the takings claim is instantly ripe. Williamson. A plaintiff who desires to sue in federal court before seeking compensation from the state bears the burden of establishing that state remedies are inadequate. Del Monte Dunes, 920 F.2d at 1506.

Here, plaintiff has not proven that the state inverse condemnation procedure is unavailable or inadequate. Rather, plaintiff argues that the state court's ruling is inapplicable because the relief plaintiff seeks relates to actions taken by the City after the state court's ruling. That argument is unavailing. Plaintiff has not invoked any state procedure for compensation for the alleged taking, and must affirmatively seek compensation from the state first. Until it is established that the state court does not afford an adequate remedy for just compensation, the state procedures are presumed to be adequate. Bateson v. Geisse, 857 F.2d 1300 (9th Cir.1988).

Plaintiff primarily relies on Eastern Enterprises v. Apfel, 524 U.S. 498, 118 S.Ct. 2131 (1998), which held that a dismissal of a federal takings claim based on failure to seek compensation in state court "would entail an utterly pointless set of activities" when the takings claim seeks equitable and injunctive relief. In that case, the plaintiff was permitted to proceed under the Declaratory Judgment Act without first exhausting state remedies. Defendant distinguished Eastern Enterprises as a fragmented plurality opinion which has an isolated applicability; only relating to the Coal Industry Retiree Health Benefit Act. Defendants believe the only binding effect such a splintered

decision renders is its specific result. And, in that case, the plaintiff only sought declaratory relief, not money damages.

The numerous consistent holdings cited by defendant, which include U.S. Supreme Court and Ninth Circuit authority, are all contrary to Eastern Enterprises. In fact, the Eastern Enterprise holding has been distinguished or courts have declined to apply it in nearly every circuit and district court since its inception. Of the few opinions that do reference the case, none cite the grounds on which plaintiff now relies; that a plaintiff can avoid state procedures and request declaratory judgment directly in federal court because the issues before state court are different than those brought to federal court.

42 U.S.C. §1983 is not an automatic ticket to federal court. Takings claims almost always involve the definition and valuation of property, and federal courts commonly look to state law to define property. Milens of California v. Richmond Redevelopment Agency, 665 F.2d 906, 909 (9th Cir.1982). The Supreme Court addressed the question of whether property is a state or federal issue in United States ex. rel. TVA v. Powelson, stating, "[t]hough the meaning of property as used in the Fifth Amendment is a federal question, it will normally obtain its content by reference to local law."

Defendant's discussion of the non-applicability of Eastern Enterprises is well taken. Federal courts lack subject matter jurisdiction over takings claims that are not first exhausted through state courts. Williamson County Regional Planning Comm's v. Hamilton Bank, 473 U.S. 172 (1985). AWC's claims are dismissed as

unripe because it has not first pursued its inverse condemnation claim in state court.

C. Motion to Abstain

In the alternative, defendant requested that the Court abstain or stay its determination of this issue pending resolution of the state action on appeal. In response to that, plaintiff distinguishes the instant federal action from the matter pending appeal in the Arizona Court of Appeals. Plaintiff urges that the federal action relates to the unconstitutional conduct by the City after the state court dismissed the City's improper attempt to condemn AWC. Plaintiff submits that ruling cannot be reviewed or overruled by this court, since the matters are not similar, nor are the laws, legal theories or issues the same.

Plaintiff distinguishes this action from the state court condemnation case by emphasizing the involvement of the third party, Reliant, and the defendant's efforts to allegedly extort and appropriate the business of Reliant. Defendant's interference with AWC's existing and future relationship with Reliant and others pursuant to AWC's CCN is the basis for plaintiff's state law tortious interference with contract claim. Plaintiff argues that claim was not in existence when the state court made its ruling regarding the City's proposal to condemn. Also, plaintiff points out that a dismissed condemnation action fails to provide the adequate state forum to resolve the other issues plaintiff has alleged, and fails to provide an opportunity for just compensation. Therefore, plaintiff believes the premise of abstention, to avoid duplicative and inconsistent rulings, is not served.

D. Analysis

Plaintiff is attempting to fight abstention by showing there is not a potential for duplicative or inconsistent holdings among the two courts, since the cases do not involve the same issues. Plaintiff is successful in that position; it does not appear that either Younger or Pullman abstention doctrines apply here. But, before the Court can get to an abstention inquiry, the threshold issue here is whether there is subject matter jurisdiction to keep the case in federal court. It is only after a court determines jurisdiction is proper that it moves on to an abstention inquiry.

Defendant's Supreme Court and Ninth Circuit authority makes it rather clear there is an exhaustion requirement in inverse condemnation actions brought pursuant to §1983. Plaintiff has not exhausted the state court requirement by the previous state court matter now on appeal. That matter was brought to state court by the City of Casa Grande when it sought condemnation of AWC's property. AWC was a defendant in that action. The Superior Court found in AWC's favor, because the City had failed to meet its statutory obligation to secure proper authority through a majority taxpayer vote. It appears AWC's basis for its Motion to Dismiss in Superior Court, a successful position, was that the City failed to act according to A.R.S. §9-514 when it did not seek voter approval for the proposed condemnation. The Superior Court did not reach the matter of compensation for a taking. The only way AWC could be in federal court right now is if there had been a taking, AWC had sought compensation in state court, the Superior Court made a compensation determination post-condemnation, and AWC was denied compensation or believed the state court's award to be inadequate. Only then could AWC come to federal court to seek further relief.

CONCLUSION

It is clear there exists an exhaustion requirement specific to §1983 inverse condemnation actions under Williamson. Plaintiff's case is not ripe for adjudication in this Court at this time. State courts must provide inverse condemnation remedies to compensate takings. Carson Harbor Village, Ltd. v. City of Carson, 37 F.3d 468, 475 (9th Cir.1994). Because state remedies are mandated, dismissing this case for failure to exhaust state remedies does not deprive plaintiff of a forum for its takings claim or right to compensation. This Court declines to extend supplemental jurisdiction over the remaining state law claim for tortious interference. Macri v. King County, 110 F.3d 1496 (9th Cir.1997)(a district court may decline to exercise supplemental jurisdiction if it has dismissed all claims over which it had original jurisdiction).

IT IS HEREBY ORDERED that defendant's Motion to Dismiss (Doc.#8-1) is GRANTED. Defendant's Motion to Abstain (Doc.#8-2) is DENIED as moot. The Clerk of Court is directed to dismiss the complaint and terminate this matter in its entirety.

IT IS FURTHER ORDERED that plaintiff's Application for TRO and Request for Preliminary Injunction (Docs.#20-1,20-2) are DENIED. Plaintiff's Order to Show Cause (Doc.#20-3) was signed by the Court when it set the time and date for the December 19, 2000 hearing.

DATED this 20th day of December, 2000.

Paul G. Rosenblatt
United States District Judge

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DISTRICT OF ARIZONA
BY ___ DEPUTY

UNITED STATES DISTRICT COURT

DISTRICT OF ARIZONA

ARIZONA WATER COMPANY, an Arizona corporation, Plaintiff, vs. CITY OF CASA GRANDE, a municipal corporation of the State of Arizona, Defendant.	)	CIV 00-354 PHX PGR **JUDGMENT**

___ **Jury Verdict.** This action came before the Court for trial by jury. The issues have been tried and the jury has rendered its verdict.

X **Decision by Court.** This action came for consideration before the Court. The issues have been considered and a decision has been rendered.

IT IS THEREFORE ORDERED AND ADJUDGED that the Court having granted the Motion to Dismiss for Lack of Jurisdiction by Defendant, Plaintiff take nothing and the Complaint and this action are hereby dismissed.

Date: December 21,2000

RICHARD H. WEARE
Clerk/DCE

L. Dixon
(By) Deputy Clerk
L. Dixon

cc: all counsel

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#5

FILED
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CATHY A. CATTERSON
CLERK, U.S. COURT OF APPEALS

NOT FOR PUBLICATION

UNITED STATES COURT OF APPEALS

FOR THE NINTH CIRCUIT

ARIZONA WATER COMPANY, an Arizona corporation, Plaintiff - Appellant, v. CITY OF CASA GRANDE, a municipal corporation of the State of Arizona, Defendant - Appellee.	No. 01-15179 D.C. No. CV-00-00354-PGR MEMORANDUM*

EXHIBIT
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Appeal from the United States District Court
for the District of Arizona
Paul G. Rosenblatt, District Judge, Presiding

Argued and Submitted March 11, 2002
San Francisco, California

Before: RYMER, KLEINFELD, and McKEOWN, Circuit Judges.

In this Section 1983 action, Arizona Water Company (AWC) asserts that the City of Casa Grande (the City) has taken its property in violation of the Fifth and

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* This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except as may be provided by Ninth Circuit Rule 36-3.

Fourteenth Amendments by infringing AWC's state-conferred exclusive right to provide water service in the Casa Grande area. The district court dismissed the action for lack of ripeness. We have jurisdiction under 28 U.S.C. § 1291, and we affirm.

To the extent that AWC's Complaint is a demand for compensation for the alleged taking of its property, its takings claim is not ripe because AWC did not first seek compensation through available state procedures. *Williamson County Regional Planning Comm'n v. Hamilton Bank*, 473 U.S. 172, 194 (1985). To the extent that AWC seeks injunctive and declaratory relief by purporting to assert a facial challenge based on the City's merely contacting Reliant Energy, it has not stated a cognizable takings claim. The district court properly dismissed this action, leaving AWC to pursue the injunctive and compensatory relief which, AWC concedes, is available in state court.[1]

AFFIRMED.

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[1] AWC's motion to strike is denied.

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EXHIBIT
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IN THE SUPERIOR COURT FOR THE STATE OF ARIZONA
IN AND FOR THE COUNTY OF MARICOPA

ARIZONA WATER COMPANY, an Arizona corporation; Plaintiff, vs. CITY OF CASA GRANDE, a municipal corporation of the State of Arizona, Defendant.	Case No. _____ VERIFIED COMPLAINT AND APPLICATION FOR TEMPORARY RESTRAINING ORDER/ PRELIMINARY INJUNCTIVE RELIEF

Plaintiff Arizona Water Company alleges as follows:

PARTIES AND JURISDICTION

1. Arizona Water Company is an Arizona corporation doing business in the State of Arizona as a regulated public service corporation under Article XV, Section 2, Arizona Constitution and Title 40, Arizona Revised Statutes.

2. Defendant City of Casa Grande ("City") is an Arizona municipal corporation. The City and its agents, acting under color of law, threaten to deprive Arizona

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Water Company of its property, property interests, rights, privileges and immunities secured by the Constitution or laws of the United States and the State of Arizona. The City threatens intentionally to violate Arizona Water Company's substantive and procedural due process and property rights under the Fifth and Fourteenth Amendments to the United States Constitution and Article 2, § 4 of the Arizona Constitution.

3. Venue is proper in this Court pursuant to A.R.S. §§ 12-401 et seq. and because of the extraordinary circumstances of this lawsuit. In a prior condemnation case brought by the City in the Superior Court in and for Pinal County, Cause No. CV 99-046814, Judge Boyd T. Johnson of the Pinal County Superior Court recused himself and the entire bar of the Pinal County Superior Court, and transferred that action to the Superior Court for Maricopa County.

GENERAL ALLEGATIONS

4. Arizona Water Company holds a valid Certificate of Convenience and Necessity ("CCN") duly issued by the Arizona Corporation Commission (the "Commission") for operation as a water utility public service corporation in an area that includes the City and areas outside of the City (the "Casa Grande CCN Area"). Under Arizona law, Arizona Water Company's CCN guarantees it the exclusive right to provide water utility service to present or prospective customers in the Casa Grande CCN Area.

5. In 1990, the City, desiring to render water utility service within and without its corporate limits, held a public vote to determine whether the City should be authorized by its voters to acquire portions of Arizona Water Company's public utility plant and property and CCN. A public vote is required as a prerequisite to acquiring Arizona Water Company's public utility plant and property and its CCN under A.R.S. § 9-514. The City's voters spoke decisively against the City entering into the water business, with 1025 "No" votes to 746 "Yes" votes.

6. Notwithstanding this decisive negative vote, on May 3, 1999, the City adopted an ordinance providing for the condemnation of a vast portion of Arizona Water

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Company's public utility plant, property and CCN. The City filed a condemnation action against Arizona Water Company in furtherance of this plan on May 14, 1999.

7. Reliant Energy Desert Basin L.L.C. ("Reliant Energy") is in the process of developing a large steam generation electricity production plant in the City. Reliant Energy's plant is located within Arizona Water Company's Casa Grande CCN Area. Arizona Water Company has the exclusive right to provide water utility service to Reliant Energy under Arizona law and currently provides water utility service to Reliant Energy at that site. The City cannot lawfully provide Reliant Energy with water utility service unless the City has first acquired Arizona Water Company's facilities and exclusive right to do so under A.R.S. § 9-516(A).

8. The City filed its 1999 condemnation action against Arizona Water Company, among other reasons, to acquire Arizona Water Company's exclusive right to serve Reliant Energy.

9. The City's condemnation action against Arizona Water Company was dismissed by minute order dated November 17, 1999 by Maricopa County Superior Court Judge Colin F. Campbell. This dismissal was reduced to formal Judgment on January 5, 2000. The City has appealed that judgment. The City's action was dismissed because the City had not complied with the requirement of securing an affirmative public vote under A.R.S. § 9-514.

10. For nearly five decades, Arizona Water Company has been the water utility service provider for the greater Casa Grande area, and has undertaken substantial master planning for and investment in water supply, production, treatment and delivery plant and property in furtherance of its long-standing position, right and obligation to provide all water utility service, and as the steward of the water resources needed to serve customers in the Casa Grande CCN area.

11. Arizona Water Company is ready, willing and able to provide water utility service for all of Reliant Energy's needs, including Central Arizona Project ("CAP") water and effluent water, and it is the only entity which can lawfully contract with Reliant

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Energy for the provision of such water utility service. Reliant Energy is an existing Arizona Water Company customer; Arizona Water Company has provided water utility service to Reliant Energy's plant site since 1999. Furthermore, as it has informed the City, Arizona Water Company is prepared to buy the City's treated effluent water on reasonable terms and conditions in order to serve customers who are able to use effluent water, including Reliant Energy.

12. In order to increase the availability of effluent water in its Casa Grande CCN Area, Arizona Water Company has negotiated with Ross Abbott Laboratories ("Ross Abbott") and Frito-Lay, Inc. ("Frito-Lay") concerning the purchase, transportation and use by Reliant Energy and other Arizona Water Company customers of effluent water on reasonable terms and conditions.

13. In reliance on its right and obligation to serve Reliant Energy and other customers in the immediate area, including Ross Abbott and Frito-Lay, Arizona Water Company has negotiated with the Maricopa-Stanfield Irrigation & Drainage District ("MSIDD") to transport Arizona Water Company's CAP allocation through MSIDD's East Main Canal. Reliant Energy has negotiated with MSIDD in anticipation of Arizona Water Company serving Reliant Energy with CAP water through this line. Arizona Water Company has also negotiated with Reliant Energy for the construction and operation of a 24-inch water line to convey Arizona Water Company's CAP water from MSIDD's East Main Canal to Reliant Energy and plans to use available capacity from this 24-inch line to serve water to other industrial customers in the area, including Ross Abbott and Frito-Lay.

14. Notwithstanding the fact that it cannot legally do so, the City has proceeded forward with plans to bypass Arizona Water Company and to contract directly with Reliant Energy to: (a) provide competing water service to Reliant with effluent water produced at the City's wastewater treatment plant; and (b) to acquire all of the available CAP water capacity in the 24-inch line described above. The City has done so without first obtaining an affirmative public vote or otherwise acquiring Arizona Water Company's exclusive right to serve Reliant Energy, and thus is illegally competing with Arizona Water

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Company in the Casa Grande CCN Area. Substantial construction and installation of a 20-inch pipeline designed to illegally provide such effluent service from the City sewer treatment plant effluent ponds to Reliant Energy has just been discovered. Additionally, the City is presently providing a competing water utility service by delivering effluent water through a four-inch main along the Maricopa-Stanfield Highway for construction purposes at Reliant Energy's evaporation ponds site in Arizona Water Company's Casa Grande CCN Area.

15. The City's proposed agreement to provide a competing water service to Reliant Energy, and its existing delivery of effluent to Reliant Energy through the four-inch line, interferes with and thwarts Arizona Water Company's development and expansion of the planned distribution systems described above, damaging both Arizona Water Company's ability to serve water in the future in the area and the ability of Ross Abbott, Frito-Lay and Reliant Energy, as well as all future industrial or other water customers, to have access to the most economical, best quality and dependable supplies of water available.

16. By letter addressed to Arizona Water Company on December 14, 1999, the City, through its City Attorney, raised a series of contrived and false concerns about Arizona Water Company's ability to provide water to Reliant Energy. This letter was copied to Mr. David Greeson, Director, Business Development of Reliant Energy, and was deliberately calculated to interfere with negotiations between Arizona Water Company and Reliant Energy. In the letter, the City threatened Arizona Water Company that it would "actively address by means of filings with the various regulatory agencies having oversight of [Arizona Water Company]" its alleged concerns unless Arizona Water Company would agree to allow the City to serve water to Reliant Energy and to drop its pending claim for attorney fees and costs against the City arising from the City's failed state court condemnation action.

17. At a meeting held in the offices of legal counsel for the City on January 11, 2000, a representative of the City made it clear to Arizona Water Company

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representatives that the City would seek to interfere with Arizona Water Company's rights to serve water to Reliant Energy unless Arizona Water Company acquiesces to the City's demands.

18. On February 11, 2000, the City filed a motion to intervene and other pleadings in a pending application proceeding filed by Reliant Energy before the Commission relating to Reliant Energy's certificate of environmental compatibility, which is a prerequisite to building its power plant. The City urged that the matter be reopened and Reliant Energy's certificate be denied. The City did so for the sole purpose of attempting to delay the Commission's approval of the development of the Reliant Energy plant and to extort Reliant Energy into signing an illegal water utility service agreement with the City instead of continuing to receive water utility service from Arizona Water Company. The City informed Reliant Energy that it would withdraw its motion and objections before the Commission in exchange for Reliant Energy signing a effluent water utility service agreement with the City, instead of continuing to receive water utility service from Arizona Water Company.

19. The City's effluent water that it intends to provide to Reliant Energy is inferior to the comprehensive and reliable water utility service Arizona Water Company would provide (e.g., effluent water, CAP water and potable water). But for the City's threatened and actual interference with Reliant Energy's development by the City, Reliant Energy prefers to continue receiving all of its water utility service needs from Arizona Water Company.

20. Reliant Energy is on a "fast track" construction schedule, and the City believes it can gain maximum leverage over Reliant Energy by taking steps to stall and thwart the schedule for development of its power plant.

21. Following the City's motion to intervene in the Commission proceedings involving Reliant Energy, Mr. Greeson informed Arizona Water Company that Reliant Energy and the City were going to hold a meeting on February 15, 2000. On February 16, Mr. Greeson informed Arizona Water Company that representatives of the

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City were demanding that the City, not Arizona Water Company, provide water utility service to Reliant Energy using the City's effluent water.

22. On February 16, Mr. Greeson informed Arizona Water Company that, as a result of these contacts by representatives of the City, and as a result of Reliant Energy's high motivation to eliminate the City's objections in the Commission proceedings, Reliant Energy was negotiating with the City for the City to provide effluent water to Reliant Energy. Mr. Greeson told Arizona Water Company that Reliant Energy would be meeting with the City to finalize the terms of such an agreement the following week (i.e., the week of February 21, 2000).

23. On February 18, 2000, Arizona Water Company served a written demand on the City to cease and desist its interference with Arizona Water Company's exclusive CCN rights and its contractual negotiations and relationship with Reliant Energy. On February 22, Mr. Greeson again told Arizona Water Company that the City was demanding that Reliant Energy sign such an agreement within ten days. Arizona Water Company gave the City until 5:00 p.m. on Tuesday, February 22, 2000 to confirm that it would cease and desist from conduct that violates Arizona Water Company's exclusive right to provide water utility service within the Casa Grande CCN Area. The City failed to do so and, during the public portion of a City Council meeting on the evening of February 22, the City Council indicated that the City intended to continue with actions which violate Arizona Water Company's rights.

24. On February 25, 2000 Arizona Water Company brought an action entitled Arizona Water Company v. City of Casa Grande in the United States District Court for the District of Arizona, Case No. 00-0354 PHX-PGR (the "Federal Action"), seeking declaratory, injunctive and other relief against the City, specifically an order prohibiting the City from contracting to provide water utility service (whether effluent water or otherwise) to Reliant Energy or other Arizona Water Company customers within the Company's Casa Grande CCN Area.

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25. The City's attempt to provide water utility service within Arizona Water Company's Casa Grande CCN Area, its intentional interference with Arizona Water Company's contractual relationships with Reliant Energy and other customers, and its recent actions intended to misuse and abuse legal and administrative processes to extort and coerce Arizona Water Company and its customers, raise a direct and imminent threat of irreparable injury to Arizona Water Company.

26. In the course of the Federal Action, on March 9, 2000, the City agreed in open court that it would not enter into a contract with Reliant Energy to provide water utility service (whether effluent water or otherwise) without further notice to Arizona Water Company and the court so that a TRO/preliminary injunction hearing could be held. In the meantime, the City filed a motion to dismiss, asserting on technical grounds that the United States District Court for the District of Arizona did not have jurisdiction over the relief requested by Arizona Water Company in the Federal Action.

27. On December 13, 2000, Arizona Water Company renewed its application for a temporary restraining order and/or preliminary injunction in the Federal Action based upon its recent discovery of the City's delivery of effluent water through the four-inch line, and the construction of the 20-inch line and attendant facilities for delivery of effluent water to Reliant Energy. In response to this application, the City informed Arizona Water Company that it intended to discuss and finalize the terms of an effluent delivery agreement with Reliant Energy at a City Council meeting set for the evening of December 20, 2000.

28. At approximately noon on December 18, 2000, the United States District Court granted the City's motion to dismiss on jurisdictional grounds. In light of that dismissal, the City's avowal in that proceeding not to contract with Reliant Energy cannot presently be enforced by court order. Given the substantial and immediate risk of irreparable harm to Arizona Water Company, especially given the pending City Council meeting on December 20 and the imminent signing of an effluent agreement in derogation of Arizona Water Company's legal rights, it is necessary to bring this action in State Court

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to provide a forum for the determination of the same issues that had been initially addressed in the Federal Case.

COUNT ONE

(Violation of 42 U.S.C. § 1983)

29. Arizona Water Company realleges, as if fully set forth here, the allegations in the foregoing paragraphs.

30. A CCN is a recognized valuable property right under Arizona law.

31. In anticipation of growth within its Casa Grande CCN Area, Arizona Water Company has invested significant capital resources to increase its water production, treatment and delivery capacity.

32. The City and its agents are state actors under 42 U.S.C. § 1983, and this Court has concurrent jurisdiction with the federal courts to enforce 42 U.S.C. § 1983.

33. The City and its agents, acting under color of law, are poised to enter into a contract to provide a competing water utility service by selling effluent water to Reliant Energy in violation of Arizona Water Company's exclusive property rights, and otherwise further to interfere with Arizona Water Company's property rights within its Casa Grande CCN Area.

34. Following the failed public vote and attempted condemnation action, the City's threats and coercive tactics are deliberately calculated to achieve the systematic abuse of Arizona Water Company's and its customers' rights, and constitute a taking of Arizona Water Company's constitutionally-protected property and a deprivation of its substantive and procedural due process rights without just compensation. The City is attempting to accomplish by intimidation and threats what it could not accomplish by a public vote and lawful condemnation process. The City is acting in complete disregard of Arizona Water Company's rights.

35. The City's conduct threatens to cause Arizona Water Company significant damages, by, among other things, interfering with its exclusive right to provide water utility service, by reducing the usefulness and value of its capital investment in its

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water production and distribution systems and in its CAP allocation, and by unlawfully obstructing the development and expansion of its planned access to CAP water supplies through the MSIDD East Main Canal and associated 24-inch transmission pipeline to Reliant Energy and the development of supplies of effluent water from Ross Abbott, Frito-Lay and the City.

36. The City's actions effect a taking of Arizona Water Company's property interest in its CCN, without just compensation, in violation of the Fifth Amendment to the United States Constitution as applied to the States through the Fourteenth Amendment.

37. The City's actions effect a taking of Arizona Water Company's property interest in its CCN, without adherence to the requirements of substantive and procedural due process, in violation of the Fourteenth Amendment to the United States Constitution.

38. Arizona Water Company is entitled to a declaration that the City's conduct will violate Arizona Water Company's constitutional rights and an injunction requiring the City, and all others acting in concert with the City, to cease and desist from such conduct. Arizona Water Company will be irreparably harmed and will continue to be irreparably harmed by the City's actions unless the City is enjoined by this Court in the manner prayed for below.

39. Arizona Water Company is also entitled to monetary damages under 42 U.S.C. § 1983 arising out of the City's unlawful and improper conduct.

COUNT TWO

(Violation of Arizona Constitution, Art. 2, § 4)

40. Arizona Water Company realleges, as if fully set forth here, the allegations in the foregoing paragraphs.

41. A CCN is a recognized valuable property right under Arizona law.

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42. In anticipation of growth within its Casa Grande CCN Area, Arizona Water Company has invested significant capital resources to increase its water production, treatment and delivery capacity.

43. The City and its agents are poised to enter into a contract to provide water utility service by selling effluent water to Reliant Energy in violation of Arizona Water Company's exclusive property rights, and otherwise to interfere with Arizona Water Company's property rights within its Casa Grande CCN Area.

44. Following the failed public vote and attempted condemnation action, the City's threats and coercive tactics are deliberately calculated to achieve the systematic abuse of Arizona Water Company's and its customers' rights, and constitute a taking of Arizona Water Company's constitutionally-protected property and a deprivation of its substantive and procedural due process rights without just compensation. The City is attempting to accomplish by intimidation and threats what it could not accomplish by a public vote and lawful condemnation process. The City is acting in complete disregard of Arizona Water Company's constitutionally-protected rights.

45. The City's conduct will cause Arizona Water Company significant damages, by, among other things, interfering with its exclusive right to provide water utility service, by reducing the usefulness and value of its capital investment in water production and distribution systems and in its CAP allocation, and by unlawfully obstructing the development and expansion of its planned access to CAP water supplies through the MSIDD East Main Canal and associated 24-inch transmission pipeline to Reliant Energy and the development of supplies of effluent water from Ross Abbott, Frito-Lay and the City.

46. The City's actions effect a taking of Arizona Water Company's property interest in its CCN, without just compensation, in violation of Article 2, § 4 of the Arizona Constitution.

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47. The City's actions effect a taking of Arizona Water Company's property interest in its CCN, without adherence to the requirements of substantive and procedural due process, in violation of Article 2, § 4 of the Arizona Constitution.

48. Arizona Water Company is entitled to a declaration that the City's conduct will violate Arizona Water Company's constitutional rights and an injunction requiring the City, and all others acting in concert with the City, to cease and desist from such conduct. Arizona Water Company will be irreparably harmed and will continue to be irreparably harmed by the City's actions unless the City is enjoined by this Court in the manner prayed for below.

49. Arizona Water Company is also entitled to monetary damages arising out of the City's unlawful and improper conduct.

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COUNT THREE

(Declaratory Judgment)

50. Arizona Water Company realleges, as if fully set forth here, the allegations in the foregoing paragraphs.

51. Arizona Water Company brings this Count pursuant to the Arizona Uniform Declaratory Judgments Act, A.R.S. § 12-1831 et seq., and Rule 57 of the Arizona Rules of Civil Procedure for a declaration addressing questions of actual controversy between the parties as set forth in this verified complaint.

52. As set forth above, an actual controversy exists between Arizona Water Company and the City as to Arizona Water Company's exclusive rights to provide public utility water service to Reliant Energy and the Company's other customers in its Casa Grande CCN Area. Arizona Water Company is entitled to a judgment declaring that its right to serve Reliant Energy and other customers in its Casa Grande CCN Area is exclusive and declaring that the City's interference with that right is illegal and improper without initially acquiring those rights by legal means as required by A.R.S. §§ 9-514, 9-515 and 9-516.

53. Arizona Water Company does not have a plain, adequate and speedy remedy by law. Arizona Water Company is entitled to a declaratory judgment as specifically prayed for below.

COUNT FOUR

(Tortious Interference with Contractual Relationship, Business Expectancy and Prospective Advantage)

54. Arizona Water Company realleges, as if fully set forth here, the allegations in the foregoing paragraphs.

55. Arizona Water Company has an existing exclusive right and obligation to provide public utility water utility service to any customer or prospective customer within its Casa Grande CCN Area under the terms and conditions of its CCN and Arizona law.

56. Arizona Water Company has an existing contractual relationship with Reliant Energy for water utility service and is ready, willing and able to provide water utility service to Reliant Energy in accordance with the terms and conditions already negotiated with Reliant Energy.

57. Arizona Water Company has a legally exclusive and investment-backed expectation to provide water utility service to any person or entity needing water utility service in its Casa Grande CCN Area, including Ross Abbott, Frito-Lay and other customers. Moreover, Arizona Water Company has negotiated with MSIDD to carry CAP water through MSIDD's East Main canal to serve Reliant Energy and others, and has negotiated with Ross Abbott and Frito-Lay for purchase of effluent produced by those entities as well.

58. The City has known and knows about these contractual relationships and expectancies.

59. The City has intentionally interfered with Arizona Water Company's relationship with Reliant Energy, Ross Abbott, Frito-Lay and other customers and prospective customers, and further knows with substantial certainty that interference will

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result-from its conduct with respect to Reliant Energy as well as the other customers of Arizona Water Company within the Casa Grande CCN Area.

60. The City's interference is improper and unlawful.

61. The City intends to cause or induce a breach or termination of these relationships and expectancies on the part of Arizona Water Company.

62. Arizona Water Company has suffered and will continue to suffer great damage as a result of the City's interference. The City's interference has damaged both Arizona Water Company's existing and prospective contractual negotiations with Ross Abbott and Frito-Lay for the purchase and sale of effluent water, and prospective contractual relationships with Reliant Energy, Ross Abbott, Frito-Lay and other customers, as well as Arizona Water Company's overall operations.

COUNT FIVE

(Application for Temporary Restraining Order with Notice and Preliminary and Permanent Injunction)

63. Arizona Water Company realleges, as if fully set forth here, the allegations in the foregoing paragraphs.

64. Arizona Water Company brings this Count pursuant to Rule 65 of the Arizona Rules of Civil Procedure.

65. This Verified Complaint and the attached affidavit of William M. Garfield, with exhibits, demonstrate that Arizona Water Company will be irreparably harmed if the City contracts with Reliant Energy to provide water utility service to Reliant Energy.

66. Arizona Water Company can demonstrate that it is substantially likely to prevail on the merits of its claim and that the balance of hardships tip sharply in its favor.

67. Arizona Water Company is entitled to the issuance of an order to show cause why a temporary restraining order should not be entered as set forth above,

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with notice of hearing of same to be served upon the City simultaneously with this Verified Complaint.

68. Following a hearing as provided in Rule 65, Arizona Rules of Civil Procedure, and consistent with such other orders as this Court may direct, all or part of the temporary restraining order to be issued should convert to a preliminary injunction, then to a permanent injunction.

69. Arizona Water Company is ready, willing and able to post security in a sufficient amount as required by the Arizona Rules of Civil Procedure.

70. By threatening to furnish, and, in the case of the four-inch line, by furnishing water utility service in direct competition with Arizona Water Company without first complying with A.R.S. §§ 9-514, 9-515 and 9-516, by interfering with Arizona Water Company's contracts with prospective water suppliers and customers and its water supply, by intervening and raising frivolous objections in Reliant Energy's Commission proceedings, and by continuing other such abuse of legal and administrative processes in a deliberate effort to threaten and extort Arizona Water Company, the City is causing Arizona Water Company to suffer irreparable harm and is effecting a taking of Arizona Water Company's property without just compensation and without due process of law in violation of the Fifth and Fourteenth Amendments to the United States Constitution and Article 2, § 4 of the Arizona Constitution.

71. Arizona Water Company has no plain and speedy remedy at law to prevent the City from furnishing a competing water utility service within its Casa Grande CCN Area, from unconstitutionally taking its property, and from continuing to unlawfully interfere with its public utility obligations and activities.

72. The City will not suffer prejudice if a restraining order is issued, as the City is not legally entitled to provide water utility service to Reliant Energy or any other person or entity within the Casa Grande CCN Area without having first secured voter approval and complying with applicable requirements of law. A restraining order will merely preserve the status quo. Arizona Water Company has a high probability of success

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on the merits. Arizona Water Company will be irreparably harmed if the City enters into a water utility service agreement with Reliant Energy. Arizona Water Company, as the only entity authorized to provide public utility water service in the Casa Grande CCN Area, is ready, willing and able to provide water utility service to Reliant Energy. Arizona Water Company has invested substantial capital in building its operations in order to supply, treat and deliver water to Reliant Energy and its other current and prospective customers in the Casa Grande CCN Area. Arizona Water Company's investment will be reduced in value if the City is permitted to violate Arizona law and provide water to these parties.

COUNT SIX

(Inverse Condemnation)

73. Arizona Water Company realleges, as if fully set forth here, the allegations in the foregoing paragraphs.

74. Under the United States and Arizona Constitutions, the City cannot take or damage Arizona Water Company's property or business without first paying Arizona Water Company just compensation therefor.

75. The City's conduct effects a taking of Arizona Water Company's public utility plant and property including its valuable CCN rights.

76. In addition to taking Arizona Water Company's rights to serve Reliant Energy, the City threatens to render a portion of the Company's plant, property and rights useless or less useful or valuable for the purpose of providing water utility service within its Casa Grande CCN Area in the future.

77. The City has not compensated Arizona Water Company for the takings and damages of Arizona Water Company's property in violation of the United States and Arizona Constitutions.

78. As a direct and proximate result of the City's taking and damaging of Arizona Water Company's property, Arizona Water Company has suffered and will continue to suffer actual and consequential damages in an amount to be proven at trial.

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WHEREFORE, Plaintiff Arizona Water Company requests the following relief:

A. As to Counts One and Two, for a declaration that the City has violated Arizona Water Company's constitutionally-protected property and substantive and procedural due process rights, for injunctive relief barring the City, and its agents, officers, attorneys, council members, staff, employees, servants and anyone else acting in concert with or on behalf of the City, from delivering effluent water or providing other water utility service to Reliant Energy and/or any other entity within Arizona Water Company's Casa Grande CCN Area, or from entering into contracts or agreements providing for such service or delivery, or from interfering with Arizona Water Company's contracts, negotiations, and relationships with its customers and suppliers, and for Arizona Water Company's damages for the City's wrongful conduct in violation of those rights, in an amount to be determined at trial.

B. As to Count Three, for a judgment declaring that the City's entering into a contract to provide, or for the provision of water utility service, including delivery of effluent water or other water to Reliant Energy and/or any other entity within Arizona Water Company's Casa Grande CCN Area, is illegal.

C. As to Count Four, for an injunction barring the City, and its agents, officers, attorneys, council members, staff, employees, servants and anyone else acting in concert with or on behalf of the City, from delivering effluent water or providing other water utility service to Reliant Energy and/or any other entity within Arizona Water Company's Casa Grande CCN Area, or from entering into contracts or agreements providing for such service or delivery, and for Arizona Water Company's damages for the City's intentional interference with its contracts, business expectancies and prospective advantage, in an amount to be determined at trial.

D. As to Count Five, for a temporary restraining order, with notice, and, as appropriate, a preliminary injunction and permanent injunction, restraining and enjoining the City, and its agents, officers, attorneys, council members, staff, employees,

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servants and anyone else acting in concert with or on behalf of the City, from delivering effluent water or furnishing other water utility service to Reliant Energy and/or any other entity within Arizona Water Company's Casa Grande CCN Area, from interfering with Arizona Water Company's current and prospective contractual relations with Reliant Energy, Ross Abbott, Frito-Lay, and any other prospective customers, or from entering into contracts or agreements providing for such service or delivery.

E. As to Court Six, for just compensation for the taking and damaging of Arizona Water Company's public utility plant and property, business operations and CCN rights by the City, in an amount to be proven at trial.

F. For Arizona Water Company's attorney fees, litigation expenses, and costs of suit under 42 U.S.C. § 1988, A.R.S. § 12-348, and any other applicable law.

G. For any other relief as the Court deems just and proper under the circumstances.

DATED this 19th day of December, 2000.

BRYAN CAVE LLP

By _____

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Rodney W. Ott, # 016686
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Attorneys for Plaintiff Arizona Water Company

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VERIFICATION

STATE OF ARIZONA)
) ss.
County of Maricopa)

I, William M. Garfield, being first duly sworn, upon his oath, deposes and says:

1. I am the Vice President of Operations for Plaintiff, Arizona Water Company.

2. The factual allegations set forth in the foregoing Complaint are true and accurate to the best of my knowledge, information and belief.

DATED this 19th day of December, 2000.

William M. Garfield

William M. Garfield

SUBSCRIBED AND SWORN TO before me this 19th day of December, 2000.

Cathy A. Tardy

Notary Public

My Commission Expires:

OFFICIAL SEAL
CATHY A. TARDY
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Aug. 25, 2002

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Citation
836 P.2d 389
128 P.U.R.4th 95, Util. L. Rep. P 26,136
(Cite as: 172 Ariz. 176, 836 P.2d 389)

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Rank 1 of 1

Database
AZ-CS

Court of Appeals of Arizona,
Division 2, Department B.
ARIZONA WATER COMPANY, an Arizona corporation, Plaintiff/Appellant,
v.
CITY OF BISBEE, Defendant/Appellee.
No. 2 CA-CV 91-0027.
Oct. 24, 1991.
Review Denied Sept. 22, 1992.

Water utility brought action against city to challenge city's delivery of sewage effluent for copper leaching. The Superior Court, Cochise County, Cause No. CV89-00229, Matthew W. Borowiec, J., ruled in favor of city. Utility appealed. The Court of Appeals, Fernandez, J., held that: (1) sewage treatment plant's effluent delivered by city for use in copper leaching was not same as "water" provided by water utility for its service area, and, thus, city was not illegally competing with utility, and (2) city's delivery of effluent did not take utility's property without just compensation.

Affirmed.

West Headnotes

EXHIBIT
R-12
admitted

[1]

405 Waters and Water Courses
405IX Public Water Supply
405IX(A) Domestic and Municipal Purposes
405k202 k. Regulations of Supply and Use.

Sewage treatment plant's effluent delivered by city for use in copper leaching was not same as "water" provided by water utility for its service area, and, thus, city was not illegally competing with utility. A.R.S. §§ 9-515, 9-516, 36-601, subd. A, par. 14, 40-201, subds. 8, 15, 45-101, subds. 4, 6, 45-402, subd. 6, 48-701 to 48-724, 48-2001 to 48-2085, 49-141, subd. 7, 49- 241; Federal Water Pollution Control Act Amendments of 1972 (Clean Water Act), §§ 301, 302, 307, 402, as amended, 33 U.S.C.A. §§ 1311, 1312, 1317, 1342.

[2]

148 Eminent Domain
148I Nature, Extent, and Delegation of Power
148k2 What Constitutes a Taking; Police and Other Powers Distinguished
148k2(1) In General; Interference with Property Rights
148k2(10) k. Relating to Waters or Water Courses.

City's delivery of sewage treatment plant effluent for copper leaching did not take water utility's property without payment of just compensation; utility did not own the water. U.S.C.A. Const.Amend. 5.
****389 *176** Fennemore Craig by Timothy Berg and Janice Procter- Murphy, Phoenix, for plaintiff/appellant.

Mesch, Clark & Rothschild, P.C. by Tom R. Clark, Scott H. Gan and Craig Cameron, Tucson, for defendant/appellee.

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Shelley, Bethea & Tolman by J. LaMar Shelley, Mesa, for amicus curiae League of Arizona Cities and Towns.

OPINION

FERNANDEZ, Judge.

This case involves the right of appellee City of Bisbee to deliver sewage effluent from its sewage treatment plant to the Phelps Dodge Corporation (PD) for use in PD's copper leaching operation. Appellant Arizona Water Company, which holds a certificate of convenience and necessity to provide water service in the same area, contends that the city has no right to deliver the effluent. The trial court ruled in favor of the city, and we affirm.

The city processes sewage through its Mule Gulch Wastewater Treatment Facility, which is located within Arizona Water's **390 *177 service area. In 1986, after the United States Environmental Protection Agency notified the city that the discharge from the facility did not meet federal requirements, the city contracted with PD to deliver 100,000 to 300,000 gallons of sewage effluent per day to the PD leaching operation. In return, PD leased two pumps and a pipeline to the city for transporting the effluent from the treatment facility to the leaching operation. The effluent contains pathogenic bacteria, fecal coliform bacteria, and metals such as arsenic and cadmium. It is not fit either for irrigation purposes or for human consumption.

When Arizona Water learned of the city's effluent delivery, it demanded that the city cease "providing water service" within Arizona Water's service area. After the city refused, Arizona Water filed suit seeking a declaratory judgment, injunctive relief, and damages for inverse condemnation. It then moved for partial summary judgment. At the hearing, the city made an oral motion for summary judgment, which the trial court later granted.

Arizona Water contends on appeal that the city's delivery of water within Arizona Water's certificated area constitutes a competing service in violation of A.R.S. §§ 9-515 and 9-516. As a result, Arizona Water contends that the city has taken its property without just compensation. Because the parties do not dispute the facts of this case, we examine the trial court's ruling on the legal issues and can substitute our own ruling if necessary. Tovrea Land & Cattle Co. v. Linsenmeyer, 100 Ariz. 107, 412 P.2d 47 (1966); Fountain Hills Civic Association v. City of Scottsdale, 152 Ariz. 569, 733 P.2d 1152 (App.1986).

Arizona Water derives its authority to provide water service pursuant to its certificate of convenience and necessity from the Arizona Constitution.

> All corporations other than muncipal engaged in furnishing gas, oil, or electricity for light, fuel, or power; or in furnishing water for irrigation, fire protection, or other public purposes; ... or engaged in collecting, transporting, treating, purifying and disposing of sewage through a system, for profit; ... shall be deemed public service corporations.

Ariz. Const. art. 15, § 2. That provision does not directly address the issue before us, but we note that it distinguishes between public service corporations furnishing water and those "collecting, ... treating, ... and disposing of sewage." (Emphasis added.)

[1] Arizona Water argues that the city's delivery of effluent from its sewage treatment facility renders it a competitor of Arizona Water in violation of the statutes. A.R.S. § 9-515 provides, in pertinent part, as follows:

> A. When a municipal corporation and the residents thereof are being served under an existing franchise by a public utility, the municipal corporation, before constructing, purchasing, acquiring or leasing, in whole or in part, a plant or property engaged in the business of supplying services rendered by such public utility, shall first purchase and take over the property and plant of the public utility.

A.R.S. § 9-516 provides in part:

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A. It is declared as the public policy of the state that when adequate public utility service under authority of law is being rendered in an area, within or without the boundaries of a city or town, a competing service and installation shall not be authorized, instituted, made or carried on by a city or town unless or until that portion of the plant, system and business of the utility used and useful in rendering such service in the area in which the city or town seeks to serve, has been acquired.

Citing those statutes and the cases of City of Mesa v. Salt River Project Agricultural Improvement & Power District, 92 Ariz. 91, 373 P.2d 722 (1962), and Sende Vista Water Co. v. City of Phoenix, 127 Ariz. 42, 617 P.2d 1158 (App.1980), Arizona Water claims that the city owes it damages for inversely condemning its equipment and facilities by distributing effluent to PD's copper leaching operation. That claim requires us to analyze the nature of effluent.

**391 *178 As Arizona Water notes, the only statutory definition of effluent appears in the Arizona Groundwater Code. A.R.S. § 45-402(6) states that effluent "means water which, after being withdrawn as groundwater or diverted as surface water, has been used for domestic, municipal or industrial purposes and which is available for reuse for any purpose, whether or not the water has been treated to improve its quality." That definition is separate from the definitions of both groundwater and surface water. A.R.S. § 45- 101(4) and (6). The public service corporation statutes also define "sewerage system" separately from "water system." A.R.S. § 40-201(8) and (15). Effluent cannot be used for fertilization or irrigation without the specific approval of the department of health services or the department of environmental quality; without that approval, it constitutes a public and environmental nuisance. A.R.S. §§ 36-601(A)(14); 49-141(7). In addition, state and federal laws govern the discharge of effluent from sewage treatment facilities. See, e.g., A.R.S. § 49-241 and 33 U.S.C. §§ 1311, 1312, 1317, and 1342. We also note that laws governing effluent disposal are found in the statutes on community facilities districts, A.R.S. §§ 48-701 through 48-724, and on sanitary districts, A.R.S. §§ 48-2001 through 48-2085.

The case of Arizona Public Service Co. v. Long, 160 Ariz. 429, 773 P.2d 988 (1989), is the only Arizona decision that discusses a city's power to dispose of effluent. In Long, downstream property owners challenged the validity of contracts entered into between a group of cities and a group of public utilities for the sale of sewage effluent for use in the utilities' nuclear power plant, arguing that the contracts deprived them of their appropriative water rights because the cities were no longer discharging the effluent into the stream. The court analyzed the nature of effluent as follows:

Until such time as it is returned to the ground as either groundwater or surface water, it is nothing more than sewage effluent, which was described in City of Phoenix v. Long, [158 Ariz. 59, 63, 761 P.2d 133, 137 (App.1988),] as 'a noxious by-product of the treatment of sewage which the cities must dispose of without endangering the public health and without violating any federal or state pollution laws.'

Id. 160 Ariz. at 434, 773 P.2d at 993. It then concluded as follows:

In summary, we hold that the effluent in question is neither groundwater nor surface water. Whether diverted by appropriation or withdrawn from the ground, after use by the municipalities the water loses its original character as groundwater or surface water and becomes, instead, just what the statute describes--effluent. See A.R.S. § 45-402(6). The Cities' expenditure of tens if not hundreds of millions of dollars for sewer lines, purification plants and equipment does not transform the water and change it back into groundwater or surface water. It remains effluent.

Neither the statutes dealing with groundwater nor those dealing with appropriation of surface water control or regulate the Cities' use or disposition of effluent. Thus, the Cities are free to contract for the disposition of that effluent and the utilities, having purchased the right to use the effluent, may continue to use it.

Id. at 438, 773 P.2d at 997.

Arizona Water points to the language in Long that "while effluent is neither groundwater nor surface water, it is certainly water." Id. That language is part of a paragraph inviting the legislature to regulate the use and

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disposition of effluent; it does not alter the court's conclusion that the cities in that case were free to contract for the disposition of the effluent.

Because effluent is not the same as the water that Arizona Water provides to its service area, we find no merit to Arizona Water's contention that the city is illegally competing with it.

[2] Arizona Water also contends that the city's delivery of effluent constitutes a taking of Arizona Water's property without the payment of just compensation. We disagree. As the court found in Long:

> **392 *179 We do not agree with the contention of the Cities and Utilities that the Cities own the sewage effluent. In Arizona, being a desert state, water is a precious commodity. One does not own water in Arizona. One only has the right to put it to beneficial use. This applies to both surface water, see A.R.S. § 45-151(A) and (B), and groundwater.

Id. at 436, 773 P.2d at 995.

Finally, Arizona Water contends that the trial court's ruling contravenes the established public policy in favor of granting regulated monopolies to public service corporations, citing A.R.S. §§ 9-515 and 9-516 and Corporation Commission v. Peoples Freight Line, 41 Ariz. 158, 16 P.2d 420 (1932). We have already concluded, however, that the city is not competing with Arizona Water.

The problem involved here is not a new one. As the Wyoming Supreme Court observed many years ago,

> [i]t is well known that the disposition of sewage is one of the important problems that embarrass[es] municipalities. In order to dispose of it without injury to others, a city may often be confronted with the necessity of choosing between several different plans, and in the selection of the plan to be followed we think it should be permitted to exercise a wide discretion. In determining how it will make a proper disposition of that which may be termed a potential nuisance, we think the city should not be hampered by a rule that would always require the sewage to be treated as waste or surplus waters. Sewage is something which the city has on its hands, and which must be disposed of in such a way that it will not cause damage to others. It would often be considered the height of efficiency if it could be disposed of in some other manner than by discharging it into a stream. Even in this state, where the conservation of water for irrigation is so important, we would not care to hold that in disposing of sewage the city could not adopt some means that would completely consume it.

Wyoming Hereford Ranch v. Hammond Packing Co., 33 Wyo. 14, 22, 236 P. 764, 772 (1925).

The effluent that the city is delivering to PD is not usable for drinking water, irrigation, or fire protection purposes. It is usable for nothing other than PD's leaching operation. It is not produced through Arizona Water's service facilities; it is produced through the city's sewage treatment facility, and PD supplies the pipeline and pumps to transport the effluent to its leaching operation.

Arizona Water insists that it stands ready, willing, and able to supply whatever water PD requires for its leaching operation. The water it could supply, however, would be water that could otherwise be used for drinking water, fire protection, and irrigation. "It is, and has ever been, the policy of this state to make the largest possible use of the comparatively limited quantity of water within its boundaries." Pima Farms Co. v. Proctor, 30 Ariz. 96, 102, 245 P. 369, 371 (1926). It would contradict the water conservation policies of this state to use such water for a leaching operation when the city's effluent, which is not otherwise usable, already serves that purpose admirably.

Therefore, we conclude that the trial court correctly granted the city's motion for summary judgment. Its request for attorney's fees on appeal is denied.

Affirmed.

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SUPERIOR COURT OF ARIZONA
MARICOPA COUNTY

*** FILED ***
04/01/2002

03/27/2002

CLERK OF THE COURT
FORM V000A

HONORABLE REBECCA A. ALBRECHT

L. Falkenburg
Deputy

CV 2000-022448

FILED: _____

ARIZONA WATER COMPANY

STEVEN A HIRSCH

v.

CITY OF CASA GRANDE

ELLEN M VAN RIPER

WILLIAM H ANGER

EXHIBIT
R-13
admitted

MINUTE ENTRY

The parties' cross motions for summary judgment have been under advisement. The parties agree that there are no contested issues of fact that preclude judgment.

In 1955, the Arizona Corporation Commission granted Arizona Water Company (AWC) a Certificate of Convenience and Necessity (CCN). The scope of that CCN is the basis for the disagreement between these parties.

AWC asserts that it is the only lawful provider of any water needs for any user, in the area covered by its CCN. The City of Casa Grande asserts that the CCN does not include the provision of effluent.

Arizona has long recognized that there is a difference between 'water' and 'effluent.' In explaining what is a public service corporation, the Arizona Constitution sets out a number of different activities and specifically lists 'furnishing

water' and 'collecting, transporting, treating, purifying and disposing of sewage.'

> All corporations other than municipal engaged in furnishing gas, oil, or electricity for light, fuel, or power; or in furnishing water for irrigation, fire protection, or other public purposes; or in furnishing, for profit, hot or cold air or steam for heating or cooling purposes; or engaged in collecting, transporting, treating, purifying and disposing of sewage through a system, for profit; or in transmitting messages or furnishing public telegraph or telephone service, and all corporations other than municipal, operating as common carriers, shall be deemed public service corporations. Ariz. Const. Art. 15, §2.

The definitional section of Title 45, Waters, of the Arizona Revised Statutes, defines effluent and at least three other types of 'water.'

> 4. "Effluent" means water that has been collected in a sanitary sewer for subsequent treatment in a facility that is regulated pursuant to Title 49, Chapter 2. Such water remains effluent until it acquires the characteristics of groundwater or surface water.
> 5. "Groundwater" means water under the surface of the earth regardless of the geologic structure in which it is standing or moving. Groundwater does not include water flowing in underground streams with ascertainable beds and banks.
> 7. "Riparian area" means a geographically delineated area with distinct resource values, that is characterized by deep-rooted

> plant species that depend on having roots in the water table or its capillary zone and that occurs within or adjacent to a natural perennial or intermittent stream channel or within or adjacent to a lake, pond or marsh bed maintained primarily by natural water sources. Riparian area does not include areas in or adjacent to ephemeral stream channels, artificially created stockponds, man-made storage reservoirs constructed primarily for conservation or regulatory storage, municipal and industrial ponds or man-made water transportation, distribution, off-stream storage and collection systems.
> 9. "Surface water" means the waters of all sources, flowing in streams, canyons, ravines or other natural channels, or in definite underground channels, whether perennial or intermittent, floodwater, wastewater or surplus water, and of lakes, ponds and springs on the surface. For the purposes of administering this title, surface water is deemed to include central Arizona project water.

Although the procedural history is somewhat different, essentially the same issues presented in this case were presented to the Arizona Court of Appeals in *Arizona Water Company v City of Bisbee*, 172 Ariz. 172, 836 P.2d 389 (1991). In this case, the City of Casa Grande seeks to provide effluent to Reliant Energy from its sewage treatment plant. Arizona Water Company holds the CCN for water service in the same area and contends that the city has no right to deliver the effluent. In *Bisbee*, the City of Bisbee sought to provide effluent to the Phelps Dodge mine. The Court of Appeals, in *Bisbee*, found that the effluent was not water as the term was used in the CCN and therefore the provision of effluent was not a violation of the

Arizona Water Company's exclusive right to provide water to the users within the area of the CCN.

The Court in *Bisbee* cited *Arizona Public Service v Long*, 160 Ariz. 429, 773 P.2d 988 (1989) at 993:

> In summary, we hold that the effluent in question is neither groundwater nor surface water. Whether diverted by appropriation or withdrawn from the ground, after use by the municipalities the water loses its original character as groundwater or surface water and becomes, instead, just what the statute describes -- effluent. See A.R.S. § 45-402(6). The Cities' expenditure of tens if not hundreds of millions of dollars for sewer lines, purification plants and equipment does not transform the water and change it back into groundwater or surface water. It remains effluent.
>
> Neither the statutes dealing with groundwater nor those dealing with appropriation of surface water control or regulate the Cities' use or disposition of effluent. Thus, the Cities are free to contract for the disposition of that effluent and the utilities, having purchased the right to use the effluent, may continue to use it.

This state has been clear that the provision of water and the cleaning up, and disposal of effluent are two different things. The State has two very different responsibilities one is the provision of water to the citizens of the state; the other is to gather, clean up and dispose of sewage. Cleaning effluent does not convert it to groundwater or to surface water. The definitions now make clear that effluent remains effluent

UNTIL it 'acquires the characteristics of groundwater or surface water.' (It is not contended by either party that this effluent is now ground or surface water.) Water in the context of the CCN, the statutes and constitution is a legal term of art. It is different from effluent. The definitions in Title 45 make clear that the legislature intends that effluent is different and will be treated differently than groundwater and surface water.

The *Bisbee* court and the *Long* court both made clear that a city's provision of effluent to a user in the area covered by a CCN for water use is not a competing service.

By the terms of the CCN, AWC has the exclusive right to provide water to the users in the area covered by the CCN. Water as the term is used in the CCN does not include effluent water.

IT IS ORDERED granting the Defendant City of Casa Grande's Motion for Summary Judgment.

IT IS FURTHER ORDERED denying the Plaintiff Arizona Water Company's Cross Motion for Summary Judgment.

FILED
8-15-02 8:30 AM
MICHAEL K. JEANES, Clerk
By L Falkenburg
Deputy

COPY

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Attorneys for Defendant City of Casa Grande

IN THE SUPERIOR COURT OF THE STATE OF ARIZONA
IN AND FOR THE COUNTY OF MARICOPA

ARIZONA WATER COMPANY, an Arizona corporation, Plaintiff, vs. CITY OF CASA GRANDE, a municipal corporation of the State of Arizona, Defendant.	No. ~~CIV 00-0354-PHX-ROS~~ CV2000-022448 **JUDGMENT** (Assigned to Hon. Rebecca A. Albrecht)

This matter having been presented to the Court on defendant City of Casa Grande Motion for Summary Judgment and plaintiff Arizona Water Company's Cross-Motion fo Summary Judgment, the Court having considered the pleadings and other documents file by the parties with respect to defendant's Motion for Summary Judgment and plaintiff Cross-Motion for Summary Judgment, having heard arguments of counsel for the parti on February 22, 2002, having reviewed the entire record of the proceedings in th matter, and being fully advised in the premises,

THE COURT FINDS, for the reasons stated in its minute entry dated March 2' 2002, that there is no genuine issue of material fact and Defendant City of Casa Granc

is entitled to judgment as a matter of law against Plaintiff Arizona Water Company. The Court further finds that there is no just reason to delay entering summary judgment as a final judgment herein.

Based upon the foregoing findings, and good cause appearing therefore;

IT IS HEREBY ORDERED, ADJUDGED AND DECREED AS FOLLOWS:

A. Defendant's Motion for Summary Judgment is granted in its entirety and Plaintiff's Cross Motion for Summary Judgment is denied in its entirety;

B. Plaintiff's complaint and each count thereof is dismissed with prejudice;

~~C. Defendant is awarded its attorneys' fees against Plaintiff in the sum of _____, together with interest on such amount at the full legal rate from the date of entry of judgment until paid.~~ RAA

D. The Court, having found that there is no just reason for delay, expressly directs that this Judgment be entered at this time as a final Judgment.

DONE IN OPEN COURT this 14 day of AUGUST 2002.

REBECCA A. ALBRECHT

Hon. Rebecca A. Albrecht
Maricopa County Superior Court

ULRICH & ANGER, P.C.
LAW OFFICES
3707 North Seventh Street, Suite 250
Phoenix, Arizona 85014-5057
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NEW APPLICATION

Carl J. Kunasek
Chairman
Jim Irvin
Commissioner
William A. Mundell
Commissioner

EXHIBIT
R-14
admitted

2000 MAY 10 P 2:48

AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE FILING BY ARIZONA WATER COMPANY OF PROPOSED TARIFF NO. TE-264, TREATED EFFLUENT SERVICE	W-01445A-00-0319 CERTIFICATE OF FILING OF PROPOSED TARIFF TE-264

Arizona Water Company, an Arizona public service corporation, (the "Company") pursuant to the provisions of A.R.S. §40-367, tenders for filing with the Commission its proposed Tariff No. TE-264, Treated Effluent Service.

By way of background, the Company first instituted a reclaimed water service tariff on January 1, 1990. Service under Tariff No. RW-256 is limited to the Apache Junction system, and is subject to the terms and conditions of a certain Reclaimed Water Service Agreement, all as set forth in said tariff.

The Company is now proposing to expand the availability of Treated Effluent Service to all of its service areas where the owner of a local wastewater collection and treatment facility has entered into an agreement to sell Treated Effluent to the Company for resale to the customer requesting service under proposed Tariff No. TE-264. Service under proposed Tariff No. TE-264 will also be beneficial to the Company in promoting conservation of other types of water.

The monthly bill under proposed Tariff No. TE-264 will include a meter charge similar to the meter charge approved by the Commission for service under Tariff No. RW-256, a commodity charge, and, where applicable based on the specific requirements of each customer, a power, maintenance, and depreciation charge. Various other conditions for service under proposed Tariff No. TE-264 are listed in the proposed tariff.

The Company respectfully submits that proposed Tariff No. TE-264 is in the public interest, and requests that proposed Tariff No. 264 be approved to become effective thirty (30) days following the date of this filing.

BRYAN CAVE LLP, #00145700
Steven A. Hirsch, #006360
Rodney W. Ott, #016686
Two N. Central Avenue, Suite 2200
Phoenix, AZ 85004-4406
Telephone: (602) 364-7000
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Attorneys for Plaintiff Arizona Water Company

COPY
SEP 4 2002
MICHAEL K. JEANES, CLERK
E. LEE
DEPUTY CLERK

IN THE SUPERIOR COURT FOR THE STATE OF ARIZONA
IN AND FOR THE COUNTY OF MARICOPA

ARIZONA WATER COMPANY, an Arizona corporation, Plaintiff, vs. CITY OF CASA GRANDE, a municipal corporation of the State of Arizona, Defendant.	Case No. CV 2000-022448 **NOTICE OF APPEAL**

Notice is hereby given that the above named Plaintiff, Arizona Water Company, appeals to the Court of Appeals of the State of Arizona from the judgment entered in this action on 15th day of August, 2002.

DATED this 4th day of September, 2002.

BRYAN CAVE LLP

By _____
Steven A. Hirsch, #006360
Rodney W. Ott, #016686
Two N. Central Avenue, Suite 2200
Phoenix, AZ 85004-4406
Attorneys for Plaintiff Arizona Water Company

. . .

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
PHOENIX, ARIZONA 85004-4406
(602) 364-7000

COPY of the foregoing hand-delivered this 4th day of September, 2002, to:

Honorable Rebecca A. Albrecht
Maricopa County Superior Court
101 W. Jefferson, #411
Phoenix, AZ 85003-2243

COPY of the foregoing mailed this 4th day of September, 2002, to:

Thomas I. Irvine, #006365
Ellen Van Riper, #011751
Irvine Van Riper, P.A.
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Phoenix, AZ 85004

and

William H. Anger, #007333
Ulrich & Anger, P.C.
3707 N. 7th Street, Suite 250
Phoenix, AZ 85014-5059
Attorneys for Defendant
City of Casa Grande

By _____

BRYAN CAVE LLP
TWO NORTH CENTRAL AVENUE, SUITE 2200
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(602) 364-7000

Copies of proposed Tariff No. TE-264 will be open to public inspection at the Company's offices during regular business hours upon the filing of this certificate.

IT IS HEREBY CERTIFIED that on May 10, 2000, Arizona Water Company tendered for filing in the Commission's Docket Control Division an original and ten (10) copies of its proposed Tariff No. TE-264 showing an effective date of thirty (30) days after the date of initial filing with the Commission, all in accordance with A.R.S. §40-367.

ARTIZONA WATER COMPANY
an Arizona corporation

James R. Livingston
President

STATE OF ARIZONA)
) ss.
County of Maricopa)

Subscribed and sworn to before me this 10th day May 2000

Mary C. Mure
Notary Public

My Commission expires:
9-24-02

MARY C. MURE
Notary Public - Arizona
MARICOPA COUNTY
My Commission Expires
SEPTEMBER 24, 2002

WATER RATES

ARIZONA WATER COMPANY		A.C.C. No.	444
Phoenix, Arizona		Canceling A.C.C.No.	None
Filed by:	James R. Livingston	Tariff or Schedule No.	TE-264
Title:	President	Filed:	May 10, 2000
Date of Original Filing:	May 10, 2000	Effective:	June 9, 2000
System:	**All Service Areas**		

TREATED EFFLUENT SERVICE

AVAILABILITY:

To customers in all service areas where the owner of a local wastewater collection and treatment facility has entered into an agreement to sell Treated Effluent to the Company for resale to the customer requesting service under this tariff. The Company will supply only such quantities of Treated Effluent, at such pressure, as may be available from time to time from the local wastewater collection and treatment facility.

SUITABILITY:

It is the customer's responsibility to determine the initial and continuing suitability of the Treated Effluent delivered under this tariff for the customer's use. The Company does not treat, test or monitor the quality of Treated Effluent delivered under this tariff and furnishes it to customers strictly on an "as received" basis from the local wastewater collection and treatment facility. The customer agrees to accept Treated Effluent "as received." Compliance with any requirement of the Arizona Department of Environment Quality, or any other agency having jurisdiction, concerning the use of Treated Effluent shall be the sole responsibility of the customer. The Company will not be liable for, and the customer will hold harmless, indemnify and defend the Company against any claim, violation, cost, or loss of any kind, including without limitation injuries or damages arising from its service of Treated Effluent to the customer.

FACILITIES:

The customer will pay to the Company, as a contribution not subject to refund, the total cost, including any related gross-up income tax on the contribution, of the facilities needed to deliver Treated Effluent to the customer. Such facilities will be owned by the Company and sized based upon the customer's estimate of the maximum quantity of Treated Effluent the customer intends to use during any calendar year ("Treated Effluent Demand").

MONTHLY BILL:

The monthly billing will consist of the following components:

1. A meter charge based on the applicable monthly minimum charge by meter size as set forth in The General Service tariff schedule for the service area. The meter charge does not include any quantity of Treated Effluent.

2. A commodity charge designed to pass on all costs of acquiring and transporting the Treated Effluent delivered to the customer and billed to the Company for the preceding month's service plus one percent (1%) of such costs to cover the Company's administrative and handling costs.

3. A power, maintenance, and depreciation charge may be applicable based on the specific facility requirements of each customer.

A. The power component will be the direct and separately metered cost of the power billed to the Company during the previous month for pumping Treated Effluent delivered to the customer, plus one percent (1%) of the power cost to cover the Company's administrative and handling costs. If multiple customers are being served by common facilities, the power component will be prorated based on the quantity of Treated Effluent actually delivered during the month to each customer or by an acceptable agreement among the multiple customers for allocating power costs.

B. The maintenance component will be the actual costs of maintaining the facilities needed to deliver Treated Effluent to the customer, plus a ten percent (10%) charge for overheads. If multiple customers are being served by common facilities, the maintenance component will be prorated based on each customer's Treated Effluent Demand.

C. The depreciation component will be 1/12th of the product of the Company's book depreciation rate, as authorized by the Arizona Corporation Commission, times the original cost of the facilities needed to deliver Treated Effluent to the customer. If multiple customers are being served by common facilities, the depreciation component will be prorated based on each customer's Treated Effluent Demand.

Late Charge:

Any payment not received within fifteen (15) days from the postmark date of the bill will be delinquent and subject to a late charge of one and one-half percent (1-½%) per month.

Adjustment:

An adjustment for state and local taxes, which will be the applicable proportionate part of any tax or government imposition which is, or in the future may be, assessed on the basis of the gross revenues of the Company and/or the revenue from the Treated Effluent or service sold and/or the volume of Treated Effluent pumped or purchased for sale and/or sold hereunder. In the event of any increase or decrease in taxes or other governmental impositions, rates shall be adjusted to reflect such increase or decrease.

TERMS AND CONDITIONS:

Subject to the Company's Tariff Schedule TC-243.

ORIGINAL

MEMORANDUM

RECEIVED
AZ CORP COMMISSION

AUG 8 2 02 PM '00

DOCUMENT CONTROL

Arizona Corporation Commission
DOCKETED
AUG 08 2000
DOCKETED BY

EXHIBIT
R-15
admitted

TO: Docket Control

FROM: Deborah R. Scott
Director
Utilities Division

DATE: August 8, 2000

RE: STAFF REPORT FOR ARIZONA WATER COMPANY IN THE MATTER OF THE FILING OF PROPOSED TARIFF NO. TE-264, TREATED EFFLUENT SERVICE (DOCKET NO. W-01445A-00-0319)

Attached is the Staff Report for Arizona Water Company's application for Proposed Tariff No. TE-264, Treated Effluent Service. Staff recommends denial of the rates and charges, subject to Commission approval. Staff further recommends that a hearing not be held in this matter.

DRS:SSA/smm

Originator: Sonn S Ahlbrecht

Attachment: Original and Eleven Copies

STAFF REPORT

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-00-0319

APPLICATION
FOR
PROPOSED TARIFF NO. TE-264
TREATED EFFLUENT SERVICE

AUGUST 2000

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STAFF ACKNOWLEDGMENT

The Staff Report for Arizona Water Company, Docket No. W-01445A-00-0319, was the responsibility of Sonn S. Ahlbrecht. She was responsible for the review and analysis of the Company's application for Proposed Tariff TE-264, and well as its impact on the Company's revenues and expenses.

Sonn S. Ahlbrecht, CPA
Rate Analyst II

INTRODUCTION AND BACKGROUND

Arizona Water Company ("Arizona Water" or "Company") filed Tariff No. TE-264 ("Proposed Tariff"), on May 10, 2000. The Proposed Tariff requests a monthly minimum charge based on meter size, and a commodity charge set at the cost to purchase effluent from a supplier, plus one-percent (1%) of that amount for administrative and handling costs. Additionally, other assessments such as power, maintenance, and depreciation charges "may be applicable based on the specific facility requirements of each customer". The Proposed Tariff also reflects these charges as cost plus a markup for administrative and handling costs expressed as percentages.

The Proposed Tariff will apply to all eighteen (18) of Arizona Water's service areas, with the exception of Apache Junction. The Apache Junction service area currently has Tariff No. RW-256 in place, and the Proposed Tariff will not apply to customers receiving effluent under that tariff.

Since the current filing has occurred outside a formal rate proceeding, the Proposed Tariff cannot impact the Company's authorized rate of return. As a result, any increase in revenue that results from the Proposed Tariff must be offset by matching expenses so as not to effect this rate of return. Arizona Water contends this tariff will not impact the rate of return related to their potable water division, and will recover costs only.

CITY OF CASA GRANDE INTERVENTION

On June 1, 2000, the City of Case Grande ("Casa Grande" or "City") requested intervention in this Docket, representing the citizens of Casa Grande, as well themselves as a customer of Arizona Water. Also on June 1, 2000, the City filed an Objection to Proposed Tariff TE-264, stating Arizona Water is attempting to gain control of, and receive revenue from, the sale of any effluent within its Casa Grande certificated water service territory.

Additionally, the City filed a Complaint on June 5, 2000, against Arizona Water asserting that Arizona Water's Certificate of Convenience & Necessity ("CC&N") does not apply to effluent sales. Casa Grande also contends that the Company does not produce effluent, and therefore, Arizona Water may have to substitute groundwater or CAP water if they are unable to obtain a sufficient amount of effluent from other sources to meet the demand.

On June 19, 2000, Arizona Water filed a response to Casa Grande's request for intervention stating that they are not opposed to the City being granted intervention, but denied the factual and legal allegations contained within the City's Motion to Intervene. On June 23, 2000, the Hearing Division of the Commission granted intervention to Casa Grande.

Arizona Water filed its response to the City's Objection to the Proposed Tariff on July 14, 2000. Within that filing, the Company stated, "The CCN vests Arizona Water Company with the exclusive right to provide water service within the geographical areas described in the CCN. The CCN includes the right to provide all water service, including treated effluent." Staff disagrees that a water CC&N grants an entity holding that CC&N an exclusive right to sell a product they cannot produce, (i.e. effluent). The Commission does not have the authority to regulate many effluent-producing entities, and as a result, cannot compel them to contract with Arizona Water.

The dispute between Casa Grande and Arizona Water is based upon which entity has the right to sell effluent produced by the City at its sewage treatment plant. Arizona Water contends that they have exclusive rights to sell all water within their certificated area, including effluent. The City maintains that they have the right to dispose of their effluent in a manner consistent with the public interest.

This ongoing dispute between these two parties has resulted in a lawsuit being filed in the United States District Court for the District of Arizona. Arizona Water filed a Memorandum in Support of Injunctive Relief against the City on March 24, 2000, to prevent Casa Grande from entering into a contract with Reliant Energy ("Reliant") to provide Reliant with effluent for its cooling operations from the City's sewage treatment plant.

TARIFF NO. RW-256

Arizona Water Company currently has one reclaimed water service tariff in effect. Tariff No. RW-256 was approved by the Commission in Decision No. 56751, and became effective January 1, 1990. This tariff is the direct result of a three-way agreement between Gold Canyon Sewer Company ("Gold Canyon"), Superstition Mountain Investment, Ltd. ("Superstition Mountain"), and Arizona Water as authorized in Decision No. 56631, and applies only to the Apache Junction water system.

The Commission approved Gold Canyon's application for a CC&N to provide sewerage service and sell reclaimed non-potable water on September 14, 1989, in Decision 56631. Arizona Water was granted intervention in that proceeding on January 6, 1989, and objected to Gold Canyon selling non-potable water, or effluent, to Superstition Mountain for irrigation on a golf course within Arizona Water's certificated area.

The Decision approved a three-way agreement for Arizona Water to purchase effluent from Gold Canyon and resell it to Superstition Mountain at cost, plus an applicable monthly minimum charge. As a result of the agreement approved by Decision No. 56631, Arizona Water filed Tariff No. RW-256 on December 1, 1989. The Commission subsequently approved that tariff on December 20, 1989 in Decision No. 56751, and as mentioned previously, applies only to the Apache Junction service area.

ANALYSIS

There are several major differences between Tariff No. RW-256 and Proposed Tariff No. TE-264. Tariff No. RW-256 sets a flat rate of $250 per acre-foot, plus a monthly minimum charge for the appropriate meter size, as well as sales tax. The Proposed Tariff does not contain any specific dollar amounts for a per acre-foot charge. Per response to a Staff data request, Arizona Water anticipates the cost, as well as the price charged per acre-foot, will vary between its service areas. This cost/price variability has precluded the Company from requesting specific rates stated in conclusive dollar amounts, and as a result, the Company has proposed this "blanket" tariff.

The Proposed Tariff also includes several markup charges to recover costs for various administrative and handling functions. These charges are not expressed as conclusive dollar amounts either, but rather as percentages of the Company's direct costs that are not known and measurable at this time. Some of these markup charges include power, maintenance, and depreciation; however, these charges would only be applicable in certain circumstances. Per Company responses to Staff data requests, those charges would only apply if Arizona Water owned the effluent related plant and needed to recover the associated costs. Otherwise, the effluent customer would be independently responsible for those costs. Under the Proposed Tariff each customer could pay varying prices for the same amount of effluent based upon ownership of assets. This scenario hinders Staff's ability to evaluate financial impacts on an ever-changing, hypothetical situation.

Staff does not believe a blanket tariff like the Proposed Tariff is appropriate for Arizona Water's effluent sales. The prices are dynamic, and by the Company's own admission, the amount charged between service areas will vary, as well as the charges that would be applicable for each particular customer. Without dollar figures for substantially all of the items requested in the tariff, Staff cannot adequately evaluate the impact of Proposed Tariff TE-264 on Arizona Water's authorized rate of return.

Staff's evaluation of each individual contract related to Arizona Water's selling of effluent would be the appropriate method to evaluate the impact on the Company's authorized rate of return. Once the Company has entered into a tentative agreement with another party to sell effluent, Staff recommends they submit a tariff specific to that sales agreement only. In this scenario, Staff would be able to evaluate each unique situation.

Proposed Tariff No. TE-264 will apply to all eighteen of Arizona Water's current service areas, with the exception of the existing customers in Apache Junction. Such existing customers will continue to purchase effluent under Tariff No. RW-256. Staff believes such "grandfathering" would constitute discriminatory pricing within the Apache Junction service area, which would not be in the public interest.

STAFF RECOMMENDATIONS

Staff recommends denial of Proposed Tariff TE-264.

Staff further recommends Arizona Water Company submit tariff filings for Commission approval for each proposed effluent sales agreement.

Staff further recommends that Arizona Water Company express any future tariff filings in dollars, rather than as percentages of costs.

Staff further recommends that any effluent sale agreements between Arizona Water and effluent producers submitted to the Commission be negotiated on a voluntary basis.

FORMAL COMPLAINT

Thomas K. Irvine, Bar No. 006365
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AZ CORP COMMISSION
DOCUMENT CONTROL

ARIZONA CORPORATION COMMISSION

W-01445A-00-0391

COMPLAINT

EXHIBIT
R-66
admitted

CITY OF CASA GRANDE, an Arizona Municipal Corporation,

Complainant,

v.

ARIZONA WATER COMPANY, an Arizona Corporation,

Respondent.

The City of Casa Grande ("Casa Grande") for its Complaint against Arizona Water Company ("AWC") alleges:

1. Casa Grande is a municipal corporation located in Pinal County, Arizona. AWC serves water to Casa Grande and its citizens.

2. AWC is a public service corporation, certificated to provide certain public utility service pursuant to tariffs on file with the Arizona Corporation Commission ("the Commission"). On May 10, 2000, AWC filed proposed Tariff TE-264 seeking to serve effluent within its service area, including Casa Grande.

3. The Certificate of Convenience and Necessity granted by the Commission to AWC does not allow it to serve treated effluent within Casa Grande.

4. AWC's entire rate design for Casa Grande must be examined in context of a rate case before it can serve treated effluent, if the Commission were to find that its

Certificate of Convenience and Necessity allows it to serve treated effluent.

5. Upon information of belief, AWC is operating its Casa Grande system in a manner which is now, or shortly will be in violation of the Arizona Department of Water Resources gallons per capita per day requirements. Attached is the September 28, 1999 letter to AWC from the Arizona Department of Water Resources setting forth DWR's concerns.

6. AWC must not be allowed to operate its Casa Grande system without being in full and complete compliance with the Arizona Department of Water Resources requirements and without a comprehensive plan for alternative water supplies for ground water usage pursuant State law and regulations.

7. The actions of AWC set forth above are in violation of its Certificate of Convenience and Necessity and, thus, the Commission must intervene to order the relief requested.

RELIEF REQUESTED

8. Casa Grande respectfully requests that the Commission enter an order declaring that AWC may not serve effluent within the Casa Grande service area.

9. Alternatively, Casa Grande requests that the Commission order that AWC not serve effluent within the Casa Grande service area unless and until AWC's entire rate design for the Casa Grande service area is presented to the Commission in the context of a rate case where all impacts of effluent service can be thoroughly examined and the impact on potable water customers fully mitigated. Further, the Commission should order that AWC not enter into any agreement concerning the provision of treated effluent that would permit or allow the substitution of potable water for effluent in the event that AWC does not have the effluent available to serve its customers.

10. Casa Grande respectfully requests that the Commission investigate AWC's compliance with Arizona Groundwater Law as regulated and enforced by the

Arizona Department of Water Resources and enter any order necessary to compel AWC to fully comply with Arizona laws.

11. Casa Grande further requests that a procedural order be entered setting forth a hearing date on this Complaint and establish in such procedures concerning discovery, listed in witnesses and exhibits and other matters to ensure a full and complete hearing on this complaint.

12. Casa Grande further requests that the Commission order such other relief as may be appropriate under the circumstances of this case.

Dated this 5th day of June, 2000.

IRVINE VAN RIPER, P.A.

Thomas K. Irvine
Ellen M. Van Riper
1419 North Third Street, Suite 100
Phoenix, AZ 85004

Attorneys for the City of Casa Grande

Original and ten copies filed
this 5th day of June, 2000, with
Director of the Utilities Division of
the Arizona Corporation Commission
by filing same with Docket Control.

COPY faxed and mailed this 5th
day of June 2000 to:

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ARIZONA DEPARTMENT OF WATER RESOURCES
1000 East Racine Place, Casa Grande, Arizona 85222
Telephone (520) 836-4857
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JANE DEE HULL
Governor

RITA P. PEARSON
Director

September 28, 1999

Mr. William Garfield
Vice-President - Operations
Arizona Water Company
P.O. Box 29006
Phoenix, Arizona 85038-9006

RE: Administrative Review for Casa Grande Service Area

Dear Mr. Garfield:

The Department has reviewed your letter of September 3, 1999 in which you requested an upward adjustment in the Casa Grande system's final SMP total GPCD requirement to 271 GPCD. For the reasons given below, the Department is not willing to adjust the system's total GPCD requirement as you requested.

You mention in your letter that the Casa Grande system's total GPCD usage rate has or will increase due to service to a new power plant, the Palm Creek RV Park, the R. R. Donnelly printing facility and the Ross Abbott facility. The Total GPCD program, under which the Arizona Water Company's Casa Grande system is regulated, does not allow for an increase in a provider's total GPCD requirement to accommodate disproportionately increasing non-residential uses. There are two alternative municipal conservation programs in the Second Management Plan designed for providers with disproportionately increasing non-residential uses. Those programs are the Non-per Capita Conservation Program and the Alternative Conservation Program. Under both of these programs, a provider's non-residential uses are not subject to GPCD requirements if the provider agrees to limit its total annual groundwater use to a specified amount.

It should be noted that ADWR's proposed increase in the Casa Grande system's final SMP requirement to 247 GPCD is based on 1992 through 1995 water use data, rather than water use data from 1990 through 1998 as stated in your letter. Thus, water use by the R. R. Donnelly facility, which did not close until late 1996, is accounted for in ADWR's proposed GPCD rate. Additionally, while Arizona Water Company claims that NPDES permitting difficulties have made it impossible to flush the lines of the Casa Grande system since 1996, line flushing accomplished prior to 1996 is included in the 247 GPCD rate.

Finally, the Department has addressed the time lag concerning the water use associated with residential growth in two ways: 1) through the implementation of the "component" calculation method in the TMP;

and 2) the TMP's single family exterior model for the Casa Grande service area is based on the water needs of mature plants. Thus, while actual homeowner water use may increase over time, the Arizona Water Company will gain flexibility account credits in the earlier years as new housing is integrated into the system. As currently proposed, the TMP will allow a provider to comply with its TMP total GPCD requirements in the years 2000 and 2001 if the requirements are higher than the provider's final SMP total GPCD requirements.

The 271 final SMP total GPCD requirement proposed by the Arizona Water Company for the Casa Grande system is not acceptable for the above reasons. Additionally, this rate is 10 GPCD higher than any GPCD rate reported for the Casa Grande system between 1985 and 1998. Therefore, ADWR is not willing to adjust the proposed stipulated rate above 247 GPCD as you have requested. I am enclosing another copy of the stipulation sent to on July 20, 1999, which provides for an adjustment to the Casa Grande system's final SMP total GPCD requirement to 247 GPCD. Within thirty days from the date of this letter you may take one of the following actions:

1. Sign and return the stipulation to me. By signing and returning the stipulation, you will agree that the final SMP total GPCD requirement for the Casa Grande system should be adjusted to 247 GPCD. After receiving the signed stipulation, I will forward the stipulation and Order on Review to the Assistant Director and the Director for their signatures.

2. Request a hearing on your application for administrative review of the Casa Grande system's final SMP total GPCD requirement. If you request a hearing within the thirty-day period, the Department will schedule a hearing on your application at the Office of Administrative Hearings. Following a hearing, the administrative law judge will recommend a decision on your application to the Director of the Department, and the Director will then make the final decision on your application.

3. Do nothing. If you do not take one of the actions described in paragraphs 1 and 2 above within thirty days after the date of this letter, the Director will make a decision on your application for administrative review without holding a hearing. We will send you a copy of the decision, and you will have thirty days after receiving a copy of the decision to appeal the decision and obtain a hearing on the decision at the Office of Administrative Hearings. Following a hearing, the administrative law judge will recommend a decision on your appeal to the Director of the Department, and the Director will then make the final decision on your appeal.

If you have any questions regarding this matter, feel free to contact me.

Sincerely,

Dennis Kimberlin
Area Director
Pinal AMA

Enclosure

RECEIVED APR 1 6 2001

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Attorneys for Complainant
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EXHIBIT
R-17
admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

CITY OF CASA GRANDE, an Arizona municipal corporation, Complainant, v. ARIZONA WATER COMPANY, an Arizona corporation, Respondent,	DOCKET NO. W-01445A-00-0391 **APPLICATION FOR TEMPORARY RESTRAINING ORDER, PRELIMINARY INJUNCTION, AND FOR ORDER TO SHOW CAUSE** **-AND-** **RESPONSE TO ARIZONA WATER COMPANY'S RENEWED MOTION TO DISMISS**

Complainant City of Casa Grande ("City") requests the Commission to issue a temporary restraining order ("TRO") and preliminary injunction against Respondent Arizona Water Company ("AWC") prohibiting AWC from contending before any tribunal other than the Commission that its Certificate of Convenience and Necessity ("CC&N") includes effluent, and that the City may not legally serve effluent generated by its wastewater treatment plant to AWC customers without first acquiring the CC&N by purchase or condemnation. The City submits that the Commission, as the issuer of the CC&N, should be the first tribunal to rule upon this question. Accordingly, the City requests that the Commission grant an injunction that will continue until such time as the Commission decides this question in this proceeding.

In addition, the City hereby responds to AWC's Renewed Motion to Dismiss dated March 20, 2001. For the reasons stated below, AWC's Renewed Motion must be denied.

This Application and Response are supported by the following Memorandum of Points

and Authorities, the attached Exhibits, and the Commission's files, including the City's August 14, 2000, Response to AWC's initial Motion to Dismiss.[1]

MEMORANDUM OF POINTS AND AUTHORITIES

I. INTRODUCTION

The issue presented to the Commission by this proceeding is whether AWC may serve effluent by virtue of its CC&N without further action by the Commission and to the exclusion of municipalities, such as the City, who desire to fulfill their duty to safely dispose of effluent generated by their wastewater treatment plants by serving it to industrial users located within AWC's CC&N service area. This question also was at issue in connection with Proposed Tariff No. TE-264 (see Docket No. W-01445A-00-00319), which was filed by AWC on May 10, 2000, but then subsequently withdrawn by AWC on November 28, 2000, before it could be heard by the Commission.[2] AWC withdrew the Proposed Tariff in the face of an August 8, 2000, Commission Staff Report recommending denial of the tariff in part because "Staff disagrees that a water CC&N grants an entity holding that CC&N an exclusive right to sell a product they cannot produce, (i.e., effluent)." The Commission's Staff Report is consistent with the Arizona Court of Appeals decision in Arizona Water Co. v. City of Bisbee, 172 Ariz. 176, 178, 836 P.2d 389, 391 (App. 1991), a case AWC lost, where the Court found that "effluent

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[1]Pursuant to A.A.C. R14-3-106(K), motions filed with the Commission "shall conform insofar as practicable with the Rules of Civil Procedure for the Superior Court of the state of Arizona." The City believes this Rule vests the Commission with authority to grant relief similar to what may be done by the Superior Court. Rule 65, Arizona Rules of Civil Procedure, subsections (a) and (d) authorize the Superior Courts to issue preliminary injunctions and TRO's, respectively. See also A.R.S. § 41-1062; A.A.C. R14-3-109(K) ("Rules of evidence before the Superior Court of the state of Arizona will be generally followed."); A.A.C. R14-3-109(O) (witness subpoenas like those for Superior Court); A.A.C. R14-3-109(P) (witness depositions to be taken in manner prescribed by Rules of Civil Procedure).

[2]On January 25, 2001, the Commission issued a Procedural Order for Administrative Closure dismissing Docket No. W-01445A-00-0319 and administratively closing the file.

is not the same as the water that Arizona Water provides to its service area."[3]

By its Renewed Motion, AWC makes clear it believes the issue of whether its CC&N includes effluent should not be first decided by the Commission. See Renewed Motion at 6-8. The City disagrees and for this reason seeks a TRO and preliminary injunction from the Commission. AWC has been attempting to have this issue decided first by the United States District Court for Arizona or the Maricopa County Superior Court, as opposed to the Commission. In the process, the City has suffered irreparable harm in the form of substantial legal and other expenses in contesting this issue with AWC in these other forums. The City will continue to suffer this harm and may have its effluent contract with Reliant Energy Desert Basin, LLC ("Reliant Energy") compromised unless the Commission grants the requested relief.

Moreover, AWC has no effluent. If it were to prevail or delay the City's plans to provide effluent to Reliant through its repetitive and frivolous lawsuits, Reliant might have to use much more expensive potable water and/or may be impaired in providing vitally needed electric power.

II. ARGUMENT

A. The Commission Should Decide This Issue First.

The Commission is "[t]he regulatory authority of the state of Arizona having jurisdiction over public service corporations operating in Arizona." A.A.C. R14-2-401(4). See also A.R.S., Title 40, Chapter 2, Article 1. Pursuant to A.R.S. § 40-202(A), the Commission "may supervise and regulate every public service corporation in the state and do all things, whether specifically designated in this title or in addition thereto, necessary and convenient in the exercise of such power and jurisdiction."

An important aspect of the Commission's regulatory authority over public service corporations, such as AWC, is the power to grant or deny and regulate activities under

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[3]A copy of the Court of Appeals' opinion in Arizona Water Co. v. City of Bisbee is attached as Exhibit 1.

CC&N's. See A.R.S., Title 40, Chapter 2, Article 4. Pursuant to A.R.S. § 40-281(A) and (C), "[a] public service corporation, other than a railroad, shall not begin construction of a street railroad, a line, plant, service or system, or any extension thereof, without first having obtained from the commission a certificate of public convenience and necessity," and "[n]o such corporation shall exercise any right or privilege under any franchise or permit without first having obtained from the commission a certificate of public convenience and necessity."

Under A.R.S. § 40-281 and A.A.C. R14-2-402, a public service corporation desiring to secure a CC&N must file an application with the Commission and satisfy certain informational and documentary requirements. Once the application has been deemed complete by the Commission's Staff, it is scheduled for a public hearing before the Commission. After the hearing, the Commission may "issue the certificate or refuse to issue it, or issue it for the construction of only a portion of the contemplated street railroad line, plant or system, or extension thereof, or for the partial exercise only of the right or privilege, and may attach to the exercise of rights granted by the certificate terms and conditions it deems that the public convenience and necessity require." A.R.S. § 40-282(C). The Commission unquestionably is vested with broad discretion in granting or denying a CC&N.

Since it is the Commission who is charged with regulating public service corporations and who grants or denies a CC&N, it should be the first tribunal to decide whether AWC's CC&N includes effluent and, if so, whether the City is precluded by the CC&N from serving effluent generated by its wastewater treatment plant to AWC customers within the "service area"[4] without first acquiring the CC&N by purchase or exercise of the power of eminent domain. These questions should be decided in the first instance by the Commission, not the United States District Court for Arizona or the Maricopa County Superior Court.

The Commission unquestionably has jurisdiction to decide whether AWC's CC&N encompasses effluent, and whether the CC&N precludes the City from serving effluent to

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[4]A.A.C. R14-2-401(28) defines "service area" as "[t]he territory in which the utility has been granted a Certificate of Convenience and Necessity and is authorized by the Commission to provide water service."

AWC industrial customers. For example, in Arizona Public Service Co. v. Southern Union Gas Co., 76 Ariz. 373, 265 P.2d 435 (1954), the Arizona Supreme Court held that the Commission had subject matter jurisdiction to decide a legal issue related to issuance of a CC&N.

In Southern Union, APS, as successor to Northern Arizona Light & Power Company, and others filed suit against Southern Union and the City of Prescott to obtain an injunction and a judgment declaring "that a franchise issued by the city of Prescott and a certificate of convenience and necessity issued by the Arizona Corporation Commission to Southern authorizing it to distribute natural gas are void." 76 Ariz. at 375, 265 P.2d at 437. The issue was whether the CC&N was null and void, because Southern allegedly "had no valid franchise from the city of Prescott or the county of Yavapai, for the reason that at the time Southern made application therefor it was then a foreign corporation not qualified to do business in the state of Arizona," and thus was disqualified "to engage in the public utility business in Arizona." Id. at 377, 265 P.2d at 438.

Southern's defense was that this issue either had already been decided by or should have been raised before the Arizona Corporation Commission:

> These propositions clash head-on with the plea of Southern that such matters were or should have been decided or presumably were decided by the corporation commission at the time it heard the applications of Southern and Arizona Power Company for their respective certificates of convenience and necessity and Arizona Power Company's opposition to the granting of Southern's application, and no request for rehearing having been made and in the event the same were denied the statutory remedy pursued, the same is res judicata.

Id. The Arizona Supreme Court agreed with Southern:

> If there was any question of the validity of the Prescott franchise for the reason that the recipient thereof was not at the time it made application therefor qualified to make such application, the time and place to raise and litigate such question was before the corporation commission and, in the event of dissatisfaction with the decision, a direct proceeding to the court as required by the statute. This question cannot be relitigated in this proceeding.
>
> . . . .
>
> [W]e do know that the commission necessarily decided Southern was legally qualified to do the business authorized by the certificate. Whether the commission misinterpreted the statute it is unnecessary for us to say. Suffice it to say that the commission had jurisdiction over the subject matter (whether Southern should receive from it a certificate of convenience and necessity), and in the exercise of that jurisdiction the commission had the power and authority to try the issue as to whether Southern was qualified to receive such certificate.

> In judging whether an applicant shall receive a certificate of convenience and necessity, the commission has the power to determine the legal qualifications of the proposed recipient, to judge and determine the legal right of the applicant to transact such a business in Arizona. If a court has the power to try an issue and make a decision thereon, such decision cannot be collaterally attacked for error of law, whether that error be one of misconstruction of a statute or other legal error.

Id. at 379-80, 265 P.2d at 439-40.

Pending before the Commission by this proceeding is the exact same issue that AWC unsuccessfully presented to the District Court and which is now pending before the Superior Court: whether AWC's CC&N includes effluent such that the City may not serve effluent produced by its wastewater treatment plant to Reliant Energy or any other AWC customer located within the Casa Grande CC&N service area. Under Arizona's exhaustion of administrative remedies rule, this question is not yet ripe for Superior Court review. Instead, the Commission absolutely has subject matter jurisdiction to rule upon legal questions that arise in connection with a CC&N issued by the Commission. See, e.g., Arizona Dept. of Revenue v. Dougherty, 198 Ariz. 1, 4, 6 P.3d 306, 309 (App. 2000) ("The necessity of exhausting administrative remedies is particularly compelling when, as with DOR, the administrative agency has original jurisdiction over the subject matter and specifically has been granted that power by the legislature.").

B. AWC Has Played Games To Keep This Issue From The Commission.

After suing the City in federal court, AWC realized that it did not have a tariff which would allow it to serve effluent. In other words, in its decades of serving portions of Casa Grande, AWC had never dealt with effluent.

On May 10, 2000, AWC filed Proposed Tariff TE-264. The City then filed its Complaint in this matter on June 5, 2000, seeking guidance from the Commission as to whether AWC's CC&N includes effluent. In order to stop the City from pursuing this issue, AWC filed a Motion to Dismiss on July 3, 2000. Oral argument on AWC's Motion was heard by Karen E. Nally, Assistant Chief Administrative Law Judge, on October 5, 2000. By Procedural Order dated October 18, 2000, Ms. Nally stayed the City's processing of this matter "as much of the Tariff proceeding will address the premise of Casa Grande's complaint that Arizona Water's CC&N

does not include effluent or permit Arizona Water to serve treated effluent in the Casa Grande service area." However, AWC's position that Proposed Tariff TE-264 would resolve these issues proved to be a cynical ruse when AWC withdrew the application days before the hearing and jumped back into federal court and then state court.

C. AWC Has Attempted To Preempt Commission Resolution Of This Issue By Filing Lawsuits Against The City In Federal And State Court.

On February 25, 2000, AWC filed a Verified Complaint and Application for Temporary Restraining Order/Preliminary Injunctive Relief against the City in the United States District Court for Arizona. See Arizona Water Co. v. City of Casa Grande, No. CIV 00-0354 PHX PGR. A copy of the Verified Complaint is attached as Exhibit 2.

In its Verified Complaint, AWC alleged that its exclusive right to provide water service under its CC&N includes effluent such that it would be illegal for the City to serve effluent generated by its wastewater treatment plant without first acquiring the CC&N. At Paragraph 13, AWC alleged as follows:

> Notwithstanding the fact that it cannot legally do so, the City has attempted to contract with Reliant Energy to sell water produced at the City's wastewater treatment plant and to acquire all of the excess capacity in the 24-inch line described above. The City has done so without first obtaining an affirmative public vote or otherwise acquiring Arizona Water Company's exclusive right to serve Reliant Energy, and thus is illegally competing with Arizona Water Company in the Casa Grande CC&N Area.

Exhibit 2 at 4.

AWC's federal court action was dismissed for lack of subject matter jurisdiction on December 18, 2000, following AWC's second attempt in that case to obtain an injunction to stop the City from entering into an agreement with Reliant Energy for provision of effluent. AWC persisted in seeking injunctive relief and a decision on the merits in federal court, notwithstanding that this proceeding was pending before the Commission. However, the District Court did not reach the merits of whether AWC's CC&N includes effluent and prevents the City from serving effluent to AWC's customers within the CC&N area. A copy of the District Court's December 21, 2000, Order dismissing AWC's lawsuit is attached as Exhibit 3.

Attached as Exhibit 4 is the Judgment entered by the District Court on December 23, 2000.[5]

Following the dismissal of its federal court action, AWC filed substantially the same Verified Complaint and Application for Temporary Restraining Order in the Maricopa County Superior Court on December 19, 2000. See Arizona Water Co. v. City of Casa Grande, Case No. 2000–022448. A copy of the Verified Complaint is attached as Exhibit 5. At Paragraph 14, AWC alleges as follows:

> Notwithstanding the fact that it cannot legally do so, the City has proceeded forward with plans to bypass Arizona Water Company and to contract directly with Reliant Energy to: (a) provide competing water service to Reliant with effluent water produced at the City's wastewater treatment plant; and (b) to acquire all of the available CAP water capacity in the 24-inch line described above. The City has done so without first obtaining an affirmative public vote or otherwise acquiring Arizona Water Company's exclusive right to serve Reliant Energy, and thus is illegally competing with Arizona Water Company in the Casa Grande CC&N Area. Substantial construction and installation of a 20-inch pipeline designed to illegally provide such effluent service from the City sewer treatment plant effluent ponds to Reliant Energy has just been discovered. Additionally, the City is presently providing a competing water service by delivering effluent water through a four-inch main along the Maricopa-Stanfield Highway for construction purposes at Reliant Energy's evaporation ponds site in Arizona Water Company's Casa Grande CC&N Area.

Exhibit 5 at 4-5.

On December 20, 2000, Superior Court Judge Jeffrey A. Hotham held a hearing on AWC's TRO request. Judge Hotham denied the TRO, because **AWC failed to show a strong likelihood of success on the merits** or that it would suffer imminent irreparable harm if the City executed an agreement with Reliant Energy. A copy of Judge Hotham's December 20, 2000, Minute Entry is attached as Exhibit 6.

That night, the Casa Grande City Council approved a form of agreement with Reliant Energy to provide effluent to Reliant for use in cooling its electrical generators once the construction of the plant is completed. Until that time, the City will continue to serve effluent to Reliant and its contractors for use during the construction process. A copy of the minutes from the Casa Grande City Council's December 20, 2000, public meeting is attached as

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[5]AWC has appealed the District Court's dismissal for lack of subject matter jurisdiction to the Ninth Circuit.

Exhibit 7. A copy of the City's form of agreement with Reliant is attached as Exhibit 8.

Unless the injunctive relief requested by the City is granted, the Superior Court action will proceed forward and that tribunal, not the Commission, may be the first to decide the substantive question of whether AWC's CC&N includes effluent such that the City may not serve effluent produced by its wastewater treatment plant to Reliant Energy and other AWC customers within AWC's Casa Grande CC&N service area. If this issue is ruled upon first by the Superior Court and a final judgment entered, the Commission may be prevented from issuing a contrary decision under principles of res judicata and collateral estoppel. At the very least, conflicting rulings could be made by the Commission and the Superior Court.

D. Standard For Granting Injunctive Relief.

Arizona's courts consider the following in deciding whether to grant a request for injunctive relief:

> The traditional equitable criteria for granting preliminary injunctive relief are:
>
> 1. a strong likelihood of success on the merits;
> 2. the possibility of irreparable harm to the plaintiff if relief is not granted;
> 3. a balance of hardships favoring the plaintiff; and
> 4. in certain cases, advancement of the public interest.

Phoenix Orthopedic Surgeons, Ltd v. Peairs, 164 Ariz. 54, 58, 790 P.2d 752, 756 (App. 1989). See also Children of the Rosary v. City of Phoenix, 154 F.3d 972, 975 (9th Cir. 1998); Johnson v. California State Bd. of Accountancy, 72 F.3d 1427, 1430 (9th Cir. 1995); Dollar Rent A Car of Washington, Inc. v. Travelers Indem. Co., 774 F.2d 1371, 1374 (9th Cir. 1985); Regents of the University of Calif. v. American Broadcasting Cos., Inc., 747 F.2d 511, 515 (9th Cir. 1984).

The City satisfies the first requirement of a strong likelihood of success on the merits, because it legally may serve effluent within AWC's CC&N. Also, because the City already has and will continue to incur substantial legal fees and may have its ability to perform its contract with Reliant Energy compromised by AWC's attempts to have this issue decided in the first instance by a court, as opposed to the Commission, it also shows a possibility of irreparable harm. The balance of hardships also tips in favor of the City, because AWC will suffer no prejudice if this issue is decided in the first instance by the Commission. AWC would have

the right to appeal an adverse decision by the Commission under the Commission's rules and the Administrative Procedures Act ("APA"). See A.R.S., Title 41, Chapter 6, Articles 1 through 10.

Finally, granting the requested relief furthers and advances the public interest by allowing for orderly and proper resolution of this issue by having it be decided first by the Commission. The public interest would be further served by allowing the City to safely dispose of its effluent in a manner that allows this water to be used in place of potable water.

E. The City May Serve Effluent Notwithstanding AWC's CC&N.

It is not legally necessary for the City to condemn any portion of AWC's property before undertaking to serve effluent to entities within AWC's CC&N service area, including Reliant Energy. This is "[b]ecause effluent is not the same as the water that Arizona Water provides to its service area." Bisbee, 172 Ariz. at 178, 836 P.2d at 391. Bisbee is dispositive in the City's favor and must control. Contrary to AWC's Superior Court Complaint, the City may serve effluent to Reliant Energy and other industrial users without violating A.R.S. §§ 9-515(A) or 9-516(A).[6] In Bisbee, the Arizona Court of Appeals expressly held Bisbee was allowed to serve its effluent to Phelps Dodge, an AWC industrial customer, without first acquiring AWC's CC&N.

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[6]A.R.S. § 9-515(A) states:

> A. When a municipal corporation and the residents thereof are being served under an existing franchise by a public utility, the municipal corporation, before constructing, purchasing, acquiring or leasing, in whole or in part, a plant or property engaged in the business of supplying services rendered by such public utility, shall first purchase and take over the property and plant of the public utility.

A.R.S. § 9-516(A) states:

> A. It is declared as the public policy of the state that when adequate public utility service under authority of law is being rendered in an area, within or without the boundaries of a city or town, a competing service and installation shall not be authorized, instituted, made or carried on by a city or town unless or until that portion of the plant, system and business of the utility used and useful in rendering such service in the area in which the city or town seeks to serve, has been acquired.

The Bisbee court correctly recognized that a city when disposing of its effluent by providing it to a customer within the CC&N area of a private water company is not illegally competing with the private water company. 172 Ariz. at 178-79, 836 P.2d at 391-92. Bisbee recognized that effluent is different from water that is not the product of a sewage system in that effluent is a potential health hazard and nuisance, is something which a city constantly must deal with, and must be disposed of without harm to the public. 172 Ariz. at 178, 836 P.2d at 391. See A.R.S. § 36-601(A)(5).[7] Thus, as part of its obligation to collect, transport, treat, and dispose of effluent, the City may sell effluent without regard to AWC's CC&N. See Bisbee, supra; Arizona Public Service Co. v. Long, 160 Ariz. 429, 773 P.2d 988 (1989); City of Phoenix v. Long, 158 Ariz. 59, 63, 761 P.2d 133, 137 (App. 1988), review denied (1988).[8]

The City's sale of effluent is an integral part of its obligation to dispose of effluent without harm to the public. To carry out this function, the Arizona Legislature and courts have recognized that the entity that collects, transports, and treats effluent must have broad discretion, subject only to the public health laws in operating such systems, in deciding how best to dispose of effluent. As held in Bisbee, the City's obligation to dispose of effluent without harm to the public is not limited by the CC&N rights of a private water company. AWC's CC&N does not prohibit or prevent the City from supplying or selling its effluent to any third party other than AWC.

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[7]A.R.S. § 36-601(A)(5) states:

> A. The following conditions are specifically declared public nuisances dangerous to the public health: . . .
>
> 5. All sewage, human excreta, wastewater, garbage or other organic wastes deposited, stored, discharged or exposed so as to be a potential instrument or medium in the transmission of disease to or between any person or persons.

[8]The type of industrial user the city sells its effluent to is irrelevant. In Bisbee, Bisbee sold its effluent to the Phelps Dodge mine. In Long, the Phoenix area cities sold effluent to utilities for use at the Palo Verde Nuclear Generating Station. Here, AWC challenges the City's sale of effluent to an electrical power plant.

(1) Bisbee controls.

Bisbee is on all fours and dispositive of this issue in the City's favor. AWC's argument in Bisbee was that the "city's delivery of water [i.e., effluent] within Arizona Water's certificated area constitutes a competing service in violation of A.R.S. §§ 9-515 and 9-516," and that "the city has taken its property without just compensation." Id. AWC insisted, "it [stood] ready, willing, and able to supply whatever water Phelps Dodge required for its leaching operation." Id. at 179, 836 P.2d at 392. Based on these arguments, AWC complained that Bisbee "owes it damages for inversely condemning its equipment and facilities by distributing effluent to [Phelps Dodge's] copper leaching operation." Id. AWC makes the exact same arguments in its Superior Court Complaint with respect to the City's plan to supply effluent to Reliant Energy for use in cooling its electric generators.

The Bisbee court was not persuaded by AWC's arguments. In rejecting AWC's contentions, the Bisbee court analyzed the nature of effluent and its treatment under Arizona law. The Bisbee court noted that effluent is defined separately from the definition of both groundwater and surface water under Arizona's water statutes (which remains the case today). See A.R.S. § 45-101(4)[9] (effluent); A.R.S. § 45-101(4)[10] (groundwater); A.R.S. § 45-101(9)[11] (surface water). 172 Ariz. at 178, 836 P.2d at 391. It also stated the public service corporation statutes define "sewerage system" separately from "water system". Id. The Bisbee court further found that laws governing effluent disposal are found in statutes on community facilities districts, see A.R.S. §§ 48-701 through 48-724, and on sanitary districts, see A.R.S. §§ 48-2001 through 48-2085. Id.

The Bisbee court discussed Arizona Public Service v. Long, which it recognized as the

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[9]At the time of the Bisbee decision, this statutory provision was numbered A.R.S. § 45-402(6).

[10]At the time of the Bisbee decision, this statutory provision was numbered A.R.S. § 45-101(4).

[11]At the time of the Bisbee decision, this statutory provision was numbered A.R.S. § 45-101(6).

only Arizona decision before then addressing the extent of a City's power to dispose of effluent. Id. It noted that AWC relied upon the Long court's statement, "while effluent is neither groundwater nor surface water, it certainly is water," to support its contention that the subject effluent sale constituted "water service" in violation of AWC's CC&N right. Id.

The Bisbee court rejected AWC's argument that the Long court's statement that effluent is water supported AWC's assertion that effluent sales involved "water service" which would be subject to and restricted by a private water company's CC&N. Id. The Bisbee court thus understood effluent was "water" at the time of its decision and before the amended definition of effluent.

The Bisbee court further rejected the assertion that effluent could not be disposed of by sale within AWC's CC&N because the recognition that effluent is water does nothing to alter the Long court's holding that the cities in Long were free to contract for disposition of the effluent. Id. While recognizing that effluent is water, the Bisbee court held that Bisbee was not competing with AWC, even though AWC was "ready, willing, and able" to serve Phelps Dodge's industrial water needs. 172 Ariz. at 179, 836 P.2d at 392.

Effluent is the product of waste, a public nuisance, and a city must dispose of it without harm to the public. See A.R.S. § 36-601(A)(5). Effluent is different than water which is not a product of a sanitary sewer because of the public health considerations recognized by Bisbee, Long, and the Arizona Legislature. This difference is further reflected in a city's absolute obligation to dispose of effluent without harm to the public.

The Bisbee court further emphasized that the subject effluent was not produced through AWC's service facilities. 172 Ariz. at 179, 836 P.2d at 392. The effluent was produced through Bisbee's sewage treatment facility and the water was transported through a pipeline supplied by Phelps Dodge. Id. The Bisbee court correctly found under Long that Bisbee's effluent sale to Phelps Dodge was a part of the city's disposal of effluent, and that Bisbee could dispose of its effluent in this manner without regard to AWC's CC&N. 172 Ariz. at 178-79, 836 P.2d at 391 and 392.

Like the City of Bisbee, Casa Grande is seeking to sell effluent to an industrial user

within AWC's CC&N, Reliant Energy. Additionally, like Bisbee, the effluent at issue is produced through the City's sewage treatment facility and is planned to be conveyed through a City pipeline or pipeline supplied by the industrial user. Casa Grande's disposal of effluent through a sale to an electrical generating facility is comparable to Bisbee's disposal of its effluent to Phelps Dodge or the Phoenix area cities' disposal of effluent to the Palo Verde Nuclear Generating Station at issue in Long.

(2) Bisbee Has Not Been Superseded.

AWC unsuccessfully argued before the District Court and the Superior Court that Bisbee no longer is good law because the statutory definition of effluent has been changed and certain statutes within Arizona's Groundwater Management Act were specifically amended to mention effluent, where before effluent was not mentioned. AWC erroneously contended that under these statutes and the decision in Arizona Municipal Water Users Ass'n v. Arizona Dept. of Water Resources, 181 Ariz. 136, 888 P.2d 1323 (App. 1994), the disposal of effluent now constitutes "water service" subject to a private water company's CC&N, where before providing effluent was not water service subject to a private water company's CC&N.

This was a tremendous leap by AWC that finds no support in the changes to the Groundwater Management Act that followed Bisbee or Arizona Municipal Water Users. When Long and Bisbee were decided, effluent was a third, independent category of "water" not regulated as either groundwater or surface water. Today, effluent still is not subject to regulation as either groundwater or surface water, and remains a category of water separate and distinct from those fluids. The only difference post-Long and Bisbee is that recoverec effluent may now be counted in determining compliance with groundwater conservatior requirements. Furthermore, unlike surface and ground water, effluent is subject to intensive regulation under Arizona's health laws. Effluent disposal is a part of an entity's operation o its sewage systems. Its disposal is not restricted by a private water company's CC&N rights

Most importantly, after the Bisbee decision, this Commission did not alter its regulations the Legislature did not amend any statutes relating to public service corporations, and th people of Arizona did not amend the Arizona Constitution as to this issue. AWC's contentio

that amendments to the Groundwater Management Act alter the scope of its CC&N are specious and insult the jurisdiction of this Commission. Nonetheless, the City will address each of AWC's arguments and demonstrate that each is without merit.

a. The Arizona Legislature and Courts have always recognized that effluent is "water."

AWC incorrectly argued in District Court and Superior Court that effluent was not considered water at the time Bisbee was decided. Effluent always has been considered water by the Arizona Legislature and courts. The 1980 Groundwater Management Act expressly defined "effluent" as "water." See former A.R.S. § 45-402(6). The Arizona Supreme Court determined the legal status of effluent in Arizona Public Service Co. v. Long noting that "while effluent is neither groundwater nor surface water, it is certainly water." 160 Ariz. at 438, 773 P.2d at 997. The Long court also noted, "[s]ewage effluent is water that is left over after having been put to use." Id. at 437, 773 P.2d at 996. Thus, at the time Bisbee was decided effluent was considered a third category of water different from groundwater or surface water.

b. The Arizona Legislature's narrowing of the definition of effluent does not alter the holding of Bisbee.

AWC attempted to overcome Bisbee by arguing that the Legislature abolished the prior, narrow definition of effluent on which Long and Bisbee relied. To the contrary, the Arizona Legislature narrowed the definition of effluent to specifically provide that effluent is the product of a sanitary sewer system:

> "Effluent" means water that has been collected in a sanitary sewer for subsequent treatment in a facility that is regulated pursuant to §§ 49-361 and 49-362. Such water remains effluent until it acquires the characteristics of groundwater or surface water.

A.R.S. § 45-101(3).

This definition codified the result in Long by more specifically describing the nature of effluent. Before Long, the Arizona Legislature broadly defined effluent to include:

> water which, after being withdrawn as groundwater or diverted as surface water, has been used for domestic, municipal or industrial purpose and which is available for reuse for any purpose, whether or not the water has been treated to improve its quality.

A.R.S. § 45-402(6) [now A.R.S. § 45-101(3)]. The current definition of effluent specifies that

it must result from a municipal sanitary sewer system. It excludes from its purview water which has been used for domestic, municipal, or industrial purposes but which has never been part of a sewer system regulated under A.R.S. §§ 49-361 and 49-362.

Significantly, both Casa Grande's effluent and the effluent at issue in Long and Bisbee fit within both the original and amended definition of effluent. Rather than alter the holdings of Long and Bisbee, the amended definition of effluent affirms those decisions by separately defining effluent from groundwater and surface water.

The Legislature's moving of the definition of effluent from the Groundwater Management Act to the beginning of the water title does nothing to advance AWC's position. The location of the definition is irrelevant. Effluent still remains an independent, third category of water that is not regulated as surface water and groundwater in Arizona.

c. Arizona Municipal Water confirms that effluent remains unregulated.

AWC unsuccessfully contended in federal court and state court that effluent is now regulated under the state's water laws, relying upon Arizona Municipal Water, supra. The Arizona Municipal Water court directly addressed whether certain statutory provisions that allow the Arizona Department of Water Resources ("ADWR") to count recovered effluent in determining compliance with the groundwater conservation requirements of the Second Management Plan adopted by ADWR under the Groundwater Management Act constitute regulation of effluent. 181 Ariz. at 140, 888 P.2d at 1327 These statutes addressed by Arizona Municipal Water are the same statutes AWC attempts to rely upon here to support its argument that effluent is now regulated under the state's water laws. However, the Arizona Court of Appeals in that case specifically stated in two separate references the opposite proposition: "we conclude that counting recovered effluent [for purposes of municipal conservation compliance calculations] is not the regulation of effluent," id.; "counting recovered effluent is not the same as regulation of effluent," 181 Ariz. at 146, 888 P.2d at 1333.

The Arizona Legislature amended A.R.S. §§ 45-467, 45-576, and 45-452 as a legislative recognition and codification of Long that a reference to surface water and

groundwater did not include effluent because effluent is a separate category of water. This was recognized by the Arizona Municipal Water court: "the new definition of 'effluent' indicates that the legislature views effluent as an independent source of 'water' as that term is used throughout the Groundwater Code." 181 Ariz. at 144, 888 P.2d at 1331. The amendments to these three statutes do not regulate effluent. They only allow effluent to be counted as an independent source of water for purposes of those sections.

d. This Commission's own regulations do not include effluent within the definition of a water CC&N.

A.A.C., Title 14, Article 4, regulates the Commission's grant of CC&Ns to water utilities and makes clear that water utilities provide "potable water" under their CC&Ns. A.A.C. R14-2-401 sets forth specific definitions that apply to the grant or denial of a water utility CC&N under A.A.C. R14-2-402. Neither "effluent" nor treated wastewater is included within these definitions. For example, A.A.C. R14-2-401(29) defines "service area" as "[t]he territory in which the utility has been granted a Certificate of Convenience and Necessity and is authorized by the Commission to provide **water** service." (Emphasis supplied). A.A.C. R14-2-401(36) defines "utility" as "[t]he public service corporation providing **water** service to the public in compliance with state law." (Emphasis supplied). Under A.A.C. R14-2-407(A), the "water" provided by a "utility" under its CC&N is "potable water." That Rule states: "Each utility shall be responsible for providing **potable water** to the customer's point of delivery." (Emphasis supplied).

The fact that these regulations reference "potable water," not effluent, supports the City's position that AWC's CC&N does not include effluent.

(3) The City Has Broad Powers Over Its Sewage System, Including the Power To Dispose Of Effluent By Sale, Without Being Limited By AWC's CC&N.

Arizona municipalities are given broad powers over the operation of their sewage systems and the disposal of effluent. See, e.g., A.R.S. §§ 9-276, 9-522 and, 9-521. The cities' power to operate their sewage systems derives from their statutory power to operate utility undertakings. See City of Phoenix v. Long, 158 Ariz. at 62, 761 P.2d at 135. Pursuant to A.R.S. § 9-521(5)(a), the Arizona Legislature has defined utility undertakings to included

"[e]lectric light or power, water, storm water, sewer, gas, common carrier of passengers, garbage or rubbish plant or system, including but not limited to disposal, treatment or reduction plants, buildings, incinerators, dams and reservoirs." These statutory provisions give cities expansive power to build sewer systems and regulate their use. See City of Phoenix, 158 Ariz. at 62, 761 P.2d at 136. This allows cities properly to fulfill their important public health duties in operating such systems. Id.

The Arizona Supreme Court has recognized that "adequate sewage disposal is not merely desirable, it is a stark necessity." City of Scottsdale v. Municipal Court, 90 Ariz. 393, 398, 368 P.2d 637, 640 (1962). Thus, Arizona has established that municipalities must have broad discretion in providing its sewage service to most effectively meet their duties to the public in furnishing these services. See A.R.S. § 9-537. As noted by the City of Phoenix court:

> Effluent is not property acquired, held or used by the cities for the benefit of the public. Rather, it is a noxious by-product of the treatment of sewage which the cities must dispose of without endangering the public health and without violating any federal or state pollution laws. **How they dispose of it is left to the discretion of the cities.**

158 Ariz. at 63, 761 P.2d at 137 (emphasis added). In operating its sewage system and disposing of sewage effluent, the City of Casa Grande is performing a critical public health function. Public health concerns are paramount in such disposal.

AWC contended before the District Court and Superior Court that the City's discretion over its disposal of effluent is limited by AWC's CC&N, and the City may not sell effluent to customers within the CC&N. That argument runs contrary to the City's powers and discretion concerning the manner in which it operates its sewage systems. AWC's position also runs contrary to the public health by significantly limiting the City's authority to dispose of effluent in this fashion.

The Arizona Supreme Court in Long and the Court of Appeals in Bisbee recognized the important public health function involved in the disposal of effluent and the necessity of allowing cities' broad discretion over such disposal by stating the following:

> It is well known that the disposition of sewage is one of the important problems

> that embarrass municipalities. **In order to dispose of it without injury to others, a city may often be confronted with the necessity of choosing between several different plans, and in the selection of the plan to be followed we think it should be permitted to exercise wide discretion.** In determining how it will make a proper disposition of that which may be termed a potential nuisance, we think the city should not be hampered by a rule that would always require the sewage to be treated as waste or surplus waters. **Sewage is something which the city has on its hands, and which must be disposed of in such a way that it will not cause damage to others.** It would often be considered the height of efficiency if it could be disposed of in some other manner than by discharging it into a stream. **Even in this state, where the conservation of water for irrigation is so important, we would not care to hold that in disposing of sewage that the city could not adopt some means that would completely consume it.**

Arizona Public Service v. Long, 160 Ariz. at 434-35, 773 P.2d at 1017-18 (quoting Wyoming Hereford Ranch, 33 Wyo. 14, 236 P. 764); Bisbee, 172 Ariz. at 179, 836 P.2d at 392. See also Reynolds v. City of Roswell, 99 N.M. 84, 88, 654 P.2d 537, 541 (1982).

The City is involved in one of the most important, if not the most important, public health function when it disposes of effluent. Long, Bisbee, and the other authorities cited above demonstrate that Casa Grande's ability to dispose of its effluent by sale to an industrial customer within AWC's CC&N area is not limited in any way by such CC&N.

F. The Outcome Of The State Condemnation Action Is Irrelevant.

The question decided in the now completed state court condemnation case was whether the City could condemn certain of AWC's property, not whether AWC's CC&N allows it to serve effluent or vests it with the exclusive right to do so. Contrary to AWC's Renewed Motion at 3 and 6, the City did not "fail" in that case "to condemn the right to serve effluent to Arizona Water Company's customer, Reliant Energy." The condemnation involved service of potable water, which unquestionably is encompassed by AWC's CC&N, not effluent. See Court of Appeals' Opinion attached to AWC's Renewed Motion.

The Court of Appeals held that the City must conduct another authorizing election under A.R.S. § 9-514[12] before proceeding with a condemnation to acquire certain of AWC's property,

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[12]A.R.S. § 9-514(A) states:

> A. Before construction, purchase, acquisition or lease by a municipal corporation, as authorized in sections 9-511, 9-511.01, 9-511.02, 9-512 and 9-

including its CC&N for service of potable water. It did not consider let alone rule upon whether AWC's CC&N includes effluent or whether the City may serve effluent to industrial users located within AWC's CC&N.

G. The City's Complaint Is Proper Under A.R.S. § 40-246 and § 40-252.

The City's Complaint is proper under A.R.S. § 40-246(A).[13] AWC is attempting to illegally expand the breadth of its CC&N by contending before the Commission in this proceeding and the state and federal courts that its CC&N includes effluent and vests it with the right to serve effluent to the exclusion of the City. As evidenced by the recently closed tariff case, AWC cannot lawfully serve effluent within its CC&N absent a tariff approved by the Commission. Moreover, as discussed above, under Bisbee and other the other legal authorities discussed above, effluent is different from the water encompassed by a CC&N. Thus, AWC is wrong in contending in its Renewed Motion that the City's Complaint is not proper under A.R.S. § 40-246(A). Renewed Motion at 4-5.

AWC also is wrong in arguing that A.R.S. § 40-252[14] does not apply. In its Complaint,

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513, of any plant or property or portion of plant or property devoted to the business of or services rendered by a public utility shall be undertaken, the construction, purchase, acquisition or lease shall be authorized by the affirmative vote of a majority of the qualified electors who are taxpayers of the municipal corporation voting at a general or special municipal election duly called and held for the purpose of voting upon the question.

[13]A.R.S. § 40-246(A) states in pertinent part:

> A. Complaint may be made by the commission on its own motion, or by any person or association of persons by petition or complaint in writing, setting forth any act or thing done or omitted to be done by any public service corporation in violation, or claimed to be in violation, of any provision of law or any order or rule of the commission. . . .

[14]A.R.S. § 40-252 states:

> The commission may at any time, upon notice to the corporation affected, and after opportunity to be heard as upon a complaint, rescind, alter or amend any order or decision made by it. When the order making such rescission, alteration or amendment is served upon the corporation affected, it is effective as an original order or decision. In all collateral actions or proceedings, the orders and decisions of the commission which have become final shall be conclusive.

the City requests an order "declaring that AWC may not serve effluent within the Casa Grande service area." Complaint, ¶ 8. In other words, the City is asking the Commission to "alter," amend, or clarify AWC's CC&N to exclude effluent. Commission Staff agrees the CC&N does not permit AWC to serve effluent. The August 8, 2000, "Staff Report for Arizona Water Company in the Matter of the Filing of Proposed Tariff No. TE-264, Treated Effluent Service," states at page 2:

> Arizona Water filed its response to the City's Objection to the Proposed Tariff on July 14, 2000. With that filing, the Company stated, "The CCN vests Arizona Water Company with the exclusive right to provide water service within the geographical areas described in the CCN. The CCN includes the right to provide all water service, including treated effluent." **Staff disagrees that a water CC&N grants an entity holding that CC&N an exclusive right to sell a product they cannot produce (i.e., effluent).** The Commission does not have the authority to regulate many effluent-producing entities, and as a result, cannot compel them to contract with Arizona Water.

(Emphasis supplied).

Alternatively, the Complaint seeks an order that "AWC not serve effluent within the Casa Grande service area unless and until AWC's entire rate design for the Casa Grande service area is presented to the Commission in the context of a rate case." Complaint, ¶ 9. Paragraph 9 further asks the Commission to "order that AWC not enter into any agreement concerning the provision of treated effluent that would permit or allow the substitution of potable water for effluent in the event that AWC does not have the effluent available to serve its customers."

H. The City's GPCD Claim Is Ripe.

Finally, the Commission must reject AWC's suggestion that the City's claim regarding AWC's violation of ADWR GPCD requirements is not "ripe." Renewed Motion at 5-6. The September 28, 1999, letter from Dennis Kimberlin, Area Director for the Pinal AMA, Arizona Department of Water Resources, to William Garfield, Vice-President of Operations for Arizona Water Company, attached to the City's Complaint supports the City's claim. Consequently, the City's claim in this regard is ripe for consideration by the Commission. At the very least the Commission should fully investigate this issue as requested in the Complaint.

III. CONCLUSION

The Commission should be the first tribunal to decide whether the City may serve effluent produced by its wastewater treatment plant to Reliant and other industrial users located within the Casa Grande service area, notwithstanding AWC's CC&N. For this reason, and because the City has incurred and will continue to incur substantial litigation expenses in defending against AWC's attempts to have this question decided by a court, the City respectfully requests the Commission to schedule an Order to Show Cause hearing as a precursor to issuing a TRO and preliminary injunction enjoining AWC from pursuing this issue in court.

DATED this 13th day of April, 2001.

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R-18
admitted

CITY OF CASA GRANDE, an Arizona Municipal Corporation, Complainant, vs. ARIZONA WATER COMPANY, an Arizona Corporation, Respondent.	DOCKET NO. W-01445A-00-0391
IN THE MATTER OF THE APPLICATION OF RELIANT ENERGY DESERT BASIN, L.L.C. IN CONFORMANCE WITH THE REQUIREMENTS OF ARIZONA REVISED STATUTES 40-360.03 AND 40-360.06 FOR A CERTIFICATE OF ENVIRONMENTAL COMPATIBILITY AUTHORIZING THE CONSTRUCTION OF A NATURAL GAS-FIRED COMBINED CYCLE GENERATING FACILITY IN PINAL COUNTY, ARIZONA WITHIN THE CITY OF CASA GRANDE	DOCKET NO. L-00000I-00-0417
CITY OF CASA GRANDE, an Arizona Municipal Corporation, Complainant, vs. RELIANT ENERGY DESERT BASIN, L.L.C., Respondent.	DOCKET NO. L-00000I-00-0417

Arizona Corporation Commission
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PROCEDURAL ORDER

BY THE COMMISSION:

On June 5, 2000, the City of Casa Grande ("Casa Grande") filed a Complaint against Arizona Water Company ("AWC"), which alleges that AWC exceeded the scope of its CC&N.

On June 15, 2000, Casa Grande filed a Complaint and Motion to Re-Open Decision 61852 Pursuant to A.R.S. § 40-252 against Reliant Energy Desert Basin, L.L.C. ("Reliant").

On August 16, 2001, a Procedural Conference was held for the purposes of oral argument

regarding Casa Grande's Complaints against AWC and Reliant as well as the potential consolidation of the dockets in those matters.

At the Procedural Conference, Casa Grande indicated that it no longer intended to pursue the Complaint against Reliant and stated that a formal withdrawal would be filed in that docket.

Additionally, the Administrative Law Judge indicated that he would issue a Procedural Order to either govern the hearing or set forth a schedule for briefing the issues for Casa Grande's remaining Complaint against AWC.

Casa Grande never filed a formal withdrawal of its Complaint against Reliant.

A Procedural Order was never issued, and the last filing, which was a Notice of Filing Supplemental Authority, in the AWC Complaint docket was made by the City of Casa Grande on April 5, 2002.

The Commission's Legal Staff have contacted counsel for the City of Casa Grande and have been notified that the files for both the Reliant Complaint and the AWC Complaint have been closed.

IT IS THEREFORE ORDERED that Casa Grande file a formal withdrawal of its Complaint against Reliant in Docket No. L-00000I-00-0417 on or before January 30, 2004.

IT IS FURTHER ORDERED that Casa Grande file a status report with the Commission on or before January 30, 2004 indicating whether it wishes to withdraw its Complaint against Arizona Water Company in Docket No. W-01445A-00-0391.

DATED this 9th day of January, 2004.

AMANDA POPE
ADMINISTRATIVE LAW JUDGE

Copies of the foregoing mailed/delivered this 9th day of January, 2004 to:

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By: M Johnson
Molly Johnson
Secretary to Amanda Pope

BEFORE THE ARIZONA

ACC Docket

W-01445A-00-0391

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

City of Casa Grande, Complainant	DOCKET NO. W-01445A-00-0391
vs.	ADMINISTRATIVE CLOSURE
Arizona Water Company, Respondent	NUMBER 66769

Per Procedural Order issued on January 9, 2004 by Amanda Pope, Administrative Law Judge, the Complaint filed by City of Casa Grande against Arizona Water Company is dismissed. It is further ordered that the docket in this matter be closed. Therefore, the docket is administratively closed.

An Administrative Closure Number has been assigned to this matter which officially closes the docket. **This is not a signed order of the Commission and is for record keeping purposes only.**

If you have any questions regarding this matter, please contact me at (602) 542-3477.

Administrative Closure Number issued
On this 10th day of February 2004.

Colleen A. Ryan

Colleen A. Ryan
Docket Administrator
Hearing Division

RECEIVED
FEB 11 2004
ARIZONA WATER COMPANY
PHOENIX - LEGAL

BILL GARFIELD
BOB GEAKE
RICK HENDERSON
RALPH KENNEDY

MIKE WHITEHEAD
JERRY DEXEL - CG

FILE COPY

A copy of the foregoing Administrative Closure was mailed to the following by the Docket Control Center on February 10, 2004.

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By: Sheryn Hendley

BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
Chairman
JIM IRVIN
Commissioner
WILLIAM A. MUNDELL
Commissioner

Arizona Corporation Commission
DOCKETED
NOV 03 2000
DOCKETED BY RT

EXHIBIT
R-19
admitted

IN THE MATTER OF THE ARIZONA CORPORATION COMMISSION'S OWN MOTION TO ESTABLISH THE COMMISSION WATER TASK FORCE

DOCKET NO. W-00000C-98-0153

DECISION NO. 62993

ORDER

Open Meeting
October 24 and 25, 2000
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. On April 24, 1998, in Decision No. 60829, the Arizona Corporation Commission (Commission) established the Commission Water Task Force (Task Force). The Task Force consists of representatives of regulatory agencies, the water providers, and water consumers. On September 22, 1998, the Task Force held its first meeting. The Task Force meetings were all noticed Open Meetings.

2. On October 28, 1999, the Task Force completed its Report for the Commission (Report). The Report contains recommendations to the Commission on several issues facing Arizona's water industry. On many issues, the Task Force achieved consensus. On other issues, the Report contains different recommendations from the various Task Force members.

3. On January 5, 2000, the Task Force Report was docketed and distributed to every Arizona water company regulated by the Commission. A deadline of March 15, 2000, was set for comments on the Report to be filed. Only two water companies and the Central Arizona Project (CAP) submitted comments. Arizona Water Company generally supports the Staff's proposals, but does express some reservations. Lakewood Water Company, a small water company in Amado, indicates that it is currently struggling with the financial requirements to fund necessary capital improvements. The capital costs to make improvements would double the rates for the company's customers, many of whom are low-income. The company expresses interest in the possibility of

consolidation with other water utilities. The CAP generally supports Staff's proposals, but it does express some reservations.

4. The Task Force was divided into three subcommittees: the Regulatory Reform Subcommittee, the Conservation Subcommittee, and the Water Supply Subcommittee. The Regulatory Reform Subcommittee achieved consensus on five goals:

- Reduce the number of small, non-viable water systems through new rules and procedures.
- Strengthen the financial capacity of the water utility industry.
- Provide greater emphasis on simplifying, shortening, and reducing the cost of the ratemaking process.
- Improve consumer education.
- Increase interagency coordination.

5. The Conservation Subcommittee focused on developing policies the Commission could use to encourage water conservation. The Water Supply Subcommittee focused on issues relevant to renewable and surface water supply, such as the Central Arizona Project.

Regulatory Reform Subcommittee

6. On Pages 3 through 25 of the Report, the Regulatory Reform Subcommittee's recommendations and discussions are summarized.

7. On Pages 4 through 7 of the Report, Staff's proposal on placing more stringent requirements on approval of CC&Ns for new water companies is discussed.

8. Commission Staff recommended the following Commission policy changes concerning the establishment of new water companies:

a. The application for a new CC&N must show that an existing water company cannot or will not serve the area being applied for. This showing must be made by submitting service rejection letters from all the "A" size water companies in the state (there are 3) and at least five of the "B" size companies (there are 20). The five B size companies contacted should include the B size companies that are geographically closest to the applicant. The application must also be accompanied by service rejection letters

from all the existing water companies within five miles of the area being requested. In addition, the rejection letters must be accompanied by the corresponding request for service that was made to each of the existing water companies by the applicant.

b. The rates should be set such that the company should at least break even no later than its third year of operation. The calculations would be based on the company's reasonable estimates of customer growth. The company should also be required to come in for a rate case three years after serving its first permanent customer.

c. Because Staff believes that it is not in the public interest, no new CC&N would be issued to any company that was affiliated with any other company or person that was not in total or substantial compliance with Commission and ADEQ requirements. This restriction should apply to CC&N extensions and transfers as well.

d. Staff recommends establishing a set of standard service charges for new CC&Ns.

e. Staff will work with the ADWR to establish tiered rate structures for new CC&Ns.

9. Staff recommends that the Commission endorse Staff's recommendations. Further, Staff requests that the Commission order Staff to develop (through meetings with members of the industry, RUCO, and other interested parties) a detailed statement of policy on water CC&Ns by June 30, 2001. The detailed statement of policy should conform to the general principals of Staff's recommendation contained in the Report and the above discussion. Staff members who are responsible for processing new water CC&N requests should be responsible for conducting these meetings and developing the detailed statement of policy.

10. On Pages 8 through 11 of the Report, several proposals for providing incentives for consolidation in the water industry are discussed. Staff recommends that an acquisition adjustment or a rate of return premium (but not both) be allowed under certain conditions. These conditions are:

- The acquisition is in the public interest;
- The acquisition will not negatively affect the viability of the acquirer;
- The acquired system's customers will receive improved service in a reasonable timeframe;
- The purchase price is fair and reasonable (even though that price may be more than the original cost less depreciation book value) and conducted through an arms' length negotiation;

- The recovery period for the acquisition adjustment should be for a specific minimum time (e.g., twenty years); and
- The acquired company is a class D or E.

11. Staff does not recommend allowing for acquisition adjustments unless all of the above conditions are met. Staff believes that the burden should be on the company to prove that an acquisition adjustment or a rate of return premium is in the public interest. The public interest determination should account for the capital investments needed for the customers to receive improved service and the costs savings the company is likely to realize through economies of scale. Other methods of encouraging consolidation include allowing for rate of return premiums and deferral accounting orders. Staff recommends that the Commission endorse Staff's recommendation. Further, Staff requests that the Commission order Staff to develop, through meetings with members of the industry, RUCO, and other interested parties, a detailed statement of policy on acquisition adjustments and rate of return premiums by June 30, 2001. The detailed statement of policy should conform to the general principals of Staff's recommendation contained above and in the Report. Staff members who are responsible for recommending approval or denial of acquisition adjustment requests should be responsible for conducting these meetings and developing the detailed statement of policy.

12. Other incentives for consolidation could be provided by the State Legislature. Tax breaks or credits could be provided to companies that choose to acquire small and/or financially non-viable water companies. The Staff requests the Commission adopt recommendations to the Legislature regarding incentives for consolidation and direct the Commission's Legislative Liaison to initiate efforts to encourage the Legislature to adopt these incentives.

13. The establishment of a fund similar to the Universal Service Fund used for telecommunications firms, is another option for improving the financial capacity of small water companies. A fund that all water companies pay into and that financially strapped companies could draw out of for infrastructure investments could be established. For fairness purposes municipal water

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companies would need to be included as contributors/beneficiaries of the fund. This would require legislation as well as changes to the Commission rules. Staff proposes this fund as an approach the Commission may want to consider in the future.

14. Issues involving property taxes are discussed on Pages 12 and 13 of the Report. The Staff requests the Commission adopt recommendations to the Legislature regarding alternative taxation mechanisms for private water companies and direct the Commission's Legislative Liaison to initiate efforts to encourage the Legislature to adopt these tax alternatives. Staff also recommends that the Accounting and Rates (A&R) section of the Utilities Division sponsor, for any interested party, a seminar on the ratemaking implications of property taxes, focusing on the problems the industry outlines in the Report.

15. On Pages 14 and 15 of the Report, the Future Test Year issue is discussed. Staff believes that there is no need to change the present method used by the Commission. At present, the Commission employs an historical test year but does allow for pro forma additions for known and measurable costs. It is Staff's opinion that this is a very good combination of both historical and future test years. Presently, this is done on a case-by-case basis. Staff believes that this method could be improved, therefore, Staff recommends that the Commission order Staff to develop a policy with specific requirements for expense changes, revenue changes, and plant additions that occur after the test year. Such items would include, but are not limited to:

a. Method of matching new expenses with new revenues.

b. Revenue neutral plant, i.e., plant to serve existing, not future, customers.

c. Revenue neutral plant will be installed within a specific timeframe, preferably one year.

d. Revenue neutral plant is necessary to provide proper and adequate service to existing customers.

16. On Pages 15 and 16 of the Report, Staff's recommended Generic Hook-up Fee policy is outlined. Both the industry and RUCO support Staff's recommendation in principal. Staff believes that implementing this recommendation will require a rulemaking proceeding. Staff requests that the

. . .

Commission order a rule making proceeding be opened to implement a Generic Hook-up Fee policy along the lines of Staff's proposal.

17. On Pages 16 through 19 of the Report, proposals for plant replacement fund mechanisms are discussed. Staff recommends that the Commission adopt a policy similar to the Pennsylvania Public Utilities Commission's Distribution Service Investment Charge (DSIC). Staff requests that the Commission order a rule making proceeding be opened to implement rules for a DSIC or similar program in Arizona.

18. On Pages 19 and 20 of the Report, problems associated with past high depreciation rates are discussed. The industry offered proposals on how to rectify these problems; however, Staff and RUCO found those approaches to be inappropriate. Staff believes that its proposed Rate of Return policy (discussed below) will solve the problems associated with past excessive depreciation rates. All parties agreed that the Commission should no longer approve excessive depreciation rates for small water companies.

19. On Pages 20 and 21 of the Report the pass-through mechanism approved by the legislature in SB 1252 (now A.R.S. § 40-370) is discussed. The industry representatives on the Task Force felt that the Commission's policy on A.R.S. § 40-370 needed to be clarified because, at the time the Report was written, only one company had applied for authority to adjust rates under the provisions of this mechanism. Since then the Commission has approved two such applications (they both have been appealed). The two approved applications were for Arizona Water Company's Monitoring Assistance Program (Decision No. 62141) and Rio Verde Utilities, Inc.'s CAP cost increase (Decision No. 62037). Those two decisions indicate that the Commission's policy on A.R.S. § 40-370 applications is to support appropriate pass-throughs, which should mitigate the industries concerns.

20. On Pages 21 and 22 of the Report, Staff's proposed Rate of Return policy is outlined. Staff believes that implementing this policy will solve the problems associated with high depreciation rates and lead to other improvements. This policy would make filing rate cases much less burdensome for small water companies. Staff's proposed policy allows companies that are filing rate applications to choose between 1) a generic rate of return (for C, D, and E companies only); 2) setting rates based on an operating margin basis (i.e., no rate of return consideration); or 3) an individual rate of return

(i.e., traditional rate making). In addition to the recommendations in the Report, Staff is recommending that the choice of the generic rate of return be limited to C, D, and E companies. Also, Staff recommends that the generic rate of return should be a minimum rate of return; thus, points can be added to it to account for special expenses such as WIFA loan payments. Staff requests that the Commission order a rule making proceeding be opened to implement Staff's proposed Rate of Return policy. Staff is aware that the recent Court of Appeals Opinion may impact the Commission's ability to implement Staff's proposed rate of return policy. Staff believes that the issues raised by the Court of Appeals Opinion are best dealt with during the rulemaking proceedings.

21. On Pages 22 and 23 of the Report, the electronic filing of annual Reports, rate cases, and other filings with the Commission is discussed. Staff, the industry, and RUCO all agreed that allowing for electronic filing would be beneficial. Staff has already initiated the first steps of this process by making the Short Rate Case Form available on the Commission's web site. Staff is committed to making all of its forms available electronically. In order to institute full electronic filing, the Hearing Division will need to be involved. Staff is committed to working with the Hearing Division to develop a process that will allow for full electronic filing.

22. During the Task Force's discussions of electronic filing, the industry also expressed concern about the volume and extent of the Commission's filing requirements. Staff acknowledges that certain filing requirements may be out-dated. Staff is currently reviewing all forms and filing requirements. However, such a review is a major undertaking and may take some time to complete.

23. On Page 23 of the Report, Staff's Main Extension Agreement (MXA) proposal is outlined. Staff's proposal is to have standard MXA provisions included in each water companies tariffs, instead of the current process of approving MXAs on an individual case basis. Both the industry and RUCO supported Staff on this issue. Staff requests that the Commission order a rule making proceeding be opened to implement Staff's proposed MXA policy.

24. On Pages 23 and 24 of the Report, several suggestions concerning consumer education are discussed. Staff is currently working on educational programs for all industries the Commission regulates. Implementing any educational program may require additional funds from the Legislature. Staff is also evaluating the expansion of its well-regarded Small Water Assistance Team (SWAT)

program (which deals with educating water company owners/operators) to include education for water consumers.

25. On Pages 24 and 25 of the Report, Staff's Phased Rate Increase policy is discussed. Staff believes that in certain limited circumstances it is appropriate to phase rate increases in over time. Staff will develop well-defined guidelines for when and how phased rate increases are appropriate.

26. On Page 25 of the Report, Staff's recommendation on rates tied to conditions is discussed. Staff recommends that *all* rate increases be conditioned on the company providing acceptable quality service, water quality, and other relevant conditions. Staff has already implemented this policy informally by including specific conditions in recent Recommended Orders. Staff will develop a standard set of conditions that could apply to all water companies. One impediment to this policy being successful is the Commission's lack of enforcement resources. Currently, the Utilities division has *one* compliance officer to handle *all of the utilities* the Commission regulates.

Conservation Subcommittee

27. On Pages 26 through 29 of the Report, the Conservation Subcommittee's recommendations and discussions are described. On Pages 26 through 28, a perceived problem with the Commission's conservation policy is discussed. The industry and consumer members of the Task Force as well as the ADWR representatives believed that the Commission would not allow companies to include the costs of conservation programs in rates unless the conservation program was mandated by the ADWR. If this were true, it would discourage companies from engaging in conservation programs. However, Staff does not believe that this is true. No member of the Task Force could site any examples of instances where Staff has recommended denial of conservation program costs or where the Commission approved an order that included the denial of conservation programs and their reasonable costs. Staff supports and encourages conservation. Staff believes that recovery of any reasonable costs for conservation programs should be allowed.

28. On Pages 28 and 29, Staff's proposal to institute three tiered rates is discussed. Tiered rates are the Commission's only direct means of encouraging conservation. Both the industry and RUCO opposed Staff's proposal. The industry claimed that it is sure to result in companies

underearning, while RUCO claimed the policy is sure to result in companies overearning. Staff believes that as with any rate design there is a possibility of either over or underearning. However, with rates designed as proposed by Staff in the Task Force's Report there is almost no chance of underearning while there is a good possibility of overearning. If properly designed though, the tiered rates would result in the non-conserving customers paying extra for large uses of water and reward those customers that used very little water. If customers conserved such that all were falling within the middle tier, the company should earn its allowed rate of return. If the customers continued to use water in the third tier, the water company would probably overearn. The use of the overearnings could be restricted by the Commission in such a manner as to benefit the customers. Staff realizes that this is a new and different way of looking at rate design combined with conservation, but Staff also realizes that new ways have to be considered to save what many consider to be this State's most precious resource. Staff recommends that the Commission order Staff to *consider* tiered rate designs for *all* water company rate cases and that the tiers be designed to encourage conservation. Staff recognizes that tiered rates may not be appropriate in all cases and that the decision to use or not use tiered rates must be made on a case-by-case basis. However, the appropriateness of tiered rates should be considered in every case. Further, Staff requests that the Commission order Staff to develop a detailed statement of policy on tiered rates by June 30, 2001.

Water Supply

29. On Pages 30 through 33 of the Report, the Water Supply Subcommittee's recommendations and discussions are summarized. The main focus of this subcommittee was the recovery of Central Arizona Project (CAP) water allocation costs (CAP costs). All members of the Subcommittee agreed that the Commission could somehow approve the recovery of CAP costs in a proceeding outside of a rate case. However, the Commission's Legal division has concluded that considering CAP costs outside of a rate case would run counter to the recent Court of Appeals opinion on fair value. There was disagreement among the Subcommittee members about what the Commission should require before it allows for CAP cost recovery. In the Report, Staff recommended that the Commission allow for CAP cost recovery once the company has submitted a plan that indicates how they will begin to actually use their CAP allocations within five years. Staff chose a

five-year time horizon because Staff wished to limit the extent to which current customers are charged for CAP allocations which will only be used to serve future customers.

30. Since the Report was written, Staff has modified its position. Staff believes that the Commission should be more flexible with the time horizon it allows for CAP water to go unused while allowing cost recovery. Staff believes that the time requirement placed on companies applying for CAP cost recovery should be decided on a case by case basis. Also, to ensure that current customers do not pay an unfair amount relative to future customers, a portion of the CAP cost should be recovered through some type of hook-up fee. The amount of the recovery that is recovered through a hook-up fee should be determined by the company's total demand for water relative to its CAP allocation. For example, if a company's total demand is 200,000 gallons per year and its CAP allocation is 1,000,000 gallons per year, then the company should recovery 20 percent of its CAP cost from current customers and the remaining 80 percent from hook-up fees. The methodology used for CAP cost recovery in the Vail Water Company Rate Case (Decision No. 62450) is an example of the general policy that Staff advocates.

31. Staff requests that the Commission order Staff to develop, through meetings with members of the industry, RUCO, and other interested parties, a detailed statement of policy on CAP cost recovery by June 30, 2001. The detailed statement of policy should conform to the recovery methodologies used in the Vail Rate Case, Decision No. 62450.

Conclusions

32. In conclusion, Staff recommends several changes in and clarifications of Commission policy, several changes to the Commission's rules, and that the Commission pursue several Legislative changes. These recommendations are summarized as follows:

Policy Changes

- CC&Ns (new, transfers, and extensions)
- Acquisition Adjustments and Rate of Return Premiums
- Seminar on ratemaking implications of property taxes
- Electronic Filing and review of filing requirements
- Phased Rate Increase
- Rates tied to Conditions
- Tiered Rate Structure

- CAP cost recovery
- Pro forma adjustments

Rulemaking

- Generic Hook Up Fee
- Rate of Return
- Main Extension Agreements
- Plant Replacement Fund

Legislative Changes

- Incentives for consolidation, e.g. tax breaks
- Replace property taxes with a percentage of revenue tax

33. Staff recommends that the Commission endorse the above policy and Legislative changes. Also, Staff recommends that the Commission open a rulemaking proceeding in order to implement the above changes to the Commission rules.

CONCLUSIONS OF LAW

1. The Commission as the regulatory body with the longest history and the primary responsibility over private water companies should take the lead in seeking a coordinated solution to the problems of small water companies.

2. The Commission arranged for the formation of the Task Force for meetings between representatives of regulatory agencies, the water providers, and water consumers in order to address these issues.

3. The Task Force has issued a report that summarizes the views of its members.

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ORDER

THEREFORE, IT IS ORDERED that the Commission approve Staff's recommendations in the above Findings of Fact.

IT IS FURTHER ORDERED that this decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 3rd day of November 2000.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

DRS:MJR:lhh

RUCO

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission
DOCKETED

APR 1 4 2000

DOCKETED BY

EXHIBIT
R-20
admitted

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF VAIL WATER COMPANY FOR AUTHORITY TO ISSUE PROMISSORY NOTE(S) AND OTHER EVIDENCE OF INDEBTEDNESS PAYABLE AT PERIODS OF MORE THAN TWELVE MONTHS AFTER THE DATE OF ISSUANCE.	DOCKET NO. W-01651B-99-0351
IN THE MATTER OF THE APPLICATION OF VAIL WATER COMPANY FOR A RATE INCREASE.	DOCKET NO. W-01651B-99-0406 DECISION NO. 62450 **OPINION AND ORDER**

DATE OF HEARING: February 3 and 4, 2000

PLACE OF HEARING: Tucson, Arizona

PRESIDING OFFICER: Jane L. Rodda

APPEARANCES: Richard L. Sallquist, SALLQUIST & DRUMMOND, P.C., on behalf of Vail Water Company;

Monique Davis, in propia persona, Intervenor; and

Robert Metli, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

On June 18, 1999, Vail Water Company ("Applicant" or "Company") filed with the Arizona Corporation Commission ("Commission") a rate application and a finance application. On July 19, 1999, the Commission's Utilities Division Staff ("Staff") filed a letter notifying the Company that its application met the sufficiency requirements outlined in A.A.C. R14-2-103 and classifying the Company as a Class C utility. By Procedural Orders dated September 28, 1999, and October 20, 1999, the Commission consolidated the matters. A hearing on the consolidated matter was held in Tucson, Arizona on February 3 and 4, 2000, pursuant to the schedule established by Procedural Order dated August 19, 1999. Prior to the commencement of the hearing, Monique Davis, a residential customer of Vail, was granted intervention.

new plant construction by approving the financing and required revenue and then making the rate increase subject to refund in the event the plant is not installed within a reasonable time period. We do not see a need to deviate from that approach in this case. Furthermore, Staff's approach is the more financially sound. Although increased rates will be effective a few months earlier, the rates we approve herein will provide the funds needed to repay the WIFA debt and we will not have to address the question in the future of what happens if the Company has not constructed the plant as quickly as it anticipates, or the expected costs differ from current estimates. Moreover, there is no evidence that WIFA would agree to release funds to make the needed improvements in advance of the rates to make repayments being in place.

We also concur with Staff's position concerning Prepaid Water Rights for the same reasons Staff advanced. Finally, based on our approval of operating expenses, as recommended by Staff, we determine the correct level of Working Capital using the formula method to be $38,158. As a result, we approve an OCRB of $134,716.

Revenue and Expenses

Vail and Staff concurred that in the TY, Vail's present rates yielded metered sales of $340,358 and other operating revenue of $3,341, resulting in total operating revenue of $343,697. The Company requested total operating revenue of $548,685.[3] In its final position, Staff recommended rates that would produce total operating revenue of $433,920. Staff also recommended that new customers be assessed a $1,000 fee to be applied toward the Company's CAP costs. Staff recommended that the CAP Hook-up Fee be treated as a deferred credit. Vail agreed to the CAP Hook-up fee, but believed that it should be accounted for as revenue.

Vail has accepted a number of Staff's adjustments to operating expenses, however, the parties did not agree on the amount of CAP expenses, property taxes, or depreciation.

CAP Expenses

Vail has a CAP allocation of 786 acre feet for a cost of $84,888 per year. In past years, the Company has not been allowed to recover the costs of its CAP allocation from ratepayers because the

[3] In rejecting the Company's proposal to include not yet built plant in rate base, we do not need to consider the Company's phased-in rate increase.

Commission has not considered the allocation "used and useful" to customers. The Company had been unable to use its CAP allocation because there is no means for delivering the allocation from the CAP facilities to Vail's service territory on the other side of Tucson. Vail proposes to join a replenishment district to receive credits for its CAP allocation, which it can then use to withdraw groundwater from a designated well in its service area. The CAP water will be recharged at a location 60 miles from Vail, but within the same Active Management Area ("AMA"). According to the Company, the water will initially serve existing customers north of Colossal Road as well as provide backup water for a planned golf course.[4] The recharge program will also provide the necessary Assured Water Supply ("AWS") designation for a development of 3,300 homes, a high school, 110 acres of commercial development and 40 acres of industrial development.

Staff believed that it is important for Vail to retain its CAP allocation as long as it is eventually delivered to Vail customers. This can only happen after an infrastructure is built within the Tucson AMA that will allow for the transport of CAP water to the Vail service territory. In the interim, Staff believed that Vail should be allowed to recharge its allocation at a remote location within the Tucson AMA and recover the associated costs.

Because the Company's CAP allocation is greater than the water currently being utilized by its customer base, Staff opined that current customers should not be charged the entire CAP expense of $84,888. Because current customer demand amounts to approximately 23.81 percent of the CAP allocation, the Company should only be allowed to recover that percentage, or $19,277, of the expense from current customers by means of a CAP Service Fee based on customer usage. Under Staff's recommendation, the balance of the annual CAP costs, or $61,681, would be recovered by means of a CAP Hookup Fee for all new line extensions and subdivisions.

Staff recommended the Commission approve a CAP Service Charge of $0.32 per 1,000 gallons of usage. The CAP Service Charge would apply to all customers on the north system from the date of the Order, and apply to all customers once the north and south systems are interconnected. Staff recommended that the CAP Service Charge be segregated in an interest bearing account and

[4] The golf course will normally use surface water not owned by the Company.

used solely for the purpose of paying CAP holding and M & I expenses. Under Staff's proposal, when Vail pays its CAP allocation, payment must be tendered from the CAP cash account and the Company will not be allowed to expense more than $19,277 on its income statement each year.

Staff also recommended a CAP Hook-up Fee that would apply to all new subdivision and line extension agreements. Staff recommended twelve conditions on the implementation of the Hookup Fee. One of the recommendations was that the funds received from this fee should be deposited into the segregated CAP account. Under Staff's plan, the funds from the CAP Hook-up Fee should be booked as a deferred credit. According to Staff, the treatment of the hook-up fee as a deferred credit will allow a mechanism for tracking the fees. Staff did not recommend that all of the CAP expenses be recovered on the income statement and believed that for purposes of matching revenue and expenses, the CAP Hook-up Fees should not be treated as revenue. Staff proposed a CAP Hook-up Fee schedule that ranged from $1,000 for a 5/8 inch meter to $250,000 for a 12 inch or larger meter.

The Company accepted the amount of Staff's proposed CAP Hook-up Fee, but disagreed with Staff's proposal that the CAP Hook-up Fee be booked as a deferred credit. Vail argued that neither the revenue from the hook-up fee, nor the expense of the purchased water, is a deferred credit. The Company also asserted that accounting for the Hook-up Fee as a deferred credit was an unnecessary accounting nightmare. Vail thought that Staff's only justification for treating the fees as a deferred credit was to avoid possible over-earning. Vail argued that Staff could bring the Company in for rate review if the Company does over-earn. Under the Company's proposal, the CAP Hook-up Fees would be treated as revenue and the entire CAP Expense would be allowed to be recovered in operating expenses.

We believe that the more reasonable approach is to treat the CAP Hook-up Fee as revenue when it is received. As a result, the entire $84,888 CAP expenses is allowed as an expense. Of this amount, approximately $19,277 will be recovered from ratepayers by means of the $.32 per 1,000 gallon CAP Service Charge, $3,930 from the farm using the CAP allocation, and the remaining approximate $62,000 by means of the CAP Hook-up Fees as Staff proposed. All funds received as a result of the CAP Service Charge and the CAP Hook-up Fee will be deposited in an interest bearing segregated account and used solely for CAP-related expenses. In the event the Company receives

more than $84,888 in any year from any combination of the foregoing, the funds will remain in the segregated account and may be utilized for capital projects related to developing a delivery system for the direct use of CAP water in Vail's service territory, as contemplated by Staff, or will be refunded to customers. By segregating the funds and designating that they be used solely for CAP – related expenses and capital items, Staff's concerns about potential over-earning should be alleviated. As a further control, we will require Vail to submit annual reports commencing January 31, 2001, with the Director of the Utilities Division, detailing all deposits and expenditures from the CAP account. If in Staff's or Vail's opinion, the amounts accumulating in the CAP account are excessive, either Staff or Vail may request the Commission order the refund of the excess amounts to Vail's customers and may request an adjustment of the CAP Service Charge Fee or CAP Hook-up Fee. We also adopt Staff's conditions on the implementation of the CAP Hook-up Fee as delineated in the Engineering Staff Report.

Depreciation

Because we are accepting Staff's position concerning the amount of plant in rate base, we adopt Staff's Depreciation Expense amount of $48,327. The Company's proposed Depreciation Expense was based upon the assumption that the not-yet-built plant would be included in rate base.

Property Taxes

Vail advocated that Property Tax Expense should be determined on a prospective basis using the Department of Revenue calculation methodology and based upon projected plant and revenue. Staff argued that the Property Tax Expense should be based upon the most recent property tax bill, in this case the 1999 bill in the amount of $20,609. Vail proposed a Property Tax Expense of $38,541 which was based upon projected plant balances, including plant to be financed with the WIFA loan and which is not yet constructed. Vail's plant balances are too speculative at this time to be utilized in the calculation of Property Tax Expense. Consequently, we adopt Staff's recommended Property Tax figure of $20,609.

Revenue Requirement and Rate Design

Staff and the Company agreed that a revenue level that would produce a DSC of 1.2 is appropriate in this case. They disagreed, however, on how to calculate the DSC ratio. Vail argued

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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission
DOCKETED
MAR 19 2004
DOCKETED BY

EXHIBIT
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admitted

IN THE MATTER OF THE APPLICATION OF ARIZONA WATER COMPANY, AN ARIZONA CORPORATION, FOR ADJUSTMENTS TO ITS RATES AND CHARGES FOR UTILITY SERVICE FURNISHED BY ITS EASTERN GROUP AND FOR CERTAIN RELATED APPROVALS.

DOCKET NO. W-01445A-02-0619

DECISION NO. 66849

OPINION AND ORDER

DATES OF HEARING:	March 31, 2003 and September 17, 2003 (pre-hearings), September 22, 23, 24, 25 and 26, 2003, December 8, 2003 (oral argument)
PLACE OF HEARING:	Phoenix, Arizona
ADMINISTRATIVE LAW JUDGE:	Dwight D. Nodes
IN ATTENDANCE:	Mike Gleason, Commissioner
APPEARANCES:	Mr. Jay Shapiro and Mr. Norman James, FENNEMORE CRAIG, on behalf of Arizona Water Company;
	Mr. Daniel Pozefsky on behalf of the Residential Utility Consumer Office;
	Ms. Kay Bigelow, City Attorney, on behalf of the City of Casa Grande;
	Mr. Robert Skiba, in propria persona; and
	Mr. Timothy J. Sabo and Mr. Gary Horton, Staff Attorneys, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

BY THE COMMISSION:

I. INTRODUCTION

On August 14, 2002, Arizona Water Company ("Arizona Water," "Company" or Applicant") filed an application with the Arizona Corporation Commission ("Commission") for a rate increase for the Company's Eastern Group systems. Arizona Water supplies water to approximately 60,000 customers in eight Arizona counties under 18 separate water systems. The rate application filed in

days. RUCO witness Coley stated that, because the Internal Revenue Service requires quarterly payment of taxes rather than monthly, the Company's monthly payment calculation should be increased to reflect a longer lag period (RUCO Ex. 5, at 26-27).

Company witness Hubbard disputes RUCO's argument. She contends that the lead/lag methodology requires a calculation of the lead days or lag days that exist between the time an expense is recorded and the payment of such expenses. Ms. Hubbard claims that the Company's calculation of the lag associated with the payment of federal income taxes recognizes the lag reflected by quarterly payment of 90 percent of the liability, as well as the lag associated with the payment of the remaining ten percent of the liability made in March of the subsequent year. According to Ms. Hubbard, RUCO's calculation of 61.95 days is based on the incorrect assumption that payments are made annually.

Based on Company witness Hubbard's testimony, we will adopt 2.52 lag days for determining the income tax component of cash working capital. As Ms. Hubbard explained, it appears that RUCO's calculation relies on the erroneous assumption that income tax payments are made on an annual basis. Since the Company records the tax liability on a monthly basis, but pays 90 percent of the liability on a quarterly basis, we will adopt Arizona Water's calculation of 2.52 lag days.

B. <u>Deferred CAP M&I Capital Charges</u>

In this proceeding, Arizona Water seeks to reduce significantly the currently authorized amortization period, from 44 years to 3 years, for recovery of Central Arizona Project ("CAP") Municipal and Industrial ("M&I") capital charges. Ms. Hubbard testified that pursuant to the Company's 1985 contract with the United States Bureau of Reclamation and the Central Arizona Water Conservation District ("CAWCD"), Arizona Water purchases CAP water for use in its Apache Junction system (Ex. A-11, at 10). At the time of the Company's last rate case involving the Eastern Group systems (Decision No. 58120), Arizona Water was taking only limited deliveries of CAP water for delivery to potable water customers in Apache Junction. In that Decision, the Commission authorized Arizona Water to defer its pre-1991 CAP M&I capital charges over a 44-year period (Tr. 448-449). Since that time, the Company began taking increased deliveries of CAP water for both potable and non-potable uses, and the CAP M&I charges have continued to be deferred for future

recovery in a rate case. In this case, the Company seeks recovery of $691,522 in rate base for the deferred CAP M&I capital charges (Ex. A-13, at Ex. SLH-RJ2, p. 1 of 9)[2].

The disputed issue raised by both Staff and RUCO is the Company's request to recover the CAP M&I charges based on a 3-year amortization period, rather than the currently authorized 44-year period. The Company's 3-year amortization proposal is based on the expected interval between this proceeding and the next rate case involving the Apache Junction system (Ex. A-11, at 12). RUCO recommends a 10-year amortization period based on the period of time over which Arizona Water has been deferring CAP M&I charges since the last rate case (RUCO Ex. 3, at 27). Staff recommends a 32-year amortization period based on the remaining life of the CAP contract (Tr. 1033). According to Staff witness Ludders, the 32-year remaining life amortization is appropriate because it is consistent with Generally Accepted Accounting Principles ("GAAP"), because the CAP contract provides a future benefit to the Company and it is based on the currently authorized amortization period (Id. at 1033-1034).

We believe that RUCO's recommendation of a 10-year amortization period provides a reasonable resolution of this issue. As the Company points out, at the time the prior 44-year amortization period was approved, many providers, including Arizona Water, had not yet begun to take significant amounts of CAP water and no consistent policy on recovery had been developed by the Commission. However, the Company is now using its CAP allocation and it is reasonable to allow amortization over the same period in which the costs were incurred. This approach is consistent with our decision several years ago in Citizens Utilities Company's (now Arizona-American Water Company's) Sun City and Sun City West districts, wherein the Commission adopted Staff's recommendation to approve a 5-year amortization period based on the period of time over which the CAP M&I capital costs were deferred. Decision No. 62293 (February 1, 2000), at 8.

C. Summary of Rate Base Adjustments

Based on the foregoing discussion, we adopt an adjusted OCRB for the Eastern Group of $35,944,611, as shown on the attached Exhibit A. Arizona Water agreed to use the OCRB as the Fair

[2] This amount includes $645,207 for amounts deferred since the last rate case and $46,315 for CAP M&I capital charges associated with the unamortized balance of deferred charges authorized in Decision No. 58120 (Tr. 422-423). CAP M&I charges incurred on a going-forward basis would be recovered as operating expenses (Ex. A-11, at 15-16).

Library References

States ⚷67.
Westlaw Topic No. 360.
C.J.S. States §§ 121, 136 to 138, 140.

ARTICLE 9. SUBSTANTIVE POLICY STATEMENTS

Article 9, Substantive Policy Statements, consisting of § 41-1091, was added by Laws 1995, Ch. 251, § 13, effective July 13, 1995.

§ 41-1091. Substantive policy statements; directory

A. An agency shall file substantive policy statements pursuant to § 41-1013, subsection B.

B. An agency shall ensure that the first page of each substantive policy statement includes the following notice:

> This substantive policy statement is advisory only. A substantive policy statement does not include internal procedural documents that only affect the internal procedures of the agency and does not impose additional requirements or penalties on regulated parties or include confidential information or rules made in accordance with the Arizona administrative procedure act. If you believe that this substantive policy statement does impose additional requirements or penalties on regulated parties you may petition the agency under Arizona Revised Statutes § 41-1033 for a review of the statement.

C. The agency shall publish at least annually a directory summarizing the subject matter of all currently applicable rules and substantive policy statements. The agency shall keep copies of this directory and all of its substantive policy statements at one location. The directory, rules and substantive policy statements and any materials incorporated by reference in the rules or substantive policy statements shall be open to public inspection at the office of the agency director.

D. On or before June 30 of each year, the agency head shall certify to the council that the agency is in compliance with this section.

Added by Laws 1995, Ch. 251, § 13. Amended by Laws 1998, Ch. 57, § 56; Laws 2002, Ch. 334, § 14.

Historical and Statutory Notes

Reviser's Notes:

2002 Note. Pursuant to authority of § 41-1304.02, in the section heading "; directory" was added.

EXHIBIT
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Library References

States ⚷73.
Westlaw Topic No. 360.
C.J.S. States §§ 130 to 136, 140.

COMMISSIONERS
MARC SPITZER - Chairman
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON

JAMES G. JAYNE
Interim Executive Secretary

ARIZONA CORPORATION COMMISSION

June 29, 2004

Greetings:

This directory of rule summaries and policy statements in intended to help you to become familiar with and understand the currently applicable rules and policies of the Arizona Corporation Commission.

The Commission has published this directory pursuant to A.R.S. § 41-1091(B), which states:

> B. The agency shall publish at least annually a directory summarizing the subject matter of all currently applicable rules and substantive policy statements. At he agency shall keep copies of this directory and all of its substantive policy statements at one location. The directory, rules, substantive policy statements and any materials incorporated by reference in the directory, rules or substantive policy statements shall be open to public inspection at the office of the agency director.

I hope you will find this directory helpful. If you have any questions about how to use it, or suggestions about how to improve it, please address them to:

Brian C. McNeil
Executive Secretary
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007-2996

Sincerely,

Brian C. McNeil
Executive Secretary

POLICY STATEMENT SUMMARIES

Arizona Corporation Commission

Decision No. 50795, dated 4-8-80

In this decision, the Commission adopted a resolution regarding the procedures for acceptance and docketing of an application by public service corporations. The resolution details procedures that will be implemented if incomplete applications are received by the Commission.

Decision No. 52814, dated 2-11-82

In this Decision, the Commission resolved to use certain elements of PURPA's innovative rates cost of service information as a standard practice in rate cases whenever possible.

Decision No. 53032, dated 5-10-82

In this decision, the Commission set a hearing date to gather information from affected electric and gas public service corporations about how the corporations would implement the Commission's proposed policy of requiring the corporations to provide residential energy audits to customers. Information about costs of implementation, effects on accounting and ratemaking procedures, and effects on the utilities' general operations was sought.

Decision No. 53463, dated 2-16-83

In this decision, the Commission directed the Utilities Division to assert the state's jurisdiction over master meter operators, recommend rules to govern master meter operators regarding gas pipeline safety, and establish a program for master meter operators to comply with applicable State and Federal requirements.

Decision No. 53538, dated 4-29-83

In this decision, the Commission ordered that for purposes of the Residential Utility Consumer Assessment, a covered public service corporation shall consider the term "residential consumer" to be synonymous with the term "residential customers" as presently used by said public service corporations in the filing of their 1982 Annual Reports to the Commission. The Commission further ordered that this definition of "residential consumer" shall be subject to further modification by the Commission with regard to subsequent calendar years.

Decision No. 55450, dated 3-4-87

In this decision, the Commission declared the subject of Decision No. 53032 (above) moot, because no state alternative to the Federal Energy Conservation Plan had been adopted by January 1, 1983. Therefore, Decision No. 55450 closed Decision No. 53032.

Decision No. 55568, dated 5-7-87

In this decision, the Commission determined that the evaluation of applications from companies who wished to be adjudicated "not a public service corporation" needed clarification. The Commission therefore directed the Utilities Division to investigate and review all such applications (following guidelines given in the Decision) and to report to the Commission on its findings.

Decision No. 55774, dated 10-21-87

In this Decision, the Commission resolved issues regarding the Tax Reform Act of 1986 effect on a utility's accounting treatments of contributions and advances received through line extension agreements. The Commission permits utilities to collect such funds subject to certain accounting procedures. The Decision states how the Utilities Division will treat such funds in the ratemaking process as well as how such agreements will be monitored.

Decision No. 57680, dated 1-8-92

In this Decision, the Commission asserted that it would consider possible costs of conservation measures in rate proceedings, to encourage water-providing public service corporations to comply with the water management plans adopted by the Department of Water Resources pursuant to A.R.S. §§ 45-564 and 45-565. Recoverability of these costs would depend on specified factors and would be evaluated on a company-specific basis.

~~**Securities Division Policy Statement - CCH BSLR ¶ 9601, dated 9-17-86**~~

~~This policy statement clarifies that publication or distribution to the public of identifying statements pursuant to rule 134, and of preliminary prospectuses pursuant to rules 430 and 431 of the U.S. Securities and Exchange Commission under the Securities Act of 1933, is permitted in Arizona, provided an application has been previously filed with the Securities Division. A legend required to appear on every preliminary prospectus is specified in the policy statement.~~

REPEALED 3-23-04

Securities Division Policy Statement No. 9602, dated 4-22-85

This policy statement states that all registered issuers must file an annual sales report within 60 days after a registration's expiration date or termination of the offering. The policy statement sets forth the acceptable forms for such reporting.

Securities Division Policy Statement No. 9603, no date given

This policy statement details Division policy regarding applications to register convertible securities, assessment options, warrants, or other rights to subscribe to securities. It also details the method of fee calculation for such securities

Securities Division Policy Statement No. 9605, dated 11-27-84

This policy statement affirms that the Securities Division subscribes to statements of policy adopted by the North American Securities Administrators Association, Inc. (NASAA) relating to the registration of securities in Arizona except where in conflict with a state rule or regulation.

Securities Division Policy Statement No. 9607, dated Fall, 1983

This policy statement clarifies the jurisdiction of the Commission over sales of commodities. The sales of certain commodities that do not require delivery to the purchaser within 28 days of the payment of any portion of the purchase price are defined as securities under Arizona law. When determining what constitutes a security, the Division views transactions in the context of their economic substance, rather than their specific form.

Securities Division Policy Statement No. 9610, dated Spring, 1985

This policy statement notes that the use of zero coupon bonds as sales incentives may constitute a "sale within the meaning of the Arizona Securities Act. A merchant who uses zero coupon bonds as a sales incentive may need to be registered as a securities dealer or salesman unless a proper exemption is obtained.

Securities Division Policy Statement No. 9612, dated Winter, 1986

This policy statement clarifies amendments to Rules R14-4-101 through R14-4-103, as effective July 18, 1985.

Securities Division Policy Statement No. 9614, dated 9-18-91

This policy statement announces that questions regarding pending securities, broker-dealer and salesman applications will be accepted between the hours of 8:00 A.M. and 5:00 P.M. MST. The policy statement also provides that the Division will respond to no action requests. Fees for no action letters are set by A.R.S. § 44-1861(L). No action letter requests are public records and requests for them, whether granted or not, may be published at the Divisions discretion.

Securities Division Policy Statement No. 9616, dated 4-3-87

This policy statement states that the Division will require a completed Form U-1 application for any registration by qualification or description, and for any additional or oversale registrations.

Securities Division Policy Statement No. 9617, dated 4-3-87

This policy statement announces that advertising materials submitted for review will not be acknowledged unless the filing is accompanied by a copy of the submission cover letter for date stamping and return, along with a self addressed stamped envelope. If the Division finds the submitted advertising noncompliant with R14-4-103, a letter will be sent to the issuer within three business days of receipt of the materials indicating the areas of such noncompliance. These areas must be corrected before any of the materials may be used in Arizona.

Securities Division Policy Statement No. 9618, dated 1-21-91

This policy statement states the Division's position regarding a guarantee/letter of credit that is an integral part of an underlying security, that is not separable from the underlying security, and that has no value apart from the underlying security. Such guarantee/letter of credit combined with its underlying security will be considered a single security. No dual filing of registration or exemption materials is necessary.

Securities Division Policy Statement No. 9620, dated 8-22-91

This policy statement concerns shelf registrations. Effective June 18, 1991, issuers using SEC Rule 415 relating to shelf registrations, who desire to register these securities by qualification in Arizona, are required to file a single Form U-1 with the Division at the time of filing the initial application with the SEC. The Divisions previous policy of requiring a separate registration upon each "takedown from the "shelf is rescinded by this announcement.

EXHIBIT
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admitted

DIVISION 1
COURT OF APPEALS
STATE OF ARIZONA
FILED
OCT 1 4 2003
PHILIP G. URRY, CLERK
By

IN THE COURT OF APPEALS
STATE OF ARIZONA
DIVISION ONE

ARIZONA WATER COMPANY, an Arizona corporation, Plaintiff-Appellant, Cross Appellee, v. CITY OF CASA GRANDE, a municipal corporation of the State of Arizona, Defendant-Appellee, Cross Appellant.	1 CA-CV 02-0671 1 CA-CV 02-0724 (Consolidated) DEPARTMENT A **MEMORANDUM DECISION** (Not for Publication - Rule 28, Arizona Rules of Civil Appellate Procedure)

Appeal from the Superior Court in Maricopa County

Cause No. CV 00-022448

The Honorable Rebecca A. Albrecht, Judge

AFFIRMED

Bryan Cave LLP — Phoenix
By Steven A. Hirsch
and Rodney W. Ott
Attorneys for Plaintiff-Appellant, Cross Appellee

Ulrich & Anger P.C. — Phoenix
By William H. Anger
and Paul Ulrich
Office of Casa Grande City Attorney
By Kay Bigelow
Attorneys for Defendant-Appellee, Cross Appellant

S U L T, Judge

¶1 Arizona Water Company appeals the trial court's order granting summary judgment to the City of Casa Grande on Arizona Water's complaint. The City cross-appeals from the trial court's denial of its request for attorneys' fees. For the reasons that follow, we affirm.

BACKGROUND

¶2 In 1999, Reliant Energy Company was in the process of developing a large electricity production plant near Casa Grande. During this development process and following Reliant's receipt of a Certificate of Environmental Compatibility from the Arizona Corporation Commission to operate its new plant, the City became aware that Reliant had modified its original plan to use effluent as its primary water source. Instead, Reliant intended to use ground water as its primary source. Apparently concerned about the ramifications of this use of ground water to present and future Casa Grande residents, the City asked the Arizona Corporation Commission to reexamine Reliant's application, and also approached Reliant with an offer to provide effluent for the new plant.

¶3 Claiming unfair competition, Arizona Water filed suit, citing A.R.S. § 9-516(A) (1996), which precludes a municipality from competing with a certificated utility without first acquiring the utility's assets used to serve the City's residents. Arizona Water alleged that its Certificate of Convenience and Necessity guaranteed it the exclusive right to provide *any* water, including effluent, to Reliant's plant.

¶4 Arizona Water sought to enjoin the City from entering into the agreement with Reliant. The City's specific claims included (1) a violation of 42 U.S.C. § 1983; (2) a violation of Article 2, Section 4 of the Arizona Constitution; (3) declaratory

judgment; (4) tortious interference with contractual relationship, business expectancy, and prospective advantage; (5) an application for a temporary restraining order with notice and preliminary and permanent injunction; and (6) inverse condemnation.

¶5 Citing *Arizona Water Co. v. City of Bisbee,* 172 Ariz. 176, 836 P.2d 389 (App. 1991), the City filed a motion for summary judgment, arguing, *inter alia,* that Arizona Water's Certificate did not encompass effluent and that Arizona Water had already litigated and lost on this issue in the *City of Bisbee* case. Arizona Water filed a cross-motion for summary judgment and the trial court held a hearing on the motions. The court issued a lengthy minute entry that addressed the parties' claims, granted the City's motion, and denied Arizona Water's cross-motion. The court found no genuine issue of material fact and stated its legal conclusions:

> This state has been clear that the provision of water and the cleaning up, and disposal of effluent are two different things. The State has two very different responsibilities[.] [O]ne is the provision of water to the citizens of the state; the other is to gather, clean up and dispose of sewage. Cleaning effluent does not convert it to groundwater or to surface water. The definitions now make clear that effluent remains effluent UNTIL it 'acquires the characteristics of groundwater or surface water.' (It is not contended by either party that this effluent is now ground or surface water.) Water in the context of the CCN, the statutes and constitution is a legal term of art. It is different from effluent. The definitions in Title 45 make clear that the legislature intends that effluent is different and will be treated differently than groundwater and surface water.

> The *Bisbee* court and the [*Arizona Public Service Co. v.*] *Long* [160 Ariz. 429, 434, 773 P.2d 988, 993 (1989)] court both made clear that a city's provision of effluent to a user in the area covered by a CCN for water use is not a competing service.
>
> By the terms of the CCN, AWC has the exclusive right to provide water to the users in the area covered by the CCN Water as the term is used in the CCN does not include effluent water.

¶6 Following further proceedings, including the denial of Arizona Water's motion for reconsideration and the City's request for attorneys' fees, a signed judgment was filed on August 15, 2002. Arizona Water filed a timely appeal from this judgment. An amended judgment clarifying the trial court's denial of the City's request for fees was entered on September 20, and the City filed a timely notice of cross-appeal from this denial. The appeal and cross-appeal were consolidated.

ANALYSIS

¶7 Arizona Water's appeal centers on the resolution of this question: whether the trial court correctly concluded that effluent, regardless of its character or use, is not included in a water utility's Certificate of Convenience and Necessity. Arizona Water's contention is that under the new statutory definition of effluent, "the focus is on the <u>use</u> of the water . . . especially in the context of this case, which involves competitive uses prohibited under Title 9." According to Arizona Water, once the City's effluent is treated in a facility regulated by Title 49, chapter 2,

"it becomes 'water' in every sense of the word, and the City may not sell it to Arizona Water Company's customers."

¶8 Because effluent is water, Arizona Water reasons, the following issues of fact exist in this case rendering improper the trial court's grant of summary judgment: (1) the nature of the City's water treatment facilities; (2) the facts surrounding the City's provision of effluent to its own golf course and nearby farms; (3) whether Arizona Water is able to serve effluent to customers; (4) the sources of water provided by Arizona Water to customers in the Casa Grande Certificate Area; (5) the extent of Arizona Water's use of its Central Arizona Project water entitlement; (6) the quality of the water at issue; (7) Arizona Water's conservation record; and (8) Arizona Water's management of water in the Casa Grande Certificate area.

¶9 We agree with Arizona Water that if effluent of the type produced by the City is no longer considered statutorily distinct from groundwater or surface water, the trial court erred. However, we agree with the City that if its effluent is statutorily no different than that considered in *City of Bisbee*, the judgment must be affirmed.

¶10 The *City of Bisbee* court dealt with sewage effluent produced by the municipality which, under the statute then in effect, defined effluent as

> water which, after being withdrawn as groundwater or diverted as surface water, has been

> used for domestic, municipal or industrial purposes and which is available for reuse for any purpose, whether or not the water has been treated to improve its quality.

A.R.S. § 45-402(6) (Supp. 1990). The court held that under this definition, the municipality's effluent was "not the same as the water that Arizona Water provides to its service area." 172 Ariz. at 178, 836 P.2d at 391. Therefore, Arizona Water's contention that the municipality was competing with Arizona Water in contravention of its Certificate of Convenience and Necessity was rejected. *Id.* at 178-79, 836 P.2d at 391-92.

¶11 Effluent is now defined as

> water that has been collected in a sanitary sewer for subsequent treatment in a facility that is regulated pursuant to title 49, chapter 2. Such water remains effluent until it acquires the characteristics of groundwater or surface water.

A.R.S. § 45-101(4) (2003). A comparison of the two definitions illustrates that the source from which effluent can be derived has been narrowed from water used for any domestic, municipal or industrial purpose to water collected in a sanitary sewer. Thus, under the prior version, any type of waste water became effluent regardless of the manner in which it was collected for reuse. Under the present version, however, only wastewater collected in a sanitary sewer system qualifies as effluent.

¶12 Arizona Water cannot and does not claim that the effluent with which we are concerned was not collected in a sanitary sewer

system. Rather, Arizona Water's claim is that because the effluent here has been more vigorously and extensively treated than the effluent at issue in *City of Bisbee*, this effluent has taken on the characteristics of surface or groundwater and is thereby removed from the statutory definition.

¶13 We think the answer to this contention was provided by our supreme court in *Arizona Public Service Co. v. Long*, 160 Ariz. 429, 773 P.2d 988 (1989), dealing with whether certain municipalities' effluent was subject to "prior appropriation" by others under the water code or whether the municipalities retained the right to vary their accustomed disposition of the effluent. In holding under the prior version of the statutory definition that effluent, although technically "water," was not subject to the doctrine of prior appropriation, the court stated:

> The Cities' expenditure of tens if not hundreds of millions of dollars for sewer lines, purification plants and equipment does not transform the water and change it back into groundwater or surface water. It remains effluent.

Id. at 438, 773 P.2d at 997.

¶14 This response is still appropriate and will remain so unless and until the Legislature decides to change its scheme for dealing with wastewater collected in sewer systems. When the legislature determines that treatment methods have advanced to the point that effluent is no longer a nuisance but is indistinguishable from surface water or groundwater, and enacts legislation to

that effect, then *City of Bisbee* will become irrelevant. As of now, however, this decision has not been made and *City of Bisbee* therefore controls the disposition of this case. We conclude that the trial court was correct, there are no material issues of fact, and as a matter of law the City's sale of effluent to Reliant does not infringe upon Arizona Water's Certificate of Convenience and Necessity.

¶15 We now turn to the cross-appeal. The City argues that the trial court erred by denying its request for attorneys' fees pursuant to A.R.S. §§ 12-341.01(A), (B) and (C), 12-349, and Rule 11 of the Arizona Rules of Civil Procedure. The City also requests attorneys' fees on appeal.

¶16 Subsections (A) and (B) of A.R.S. § 12-341.01 are simply not applicable to this case because it does not "arise out of contract" within the meaning of these provisions. This case is similar to *Fairway Constructors, Inc. v. Ahern*, 193 Ariz. 122, 126, ¶ 17, 970 P.2d 954, 958 (App. 1998), where this court found that the plaintiff's unfair competition claim did not arise out of a contract that involved the defendant. Plaintiff's justification for his § 12-341.01(A) claim, that the plaintiff and a third party had a contract with each other was, this court noted, "beside the point." *Id.* This analysis applies to our case and we find that the contract between the City and Reliant is equally irrelevant.

¶17 Insofar as A.R.S. § 12-341.01(C) is concerned, that subsection provides that "[t]he court shall award reasonable attorney fees in any contested action upon clear and convincing evidence that the claim or defense constitutes harassment, is groundless and is not made in good faith." We will uphold a trial court's decision to grant or deny mandatory fees under this section unless that decision constitutes an abuse of discretion. *Cf. Rowland v. Great States Insurance Co.*, 199 Ariz. 577, 587, ¶ 31, 20 P.3d 1158, 1168 (App. 2001). Viewing the record in the light most favorable to upholding the trial court's decision, we conclude that the trial court did not err by denying fees. Although the court did not make express findings, "by denying the fee request, it implicitly found that at least one of the three required elements in § 12-341.01(C) was lacking." *Id.* at 587, ¶ 34, 20 P.3d at 1168.

¶18 The City also contends that the trial court's refusal to award attorneys' fees pursuant to A.R.S. § 12-349 was error. Reasonable fees and expenses shall be awarded pursuant to this section against a party who (1) brings a claim primarily for delay or harassment, (2) unreasonably delays the proceedings, (3) abuses discovery, or (4) brings a claim without substantial justification. "'[W]ithout substantial justification' means that the claim or defense constitutes harassment, is groundless and is not made in good faith." A.R.S. § 12-349(F); *see also City of Casa Grande v. Arizona Water Co.*, 199 Ariz. 547, 555, ¶ 27, 20 P.3d 590, 598 (App.

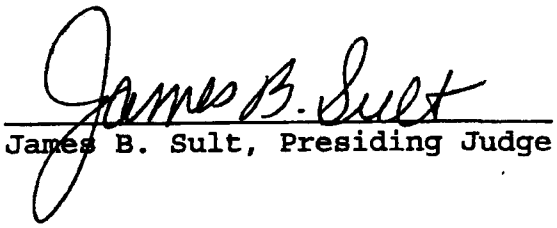
2001). We will not disturb a trial court's decision to grant or deny fees under § 12-349 absent a finding that the court abused its discretion. *Cf. Phoenix Newspapers, Inc. v. Department of Corrections*, 188 Ariz. 237, 243, 934 P.2d 801, 807 (App. 1997). We cannot make this finding because the record does not reflect untoward purpose on the part of Arizona Water, and it has presented a fairly debatable position, as reflected by both the trial court's thorough minute entry and our own analysis.

¶19 The City next complains of the trial court's denial of its request for attorneys' fees under Rule 11(a) of the Arizona Rules of Civil Procedure. "Rule 11(a) authorizes fee awards for claims that are not well-founded or interposed for improper purpose." *Paxson v. Glovitz*, 203 Ariz. 63, 66 n.2, ¶ 18, 50 P.3d 420, 423 n.2 (App. 2002). We find no abuse of discretion in the trial court's denial of fees pursuant to this rule. *See James, Cooke & Hobson, Inc. v. Lake Havasu Plumbing & Fire Protection*, 177 Ariz. 316, 319, 868 P.2d 329, 332 (App. 1993).

¶20 Finally, the City requests its attorneys' fees on appeal pursuant to A.R.S. §§ 12-341.01(A), (C), 12-349, 12-350, and Rule 11 of the Arizona Rules of Civil Procedure. We find § 12-341.01(A) inapplicable and decline to make an award on any of the alternative bases.

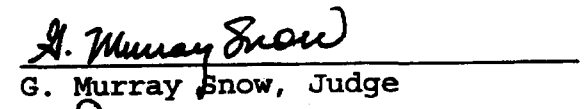
CONCLUSION

¶21 We affirm the trial court's grant of summary judgment in favor of the City and its denial of the City's request for attorneys fees. In addition, we deny the City's request for attorneys' fees on appeal but award the City its costs on appeal.

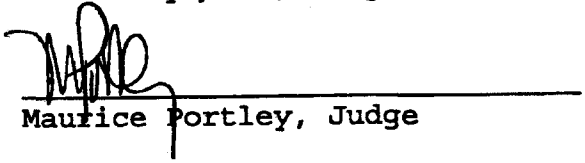


James B. Sult, Presiding Judge

CONCURRING:



G. Murray Snow, Judge



Maurice Portley, Judge

EXHIBIT
R-24
admitted

ARIZONA PUBLIC SERVICE

2003 RATE CASE

LEAD/LAG STUDY

The following 5 pages contain summary explanations of calculations for LLR-3, Cash Working Capital Required for Operating Expenses, found on page 9. The line references are to the line numbers on page 9, first column.

RC00019

Lead/Lag Study
Summary of Methodology for Lead/Lag Calculations

Line	Sub	Description
		Revenues: The lag days represent the number of days it takes APS to receive payment for services rendered. Revenues include Customer Information System (CIS), transmission revenue, sales for resale, and rent from electric property. The weighted average of these revenue components comprise total revenue lag days. Total revenue lag is 41.81 days. Each major component is discussed below.
	a	CIS Revenue: Represents APS native load customers. Three components of the revenue cycle are combined to arrive at CIS revenue lag days: (1) service period to meter reading, (2) meter read to billing and (3) billing to collection. CIS revenues from customer sales are assumed to occur evenly throughout the month. The service period lag represents the average month midpoint or service period to meter reading lag and is calculated as follows: 365 (days in year) divided by 12 months divided by 2 (assuming a monthly midpoint) or 15.21days. The meter read to billing lag is the "read date" to the billing date lag divided by the number of billing cycles each month (21 billing cycles) or 5.1 days. The billing to collection lag is the number of days from the time of the billing until the cash is collected. This is calculated in three steps. First, customer accounts receivable is divided by average daily revenue to calculate monthly lag days. Second, monthly lag days are multiplied by total CIS revenue to calculate the weighted monthly lag days. The sum of the months weighted amounts divided by the sum of CIS revenue equals collection days lag (the billing to collection lag) or 22.21 days. The "billing to collection lag days" are combined with the "service period lag days" and the "meter read to billing lag days" to arrive at total CIS revenue lag days. Total CIS revenue lag days is 42.52 days calculated as 22.21 days (billing to collection) + 15.21 days (service period to read) + 5.1 days (meter read to billing).
	b	Transmission Revenue: Represents third-party wheeling revenues where APS receives payment for transmitting power over APS lines for a third party. The payment date was analyzed for the 7 largest customers. The calculation is the same as for traditional sales for resale below in item "c". Transmission revenue lag is 35.7 days.
	c	Traditional Sales for Resale: Represents long-term wholesale customers, which have the same rights to our power as native load customers. Customers include City of Williams and the Electrical Districts. The payment dates for the 8 largest customers were analyzed. That date, less the midpoint date from the prior month, was multiplied by the payment amount to calculate a weighted payment amount. The sum of all weighted payment amounts was divided by the sum of payments to calculate the sales for resale lag of 30.1 days.
	d	Rent From Electric Property: Represents rent received for the use of land, buildings and other property owned by APS. The material counter-parties (representing 71% of total rent from electric property) were identified and analyzed comparing the billed date with the payment date. Then the lag days were calculated. The lag days times the payment amount equals the weighted lag amount. The sum of the weighted lag amounts divided by the total payment amounts equals the lag for rent of 47.1 days.
2		Coal: Contains coal purchases for Four Corners, Navajo, and Cholla. Coal purchases for each plant are calculated using basically the same method. First, the payment date is compared to receipt date to determine days payment lag. The lag days are multiplied by the payment amount to get the weighted payment amount. The sum of all weighted payment amounts divided by the sum of all payment amounts equals days lag. Four Corners and Navajo use the midpoint of the month for coal receipts since they receive coal almost daily. Cholla uses the actual date coal was received at the plant. Freight invoices are reviewed separately for Cholla and calculated in the same manner as coal payments. There is no freight charge for Four Corners as the coal mine is located in proximity to the generation plant. For Navajo, there is no freight payment detail to review since one payment, for both coal and freight, is made to Salt River Project (SRP), the operating agent.
3		Natural Gas: Contains gas fuel and gas handling.
	a	Gas fuel: APS buys and sells natural gas for use in native load power production. Payments are due on the 25th of the following month.

Lead/Lag Study
Summary of Methodology for Lead/Lag Calculations

Line	Sub	Description
		Accounts Payable (AP) was queried for gas fuel payments. All payments were assumed made for the prior month's expense. First the payment date of the current month payment was subtracted from the midpoint date of the prior month (assuming gas was received evenly throughout the month) to calculate lag days. Then the days lag was multiplied by the total payment amount to get weighted payment amount. Finally, the sum of all weighted payment amounts for the year were divided by the sum of all payments to calculate the lag days for gas fuel.
	b	Gas handling: Consists mostly of payroll charges which were included in the calculation using the same lag days as natural gas expense.
4		Fuel Oil: For APS plants excluding Navajo, the lag days calculation was based on analysis of the invoices for fuel oil and comparing the date paid to the date the oil was received. Lag days multiplied by the amount paid produced the weighted payment amount. The sum of all weighted payment amounts for the year divided by the sum of total payments equals the lag days for fuel oil. For Navajo, the calculation is basically the same except that the midpoint of the month is used since one payment is made, for both fuel oil and freight, to SRP, the operating agent.
6		Nuclear Fuel Amortization: The lag days for nuclear fuel amortization is zero because the amortization expense is assumed to be occurring uniformly. Current year amortization is included in "other revenue lag items" for current year expense. For these type items, sometimes referred to as non-cash expenses, zero lag days were assigned to both revenue and expense so that no separate cash working capital requirement for these items would be calculated. Some of these items, such as nuclear fuel amortization, are however, included as a separate line item on schedule LLR-2. This is to properly reflect the impact of the non rate-based elements of rate base components. The amount that should be included is the related cost of service requirement amount that remained unpaid by customers at the end of the period (i.e., remained in customer receivable at the end of 2002). This was calculated by multiplying the items daily cost of service amount by the average number of days cost of service was not yet paid by customers at the end of 2002 (revenue lag).
7		Nuclear Spent fuel: A payment is made to the Department of Energy (DOE) for the future permanent disposal of nuclear spent fuel. This represents funding for the permanent disposal of spent nuclear fuel provided through a 1-mil/kWh surcharge on electrical generation. Spent nuclear fuel lag days are calculated based on payments made for spent fuel one month after the end of each quarter. The days in each quarter are divided by two to calculate the midpoint. The lag days are calculated by adding the quarter midpoint to the payment date (one month later). After the lag days are calculated for all four quarters in the year of the lead lag study, the total is divided by four to obtain an average lag.
10		Purchased Power: Includes inter-company purchases, SRP Territorial and Contingent (T&C), and exchanges.
	a	Inter-company Purchases: These purchases occur between Marketing and Trading (M&T) and APS. APS processes check requests for payment of inter-company transactions between APS and M&T on the 20th of the following month. 20 days (when checks are paid for previous month's activity) was added to the service period lag of 15.21 lag days (see explanation of service period lag in the revenue section on page 2, item b) for a total of 35.21 lag days.
	b	SRP T&C: These are APS customers in SRP's service territory. APS buys power from SRP to service these customers. Payment is made the month after the expense is recorded. The payment date was subtracted from the end of the previous month to get lag days. The lag days were multiplied by the payment amount to calculate the weighted payment amount. The sum of all weighted payment amounts divided by the sum of all payments plus the service period lag equals lag days for SRP T&C.
	c	Exchanges: Business activity is exchanging power received from Hoover Dam and delivering it to the Electrical Districts. No cash is associated with exchanges (priced at system incremental cost) so the exchanges are weighted into the total lag day calculation with zero used for lag days.

Lead/Lag Study
Summary of Methodology for Lead/Lag Calculations

Line	Sub	Description
11		Transmission by Others: This is third party wheeling expense such as paying Western Area Power Authority (WAPA) or SRP to transmit APS power over their lines. When APS wheels for others, the tariff collected is included in revenues. The payment date was subtracted from the midpoint of the prior month for lag days. This was multiplied by the payment amount to get the weighted payment amount. The sum of all weighted payment amounts divided by the sum of all payments equals the payment lag days.
15		Payroll: This includes all Operations and Maintenance (O&M) payroll which consists of base pay, overtime, incentive and other payroll costs. The lag days for payroll are calculated in several steps. The first step is to calculate the midpoint of each pay period (there are twenty-four pay periods during the year). The calendar days from the end of the pay period to the pay date is added to the midpoint to obtain the lag days for each pay period. The lag days for each pay period is multiplied by the total gross payroll for each pay period to obtain the weighted payroll amount. The sum of all weighted payroll amounts is divided by the sum of payroll dollar amounts for all 24-pay periods to arrive at the average lag days for payroll of 18.45, which consists of a payroll lag of 16.29 days and an incentive lag of 201.5 days. Incentive was accrued throughout 2002 and was paid on January 19, 2003. Therefore, the lag for incentive is 182.5 days (2002 midpoint) + 19 days (January 19th) or 201.5 days.
16		Severance: There is a pro forma adjustment to levelize severance costs (over 5 years) for the rate base and therefore it is excluded from this analysis.
17		Pension and Other Post Employment Benefits (OPEB): The lag days for pension and OPEB expense is zero because the company funds a trust fund for these costs. Current year expense for pension and OPEB is included in "other revenue lag items" (See explanation of similar type items in Line Reference 6). The unfunded obligation of the pension plan and OPEB will be included in deferred credits on schedule B-1of the rate case.
18		Employee Benefits: Benefits and payroll taxes are provided by Pinnacle West Capital Corporation and are paid twice a month. The lag is calculated by comparing the payment date to the midpoint of the pay period covered. Exceptions to this are benefits and payroll taxes paid for certain participant projects: Navajo, Mead Phoenix, and Palo Verde. These benefits are paid in the middle of the month for the current month to the project manager, so the lag is zero.
19		Payroll Taxes: Calculated using the same methodology as employee benefits. See Line Reference 18.
20		Materials and Supplies: Materials are recorded in the general ledger from various source systems. The source systems include the Inventory System for the warehouse materials, the Accounts Payable System for materials purchased directly and not stored in the warehouse, and the Credit Card System for materials purchased directly and not processed through the warehouse. An analysis of each of these source systems was performed to determine the number of lag days by system, by reporting entity. For APS, a lag was calculated for materials that were no longer coded with the original source system by weighting each of the three original source systems and finding an average lag. Lags were calculated for materials from Palo Verde, Cholla, and Four Corners by weighting each of the three original source systems and finding an average lag for each reporting entity. These lags were applied to the materials reported in the APS system which represents the APS ownership share of the materials. The overall lag for APS was calculated by applying the lag days to materials from each of the source systems. The weighted amount was then divided by the total materials to calculate an overall lag.
21		Franchise Payments: This represents payments to municipalities for right of way to do business. The fee is calculated as a percent of revenues. The payment detail is obtained from a monthly payment report. Most franchise payments are made quarterly. Three cities are paid monthly (Phoenix, Flagstaff and Yuma). The expense is assumed to be incurred evenly throughout the month or quarter. A midpoint is calculated for each month. The lag is calculated as the midpoint plus the number of days until the payment is made. The lag days is multiplied by the expense amount to calculate a weighted payment amount. The sum of all weighted payment amounts divided by the sum of all payments equals the payment lag days. The service period lag is added to the

Line	Sub	Description
		payment lag days to arrive at total lag days for franchise payments.
22		Vehicle Lease Payments: This category consists of operating leases for vehicles. All of the payments were analyzed in AP Inquiry to determine the payment date. The lease expense was assumed to be incurred evenly throughout the month. A midpoint was calculated for each month. The lag was calculated as the month midpoint plus the number of days until the invoice is paid. The lag days were multiplied by the payment amount to get a weighted payment amount. The sum of all weighted payment amounts divided by the sum of all payments equals the payment lag days for leased vehicles.
23		Rents: All rent payments over $3,000 were included in the analysis. The largest rent payment is the lease for APS headquarters, which represents 80% of total rents. Other material rents include the Electrical Districts and SRP Mead Phoenix. Most rent payments in this study are paid in advance. Some substation rents are paid a year in advance. First we assumed the rent was incurred evenly throughout the month and year and then calculated a midpoint for each month. The lag days were then calculated as the difference between the date the payment was made and the midpoint of the month the payment was for. The lag days were then multiplied by the payment amount to calculate a weighted payment amount. The sum of all weighted payment amounts divided by the sum of all payments equals the payment lag days for rents.
24		Palo Verde Lease: This represents the Palo Verde sale/leaseback arrangement. The lag days are calculated using a calendar year. The payments are made on June 30th and December 31st. Since the expense is assumed to occur evenly throughout the year, an average payment date was determined. This was arrived at by weighting each of the payments and arriving at an average days paid. Each month's midpoint is compared to the average paid date to calculate a lead/lag for each month. The lag day for each month is multiplied by the expense amount to get a weighted expense amount. The sum of all weighted expense amounts divided by the sum of all payments equals the payment lag days.
25		Palo Verde Sale/Leaseback Gain Amortization (PV S/L): The sale/leaseback amortization expense is obtained from the general ledger. The lag days for PV S/L Gain Amortization is zero because it does not involve cash in the current year. Current year expense for PV S/L is included in "other revenue lag items" (see explanation of similar type items in Line Reference 6)."
26		Insurance: The lag days for insurance expense is zero because the expense is assumed to be occurring uniformly, and the expense is deducted from prepaid insurance which is included in the rate base. The 12/31/02 balance sheet amount for insurance will be included in computation of working capital on Schedule B-5.
27		Uncollectable Accounts: The lag days for uncollectible accounts are zero because it does not involve cash in the current year.
28		Other: "Other" consists mostly of O&M and administrative charges. Source systems for inventory, credit cards and accounts payable were analyzed individually to determine lag days. A composite lag was calculated for those charges that did not come from these three source systems, with the exception of allocated corporate costs; contract A&G payments received from participant project owners; and the Navajo, ANPP, and Mead projects. Separate lags were calculated for these costs. Lags were calculated for "Other" from Palo Verde, Cholla, and Four Corners by weighting each of the three original source systems and finding an average lag for each reporting entity. These lags were applied to the "Other" reported in each respective APS ownership interest in the projects.
31		Depreciation and Amortization: The depreciation and amortization expense is recorded once monthly. All expense is assumed to be occurring uniformly and does not involve cash. Therefore the lead lag days are zero. Current year depreciation and amortization expense is included in "other revenue lag items". (See explanation of similar type items in Line Reference 6.)
32		Amortization of Electric Plant Acquisition Adjustment: The lag days for amortization is zero because it does not involve cash in the current year. The current year expense is included in "other revenue lag items". (See explanation of similar type items in Line Reference 6.)

Lead/Lag Study
Summary of Methodology for Lead/Lag Calculations

Line	Sub	Description
33		Amortization of Property Losses & Regulatory Study Costs: The lag days for amortization is zero because it does not involve cash in the current year. The current year expense is included in "other revenue lag items". (See explanation of similar type items in Line Reference 6.)
38		Federal Taxes: The lag days are calculated using a calendar year. The midpoint of the year is used to calculate the lead/lag days for each payment because the expense is assumed to occur evenly throughout the year. The lead or lag days are multiplied by the percentage of payment due to arrive at a particular payment date lag. The payment days are April 15, June 17, September 16, December 16, and March 17.
39		State Taxes: The lag days are calculated using a calendar year. The midpoint of the year is used to calculate the lead/lag days for each payment because the expense is assumed to occur evenly throughout the year. The lead or lag days are multiplied by the percentage of payment due to arrive at a particular payment date lag. The payment dates are (same as for federal taxes except for Arizona's last payment) April 15, June 17, September 16, December 16, and March 17 (Arizona is April 15). Each State is weighted and an average lag days is calculated. All dates except Arizona are the same, but it does impact the lag since Arizona represents 79% of the total state payments.
40		Deferred Taxes: This is a result of timing differences and no cash is associated with deferred taxes. Therefore, it has zero lag days. Current year expense is included in "other revenue lag items". (See explanation of similar type items in Line Reference 6.)
44		Property Taxes: APS pays property taxes to Arizona, New Mexico, Nevada and California. The lag days for Arizona property taxes are based on a calendar year using the midpoint of June 30. The lag days from the midpoint are multiplied by the payment percentage to arrive at a weighted lag day. One-half of the property tax is paid on November 1st of the current tax year, and one-half of the property tax is paid on May 1st of the following year. New Mexico, Nevada and California property tax lag days are calculated using the same method as Arizona property taxes. For New Mexico, one-half of the property tax is paid on November 30th of the current tax year, and one-half is paid on May 1st of the following year. For Nevada, one-quarter of the property taxes are paid each on August 8th and October 7th of the current tax year and one-quarter each on January 6th and March 3rd of the following year. For California, one-half of the property tax is paid on November 1st of the current tax year, and one-half is paid on April 10th of the following year. The New Mexico Business Activity Tax (BAT) is included as part of the New Mexico Property Taxes. The tax is based on plant activity as per agreement between the Navajo Nation, APS and the other participants. It is paid quarterly on the 15th of the month following the end of the quarter.
45		Sales Taxes: This is a reserve for any future potential payments due to CIS audits or any other potential audit exposures. The future pay dates are indeterminate so lag days are zero.

ARIZONA PUBLIC SERVICE COMPANY
COMPUTATION OF ALLOWANCE FOR WORKING CAPITAL
TWELVE MONTHS ENDED DECEMBER 31, 2002

LINE	DESCRIPTION	AMOUNT
1	WORKING CAPITAL - OPERATIONS (LL 2)	54,097,922
2	MATERIALS & SUPPLIES	79,984,962
3	FUEL - COAL AND OIL	28,184,883
4	FUEL - NUCLEAR, NET	7,466,285
5	PREPAYMENTS	5,978,469
6	ALLOWANCE FOR WORKING CAPITAL	175,712,521

ARIZONA PUBLIC SERVICE COMPANY
CASH WORKING CAPITAL REQUIRED FOR OPERATING EXPENSES - LEAD LAG STUDY
TWELVE MONTHS ENDED DECEMBER 31, 2002

LINE	DESCRIPTION	AMOUNT	REVENUE LAG DAYS	EXPENSE LAG DAYS	NET LAG DAYS	CWC * FACTOR	WORKING CAPITAL REQUIREMENT
		(1)	(2)	(3)	(4)	(5)	(6)
1	FUEL FOR ELECTRIC GENERATION:						
2	COAL	157,018,541	41.81069	30.86168	10.94901	0.03000	4,710,556
3	NATURAL GAS	75,641,831	41.81069	41.62912	0.18156	0.00050	37,821
4	FUEL OIL	1,220,091	41.81069	27.40279	14.40790	0.03947	48,157
5	NUCLEAR:						
6	AMORTIZATION	31,251,461	0.00000	0.00000	0.00000	0.00000	0
7	SPENT FUEL	8,296,700	41.81069	76.37500	-34.56431	-0.09470	(785,697)
8	TOTAL	273,428,624					4,010,837
9							
10	PURCHASED POWER	343,858,302	41.81069	37.83806	3.97263	0.01088	3,741,178
11	TRANSMISSION BY OTHERS	10,742,660	41.81069	34.02490	7.78579	0.02133	229,141
12	TOTAL	354,600,962					3,970,319
13							
14	OTHER OPERATIONS & MAINTENANCE:						
15	PAYROLL	213,167,640	41.81069	18.44744	23.36325	0.06401	13,644,861
16	SEVERANCE	28,223,377	0.00000	0.00000	0.00000	0.00000	0
17	PENSION AND OPEB	19,989,248	0.00000	0.00000	0.00000	0.00000	0
18	EMPLOYEE BENEFITS	16,752,698	41.81069	17.02000	24.79069	0.06792	1,137,843
19	PAYROLL TAXES	13,328,087	41.81069	13.98000	27.83069	0.07625	1,016,267
20	MATERIALS & SUPPLIES	40,910,931	41.81069	29.34000	12.47069	0.03417	1,397,927
21	FRANCHISE PAYMENTS	28,932,439	41.81069	68.19607	-26.38538	-0.07229	(2,091,526)
22	VEHICLE LEASE PAYMENTS	7,228,287	41.81069	38.09947	3.71122	0.01017	73,512
23	RENTS	4,962,688	41.81069	-31.71012	73.52081	0.20143	999,634
24	PALO VERDE LEASE	45,202,210	41.81069	53.29167	-11.48098	-0.03145	(1,421,610)
25	PALO VERDE S/L GAIN AMORT	(4,575,722)	0.00000	0.00000	0.00000	0.00000	0
26	INSURANCE	2,430,999	0.00000	0.00000	0.00000	0.00000	0
27	UNCOLLECTIBLE ACCOUNTS	2,680,484	0.00000	0.00000	0.00000	0.00000	0
28	OTHER	76,612,102	41.81069	37.55000	4.26069	0.01167	894,063
29	TOTAL	495,845,469					15,650,971
30							
31	DEPRECIATION & AMORTIZATION	284,659,929	0.00000	0.00000	0.00000	0.00000	0
32	AMORT OF ELECTRIC PLT ACQ ADJ	15,443,124	0.00000	0.00000	0.00000	0.00000	0
33	AMORT OF PROP LOSSES & REG STUDY COSTS	99,536,541	0.00000	0.00000	0.00000	0.00000	0
34	TOTAL	399,639,594					0
35							
36	INCOME TAXES:						
37	CURRENT:						
38	FEDERAL	(61,961,636)	41.81069	60.05000	-18.23931	-0.04997	3,096,223
39	STATE	(17,998,536)	41.81069	62.34755	-20.53686	-0.05627	1,012,778
40	DEFERRED	206,767,266	0.00000	0.00000	0.00000	0.00000	0
41	TOTAL	126,807,094					4,109,001
42							
43	OTHER TAXES:						
44	PROPERTY TAXES	103,969,716	41.81069	212.81731	-171.00662	-0.46851	(48,710,852)
45	SALES TAXES	3,955,025	0.00000	0.00000	0.00000	0.00000	0
46	TOTAL	107,924,741					(48,710,852)
47							
48	TOTAL	1,758,246,484					(20,969,724)

* CWC is rounded to 5 digits.

SOUTHWEST GAS CORPORATION
ARIZONA
LEAD-LAG STUDY
FOR THE TWELVE MONTHS ENDED AUGUST 31, 2004

Line No.	Description [1] (a)	Cost (b)	Lag Days (c)	Dollar Days (d)	Line No.
1	Cost of Gas [2]	$ 298,559,015	43.78	13,070,913,677	1
2	Labor Cost	107,117,974	14.01	1,500,332,454	2
3	Provision for Uncollected Accounts	1,498,151	120.00	179,778,121	3
4	Other O & M Expenses	45,068,143	6.32	284,830,661	4
5	Total O & M Expenses	$ 452,243,282	33.25	15,035,854,913	5
6	Interest	40,521,530	87.34	3,539,150,388	6
7	Taxes Other Than Income Taxes	33,455,124	206.50	6,908,483,010	7
8	Income Taxes-Current	18,192,843	37.00	673,135,208	8
9	Total Operating Expenses	$ 544,412,779	48.05	26,156,623,519	9
10	Number of Days in Test Period	365			10
11	Average Daily Operating Expense	$ 1,491,542			11
12	Lag in Receipt of Revenue		40.62		12
13	Net Difference Revenue-Expense Lag	(7.43)			13
14	Cash Working Capital	$ (11,082,156)			14

[1] Supporting Workpapers B-5
[2] Gas costs adjusted for present volumes and rates to synchronize with gas cost adjustment.

Tucson Electric Power Company
Cash Working Capital - Lead/Lag Study
Test Year Ended December 31, 2003
(Dollars)

Line No.	Description	Pro Forma Test Year Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days (Col. C - Col. D)	Lead/Lag Factor (Col. E/365)	Cash Working Capital Required (Col. F x Col. B)	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
	Operating Expenses							
	Non-Cash Expenses							
1	Bad Debts Expense	$1,973,979						1
2	Depreciation	95,639,315						2
3	Amortization	6,176,217						3
4	Deferred Income Taxes	7,068,568						4
	Other Operating Expenses							
5	Salaries and Wages	53,914,469	36.22	12.43	23.79	0.0652	$3,514,042	5
6	Incentive Compensation	4,079,103	36.22	244.32	(208.10)	(0.5701)	(2,325,647)	6
7	Fuel Expense	188,779,752	36.22	29.13	7.09	0.0194	3,666,982	7
8	Purchased Power	29,971,848	36.22	34.70	1.52	0.0042	124,814	8
9	Purchased Transmission	1,987,918	36.22	43.32	(7.10)	(0.0195)	(38,669)	9
10	Lease Expense	114,438,299	36.22	94.17	(57.95)	(0.1588)	(18,169,040)	10
11	Remote Generating Plant O&M	27,550,792	36.22	7.62	28.60	0.0784	2,158,774	11
12	Office Supplies and Expenses	4,965,814	36.22	(70.58)	106.80	0.2926	1,453,011	12
13	Outside Services	6,529,965	36.22	35.99	0.23	0.0006	4,115	13
14	Property Insurance	1,835,550	36.22	21.76	14.46	0.0396	72,718	14
15	Injuries and Damages	1,874,934	36.22	25.23	10.99	0.0301	56,453	15
16	Pensions and Benefits	16,123,195	36.22	8.50	27.72	0.0759	1,224,479	16
17	Regulatory Commission Expense	337,019	36.22	5.36	30.86	0.0845	28,494	17
18	Miscellaneous General Expenses	3,976,811	36.22	(2.22)	38.44	0.1053	418,818	18
19	Rents	1,844,225	36.22	12.45	23.77	0.0651	120,102	19
20	Property Taxes	37,878,839	36.22	213.65	(177.43)	(0.4861)	(18,413,267)	20
21	Payroll Taxes	5,676,832	36.22	12.71	23.51	0.0644	365,650	21
22	Current Income Taxes	(171,255)	36.22	42.41	(6.19)	(0.0170)	2,904	22
23	Other Taxes	210,233	36.22	75.41	(39.19)	(0.1074)	(22,573)	23
24	Interest on Customer Deposits	443,858	36.22	182.50	(146.28)	(0.4008)	(177,884)	24
25	Other Operations and Maintenance	38,650,774	36.22	14.35	21.87	0.0599	2,315,870	25
26	Total Operating Expenses	651,757,054						26
	Other Cash Working Capital Elements:							
27	Interest On Long-Term Debt	45,622,659	36.22	84.51	(48.29)	(0.1323)	(6,035,940)	27
28	Revenue Taxes and Assessments	$56,604,889	36.22	48.79	(12.57)	(0.0344)	(1,949,379)	28
29	Total Cash Working Capital						($31,605,172)	29

Supporting Schedules	Recap Schedules
N/A	B-3

EXHIBIT
R-25
admitted

ARIZONA WATER COMPANY
2003 CUSTOMER COUNT
WESTERN GROUP

	TOTAL	Casa Grande	Stanfield	White Tank	Ajo	Coolidge
January 2003						
Residential	17,364	12,676	179	1187	612	2,710
Commercial	1,399	985	36	16	81	281
Industrial	38	29	0	2	0	7
Fire Sprinkler	148	130	0	2	0	16
Other	60	48	1	5	1	5
Rent	0	0	0	0	0	0
TOTAL	**19,009**	**13,868**	**216**	**1,212**	**694**	**3,019**
February 2003						
Residential	17,484	12,774	178	1208	612	2,712
Commercial	1,397	983	36	17	82	279
Industrial	36	27	0	2	0	7
Fire Sprinkler	147	130	0	2	0	15
Other	60	47	1	5	1	6
Rent	0	0	0	0	0	0
TOTAL	**19,124**	**13,961**	**215**	**1,234**	**695**	**3,019**
March 2003						
Residential	17,602	12,866	179	1218	616	2,723
Commercial	1,396	986	36	16	82	276
Industrial	36	27	0	2	0	7
Fire Sprinkler	149	132	0	2	0	15
Other	58	41	1	10	1	5
Rent	0	0	0	0	0	0
TOTAL	**19,241**	**14,052**	**216**	**1,248**	**699**	**3,026**
April 2003						
Residential	17,738	12,983	177	1226	618	2,734
Commercial	1,397	988	37	16	82	274
Industrial	37	28	0	2	0	7
Fire Sprinkler	150	133	0	2	0	15
Other	65	47	1	7	1	9
Rent	0	0	0	0	0	0
TOTAL	**19,387**	**14,179**	**215**	**1,253**	**701**	**3,039**
May 2003						
Residential	17,849	13,081	177	1241	617	2,733
Commercial	1,403	994	37	16	83	273
Industrial	35	26	0	2	0	7
Fire Sprinkler	154	137	0	2	0	15
Other	64	44	1	7	1	11
Rent	0	0	0	0	0	0
TOTAL	**19,505**	**14,282**	**215**	**1,268**	**701**	**3,039**
June 2003						
Residential	17,989	13,208	176	1258	609	2,738
Commercial	1,408	997	37	16	82	276
Industrial	36	27	0	2	0	7
Fire Sprinkler	159	138	0	2	0	19
Other	56	43	1	3	1	8
Rent	0	0	0	0	0	0
TOTAL	**19,648**	**14,413**	**214**	**1,281**	**692**	**3,048**

ARIZONA WATER COMPANY
2003 CUSTOMER COUNT
WESTERN GROUP

	TOTAL	Casa Grande	Stanfield	White Tank	Ajo	Coolidge
July 2003						
Residential	18,152	13,353	175	1261	613	2,750
Commercial	1,417	1,001	37	17	83	279
Industrial	36	27	0	2	0	7
Fire Sprinkler	160	139	0	2	0	19
Other	58	45	1	2	1	9
Rent	0	0	0	0	0	0
TOTAL	**19,823**	**14,565**	**213**	**1,284**	**697**	**3,064**
August 2003						
Residential	18,222	13,416	177	1270	611	2,748
Commercial	1,419	1,003	37	17	83	279
Industrial	36	27	0	2	0	7
Fire Sprinkler	161	140	0	2	0	19
Other	57	43	1	0	1	12
Rent	0	0	0	0	0	0
TOTAL	**19,895**	**14,629**	**215**	**1,291**	**695**	**3,065**
September 2003						
Residential	18,282	13,479	176	1277	605	2,745
Commercial	1,422	1,008	37	17	82	278
Industrial	37	28	0	2	0	7
Fire Sprinkler	167	145	0	2	0	20
Other	56	42	1	0	1	12
Rent	0	0	0	0	0	0
TOTAL	**19,964**	**14,702**	**214**	**1,298**	**688**	**3,062**
October 2003						
Residential	18,452	13,633	175	1298	605	2,741
Commercial	1,420	1,004	38	17	82	279
Industrial	36	27	0	2	0	7
Fire Sprinkler	165	143	0	2	0	20
Other	54	39	1	0	1	13
Rent	0	0	0	0	0	0
TOTAL	**20,127**	**14,846**	**214**	**1,319**	**688**	**3,060**
November 2003						
Residential	18,588	13,765	176	1307	601	2,739
Commercial	1,426	1,011	37	17	83	278
Industrial	36	27	0	2	0	7
Fire Sprinkler	166	144	0	2	0	20
Other	53	38	1	0	1	13
Rent	0	0	0	0	0	0
TOTAL	**20,269**	**14,985**	**214**	**1,328**	**685**	**3,057**
December 2003						
Residential	18,584	13,760	180	1316	598	2,730
Commercial	1,428	1,012	37	17	82	280
Industrial	36	27	0	2	0	7
Fire Sprinkler	167	145	0	2	0	20
Other	51	37	1	0	1	12
Rent	0	0	0	0	0	0
TOTAL	**20,266**	**14,981**	**218**	**1,337**	**681**	**3,049**

Arizona Water Company
Western Group
C2-5
Annualization of Customers Revenues and Related Expenses Adjustment

System	Average Increase Customer Count	Average Gallons Sold Per 5/8" Customer	Revenue Annualized: Average Annual Revenue Per 5/8" Customer	Revenue Annualized: Annualized Revenue For Six Months
Casa Grande	596	128,412	307	182,972
Stanfield	1	119,196	498	498
White Tank	62	156,168	543	33,666
Ajo	(4)	63,876	508	(2,032)
Coolidge	15	120,900	360	5,400
Totals	670	588,552	2,216	220,504

EXHIBIT
R-26
admitted

RATE SCHEDULE E-221
CLASSIFIED SERVICE
WATER PUMPING SERVICE

AVAILABILITY

This rate schedule is available in all territory served by the Company at all points where facilities of adequate capacity and the required phase and suitable voltage are adjacent to the sites served.

APPLICATION

This rate schedule is applicable to Standard Offer electric service required for irrigation pumping or for water utilities for pumping potable water to serve the citizens of a city, town, or unincorporated community. Service must be supplied at one point of delivery and measured through one meter. Direct Access customers are not eligible for service under this schedule.

Rate selection is subject to paragraphs 3.2 and 3.3 of the Company's Schedule 1, Terms and Conditions for Standard Offer and Direct Access Services.

This schedule is not applicable to breakdown, standby, supplemental, residential or resale service.

TYPE OF SERVICE

The type of service provided under this schedule will be single or three phase, 60 Hertz, at one standard voltage as may be selected by customer subject to availability at the customer's site.

RATES

The bill shall be computed at the following rates or minimum rates, whichever is greater, plus any adjustments incorporated in this schedule:

Basic Service Charge:	$ 0.493	per day
Demand Charge:	$ 1.66	per kW
Energy Charge:	$ 0.09726	per kWh for the first 240 kWh, plus
	$ 0.06612	per kWh for the next 275 kWh per kW, plus
	$ 0.05429	per kWh for all additional kWh

OPTIONAL TIME-OF-WEEK PROVISION

AVAILABILITY

The Time-Of-Week option is available to all customers eligible for Rate Schedule E-221. The customer must enter into an Electric Supply Agreement with the Company stating the customer's assigned Control Period. The type of equipment required to provide and measure time-of-week service is non-standard; therefore availability is limited and the Company cannot guarantee installation of the equipment within any specific time.

CONTROL PERIOD

The Control Period is the thirteen (13) hour period from 9 a.m. to 10 p.m. for one day during the week (Monday through Friday). The specific day of the Control Period will be mutually agreed upon by the Company and the customer and will be set forth in the Electric Supply Agreement.

EXHIBIT
R-28
admitted

ARIZONA WATER COMPANY

DOCKET NO. W-01445A-04-0650

DIRECT TESTIMONY

OF

TIMOTHY J. COLEY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 20, 2005

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Timothy J. Coley. My business address is 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. By whom are you employed and in what capacity?

A. I am employed by the Residential Utility Consumer Office (RUCO) as a Public Utilities Analyst.

Q. Please state your educational background and qualifications in utility regulation.

A. I have a Masters Degree in Public Administration and Bachelor of Science Degree in Business Management and Administration. I am currently completing my Certificate in Accountancy at Arizona State University – West. My regulatory utility experience includes eleven combined years in various utility auditing and rate analyst positions with RUCO and the Georgia Public Service Commission. I have been employed at RUCO since 2000.

Q. Have you previously testified in rate proceedings before the Arizona Corporation Commission (ACC)?

A. Yes. I have previously presented testimony regarding revenue requirements in rate case proceedings before the ACC.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present findings and recommendations resulting from my analysis and review of Arizona Water Company, Inc. (hereafter referred to as AWC, Company or Arizona Water) Rate Application for a permanent rate increase in the Company's Western Group. The Western Group is comprised of five individual water systems that provide water services in Arizona. I will sponsor the revenue requirement recommendation for Ajo, Coolidge, and White Tank systems. My testimony will also address the overall rate design for all five systems in the Western Group. RUCO witness William A. Rigsby will present the Company's other two systems, which are the Casa Grande and Stanfield systems. He will also sponsor the cost of capital and capital structure issues for all five systems in the Company's Western Group.

Q. Please describe your participation and work effort on this project.

A. I performed the following procedures to determine whether sufficient, relevant, and reliable evidence exists to support the financial data and claims in the Company's application: reviewed and analyzed the Company's application and supporting work papers; reviewed all other intervenors' data requests; prepared written data requests and evaluated the Company's responses; reviewed annual reports and prior Commission decisions regarding Arizona Water.

Q. Please identify the exhibits and schedules that you are sponsoring.

A. My testimony is composed of separate Schedules TJC-1 through TJC-20 for the Ajo, Coolidge, and White Tank systems located in AWC's Western Group.

Q. Does your silence on any issues or matters pertaining to the Company's application constitute RUCO's acceptance of the Company's position?

A. No.

THE TEST YEAR

Q. Did the Company use a "strict" historical test year?

A. Yes, unlike the Company's previous two rate cases where the Company included certain post-test year plant additions and estimated future expenses that extended a full year outside the historical test year, the Company used a historical test year in this rate application.

Q. What test year did AWC use for its rate application?

A. The Company selected the test year ending December 31, 2003 ("Test Year").

Q. Does RUCO agree with the Company's chosen historical Test Year?

A. Yes. RUCO has consistently supported the Commission's position that the most "recent" known and measurable historical Test Year should be the Test Year selected for rate applications when setting rates. This approach conforms to the accounting framework established by Commission rules and principles. The

Company's selection of a 2003 test year in this case utilizes the most current known and measurable test year numbers available.

SUMMARY

Q. Please summarize the recommendations and adjustments you address in your testimony.

A. The following recommended adjustments summarize my testimony:

Rate Base Adjustments:

Accumulated Depreciation – This adjustment calculates accumulated depreciation since the Company's last rate case proceeding. It reduces or increases the level of accumulated depreciation (dependent upon the particular system) that was in the Company's rate application.

Reconcile Phoenix Office & Meter Shop and Accumulated Depreciation – This adjustment was necessary to bring the Phoenix Office and Meter Shop back to a gross amount as opposed to the Company's net amount, which also required debiting (or backing out) the same amount out of accumulated depreciation.

Accumulated Depreciation – Phoenix Office – This adjustment calculates the Phoenix Office accumulated depreciation since the Company's last rate case proceeding. It reduces or increases the level of accumulated depreciation (dependent upon the particular system) that was in the Company's rate application.

Accumulated Depreciation – Meter Shop – This adjustment also calculates the Meter Shop accumulated depreciation since the Company's last rate case proceeding. It reduces or increases the level of accumulated depreciation (dependent upon the particular system) that was in the Company's rate application.

Deferred Central Arizona Project (CAP) Charges – This adjustment removes from rate base the deferred CAP charges that the Company proposed in the systems as follows: Casa Grande ($3,525,803), Coolidge ($1,046,011), and White Tank ($506,268) respectively. In its rate application, the Company seeks to recover these deferral charges over a ten-year period. RUCO denies the recovery of these charges because they do not meet the used and useful principle of ratemaking.

Remove Casa Grande Legal Expenses – This adjustment removes $824,374 of legal expenses from the Casa Grande System rate base. The related expenses are from litigation between the Company and the City of Casa Grande that are charged to a non-depreciable account and if permitted would forever remain in rate base.

Working Capital – This adjustment recalculates working capital based on RUCO's recommended actual operating expenses and corrections in the Company's lead/lag days.

Operating Adjustments:

Remove Pro Forma CAP M&I Charges – The adjustment removes pro forma CAP water expenses on a going forward basis. The adjustment is part of RUCO's recommendation to deny the Company's request for recovery of deferred CAP charges over a ten-year period and to treat future CAP costs associated with the Casa Grande, Coolidge and White Tank systems as an operating expense.

Remove Amortization of Deferred CAP Charges – This adjustment is also part of RUCO's recommendation to deny the Company's request for recovery of deferred CAP charges over a ten-year period. The adjustment removes pro forma amortization expense from the Casa Grande, Coolidge and White Tank systems.

Annualize Additional Revenues & Expenses – This adjustment annualizes revenues and associated expenses to 2003 Test Year-end levels rather than the Company's 2003 average customer count.

Purchased Power Expense - This adjustment increases purchased power expense. The adjustment takes into consideration both the recent increase in rates granted to Arizona Public Service Company ("APS") by the ACC and RUCO's recommended elimination of the Company's PPAM.

Rate Case Expense – This adjustment amortizes the Company's rate case expenses over a three-year period. RUCO recommends that an adjustment be made once the final expense is known and analyzed.

Depreciation & Amortization Expense – This adjustment calculates depreciation and amortization expense based on RUCO's recommended plant levels.

Property Tax Expense – This adjustment calculates property tax expense on the currently effective Arizona Department of Revenue (DOR) formula.

Income Tax Expense – This adjustment calculates the appropriate level of income tax expense given RUCO's recommended operating income.

Rate Design – These schedules propose a two-tier rate design based on RUCO's recommended levels of revenue requirements.

REVENUE REQUIREMENTS

Q. Please summarize the results of your analysis of Arizona Water Company and your recommended revenue requirement.

A. Arizona Water's revenue should be increased by $52,289 for the Ajo system, increased by no more than $50,532 for the Coolidge system, and decreased by at least ($8,568) for the White Tank system. These recommendations are summarized on Schedule TJC-1, page 1 of 2 for each system respectively. My recommended original cost rate base ("OCRB") is $846,711 for Ajo, $2,868,652 for Coolidge, and $1,919,400 for White Tank, which is shown on TJC-2. The supporting detail for the OCRB can be found on Schedule TJC-3. RUCO's recommended adjusted operating income of $37,857 for Ajo, $231,813 for Coolidge, and $181,559 for White Tank systems are shown on Schedules TJC-9, and the detail that supports my recommendations can be found on Schedules TJC-10.

RATE BASE

Q. Did Arizona Water address the Environmental Protection Agency's ("EPA") new arsenic maximum contaminant level (MCL) in this rate application?

A. Yes. Three of the Company's officers presented direct testimony addressing the arsenic standard in the rate application. They included Mr. William M. Garfield, AWC's President, Mr. Michael J. Whitehead, Vice President – Engineering, and Mr. Ralph J. Kennedy, Vice President and Treasurer.

Mr. Garfield testified that the new arsenic treatment facilities must be constructed and operational by January 23, 2006 in order to comply with the EPA's new 10 parts per billion ("ppb") arsenic MCL. He estimated that the Western Group would need as many as 16 treatment facilities with a capital cost of $13.6 million. Mr. Whitehead testified that there were no costs in this case associated with arsenic. He further testified that three of the five systems in the Western Group would be affected by the new EPA standard. These systems are Casa Grande, Stanfield, and White Tank water systems.

Mr. Kennedy's direct testimony provided details of how the costs to construct/lease arsenic treatment facilities are to be recovered. The issue of arsenic treatment was addressed in Phase II of the Company's Northern Group rate case application. In that proceeding, the Commission was asked to consider an arsenic cost recovery mechanism ("ACRM"). The matter was heard before an Administrative Law Judge (ALJ), and the Commission approved an ACRM in

Dockets No. W-1445A-00-0962 and W-1445A-02-0619. Mr. Kennedy testified as part of his direct testimony that the Western Group be approved for the same cost recovery mechanism that the Commission ultimately approved for the Northern and Eastern Groups with certain timing modifications in this case.

Q. Is RUCO opposing the Company's request in this case for an ACRM?

A. No.

Q. Is AWC requesting that the purchased power adjustor mechanism ("PPAM") and purchased water adjustor mechanism ("PWAM") remain in place this rate application?

A. Yes. RUCO witness Mr. Rigsby addresses RUCO's position regarding the PPAM and PWAM in his direct testimony.

Rate Base Adjustment #1 – Accumulated Depreciation – Plant

Q. Please explain the adjustment to accumulated depreciation.

A. This adjustment increases/(decreases) accumulated depreciation by RUCO's gross plant in service recommendation and calculation since the Company's last rate case. Schedule TJC-4, page 4 shows the gross plant in service as calculated and recommended by RUCO. The are as follows: Ajo - $889, Coolidge - ($131,867), and White Tank - ($15,781) as shown on Schedules TJC-3.

A detailed discussion and explanation for RUCO's method for calculating this adjustment is addressed in the testimony of RUCO witness William A. Rigsby.

Rate Base Adjustment #2 – Restate Allocated Phoenix Office & Meter Shop and Accumulated Depreciation

Q. Please explain the purpose of the adjustment to reconcile the Phoenix Office and Meter Shop along with the corresponding accumulated depreciation adjustment.

A. These simultaneous adjustments simply restate the Company's net of depreciation figure to a gross of depreciation figure. Because the Company's application reflected the accumulated depreciation on the Phoenix Office and Meter Shop, it was necessary to add the accumulated depreciation back into gross plant and remove the same amount from the accumulated depreciation account. Schedule TJC-5 shows the necessary adjustment to restate the Company's proposed net figure back to a gross figure. These adjustments would increase the Company's proposed rate base by $5,073 for Ajo and increase accumulated depreciation by the same amount, $23,439 for Coolidge and increase accumulated depreciation by the same amount, and $10,571 for White Tank and increase accumulated depreciation by the same amount. The adjustment has no net effect on rate base for the five Western Group systems.

A more detailed discussion and explanation for RUCO's method for calculating this adjustment is addressed in the testimony of RUCO witness William A. Rigsby.

Rate Base Adjustment #3 – Accumulated Depreciation – Phoenix Office

Q. Did RUCO perform a calculation similar to the one made in Rate Base Adjustment #1 in order to determine the appropriate Test Year level of allocated Phoenix Office plant in service?

A. Yes. The result of the analysis is an increase in allocated accumulated depreciation of $152 for Ajo, $702 for Coolidge, and $316 for White Tank as shown on Schedule TJC-6, page 4 of 4. A more detailed discussion and explanation for RUCO's method for calculating this adjustment is addressed in the testimony of RUCO witness William A. Rigsby.

Rate Base Adjustment #4 – Accumulated Depreciation – Meter Shop

Q. Did RUCO also perform a calculation similar to the one made in Rate Base Adjustment #1, to determine the appropriate Test Year level of allocated Meter Shop plant in service?

A. Yes. As can be seen in Schedules TJC-7, page 4 of 4, the same analysis was performed on the Meter Shop plant in service. The result of the analysis is an increase allocated to accumulated depreciation of $9 for Ajo, a decrease of $41 for Coolidge, and a decrease of $18 for White Tank.

For a more detailed explanation regarding this adjustment see testimony of RUCO witness William A. Rigsby.

Rate Base Adjustment #5 – Deferred CAP Charges

Q. Is Arizona Water Company seeking to place in rate base the deferred charges associated with the Central Arizona Project ("CAP") for its Western Group water systems?

A. Yes. RUCO witness William A. Rigsby fully addresses RUCO's rationale for removing these deferred charges from the appropriate systems' rate bases. Two of three systems that I am sponsoring are affected. The Coolidge and White Tank systems' rate base will be reduced $1,046,011 and $506,268 accordingly as shown on Schedule TJC-2 with supportive detail on Schedule TJC-3.

Rate Base Adjustment #6 – Cash & Working Capital

Q. What amount of working capital is the Company requesting?

A. The Company is requesting working capital in the amount of $250,254 for the Casa Grande system, ($3,029) for the Stanfield system, $36,105 for the White Tank system, ($4,209) for the Ajo system, and $32,202 for its Coolidge system.

Q. How did the Company determine the requested amount of working capital?

A. The Company determined its working capital request utilizing a 1999 lead/lag study.

Q. Please explain the concept of working capital?

A. A company's working capital requirement represents the amount of cash the company must have on hand to cover any differences in the time period between

when revenues are received and expenses must be paid. The most accurate way to measure the working capital requirement is via a lead/lag study. The lead/lag study measures the actual lead and lag days attributable to the individual revenues and expenses.

Q. Are you proposing any adjustment to the Company-proposed working capital?

A. Yes. An adjustment is necessary to restate the working capital requirement based on my recommended level of operating expenses. I have decreased the amount of working capital by ($206,992) for the Casa Grande system, increased working capital by $2,672 for the Stanfield system, decreased working capital by ($30,970) for the White Tank system, increased the working capital requirement for the Ajo system by $576, and decreased the working capital requirement by ($34,053) for the Coolidge system. These adjustments are shown on Schedule TJC-8, page 1 – 5. These adjustments are due primarily to the level of expense I am recommending in this case and to two corrections in the calculation of the Company's federal and state income tax lag.

Q. Why do you disagree with the Company's calculation in the income tax lag?

A. The Company's calculation of both its federal and state income tax lag is incorrect because it assumes that the Company makes monthly payments to the Internal Revenue Service ("IRS"). The IRS requires five quarterly payments of taxes, not monthly payments.

Q. What adjustment to the lead-lag study did you make to correct the income tax day lag?

A. For federal income tax purposes, the necessary correction to reflect payments on a quarterly payment schedule versus the Company's monthly payment calculation is to change the tax lag to 61.95 days rather than the 2.52 days the Company used for federal tax purposes. This calculation is shown on TJC-8, page 4 of 5.

For state income tax purposes, the necessary correction to reflect payments on a quarterly payment schedule versus the Company's monthly payment calculation is to change the tax lag to 99.80 days rather than the 27.05 days the Company used for state tax purposes. This calculation is shown on TJC-8, page 5 of 5.

Rate Base Adjustment #7 – Remove Casa Grande Legal Expenses

Q. Did RUCO remove an $824,374 capitalized legal expense from a non-depreciable account?

A. Yes. William A. Rigsby's testimony contains the full details regarding this adjustment. The adjustment does not pertain to any of the three systems that I sponsor.

Q. Does that conclude your Rate Base Adjustments?

A. Yes.

OPERATING INCOME

Operating Adjustment #1 – Remove Pro Forma CAP M&I Charges

Q. Please explain the operating adjustments you made to remove pro forma CAP M&I charges.

A. The rationale for these adjustments is provided in RUCO witness William A. Rigsby's testimony. This adjustment pertains only to two of the three systems I sponsor. The adjustment reduces the Coolidge system operating expenses by $56,000 and reduces the operating expenses for the White Tank system by $27,104. Schedule TJC-9, Purchased Water line item, show these adjustments. Further details are shown on Schedule TJC-10 and in Mr. William A. Rigsby's testimony.

Operating Adjustment #2 – Remove Amortization Of Deferred CAP Charges

Q. Please provide an explanation for this adjustment.

A. This adjustment is fully discussed in RUCO witness William A. Rigsby's testimony. Again, this adjustment only pertains to water systems with deferred CAP charges. The adjustment reduces amortization expense by $104,601 in the Coolidge system and also reduces amortization expense in the White Tank system by $50,627 as shown in TJC-9, Depreciation & Amortization line item. For further detail see Schedule TJC-10.

Operating Adjustment #3 – Annualize Additional Revenues & Expenses

Q. Has the Company made an adjustment to annualize its Test Year revenues and expenses?

A. Yes. However, the Company has failed to recognize its Test Year-end number of customers. Instead, it has made an adjustment to increase revenues to reflect the *average* number of customers during the Test Year.

Q. Do you agree with this adjustment?

A. No. Arizona ratemaking requires the use of a test year-end rate base. It is necessary to annualize revenues to the Test Year-*end*, not Test Year *average* in order to match the level of net investment reflected in the rate base with the level of revenue that investment will generate. The Company's adjustment to reflect the average Test Year customers would only be appropriate if an average rate base was used in Arizona ratemaking. Accordingly, the correct adjustment is to use the Test Year-end number of customers.

Q. What adjustment is necessary to recognize the 2003 year-end customers?

A. As shown on Schedule TJC-11, the recognition of the 2003 year-end number of customers increases revenues by $67,740 for Casa Grande, increases revenues by $1,273 for Stanfield, decreases revenues by ($3,148) for White Tank, decreases revenues by ($5,187) for Ajo, and decreases revenues by ($4,928) for Coolidge. Use of the 2003 year-end customer count is necessary to match with the 2003 year-end rate base.

Q. Has the Company also proposed an adjustment to annualize expenses based on its proposed increase in customers?

A. Yes. The Company has proposed an adjustment to annualize what it calls "variable" expenses in order to match the annualized customers with annualized costs. The Company claims that these "variable" costs are directly impacted by changes in customers and consumption.

Q. What expenses has the Company defined as variable?

A. The Company has defined the following expenses as variable: Source of Supply, Pumping, Water Treatment, Transmission and Distribution, and Customer Accounts.

Q. Has the Company annualized all of these expenses?

A. Yes. The Company maintains that each of these expenses is directly impacted by a change in the number of customers/gallons sold. The adjustment assumes that there is a one-to-one relationship between cost and number of customers.

Q. Do you agree with the Company's "variable" expense adjustment?

A. No, not in its entirety. While it is true that certain expenses are directly impacted by a change in sales, not all the expense categories adjusted by the Company are in fact a direct function of sales.

Q. How was it determined which of these expense categories are truly variable?

A. In the Northern Group rate case, RUCO performed a regression analysis on each of the expense categories that the Company has identified as variable. The purpose of this analysis was to determine the degree of correlation between the number of customers and the annual change in each expense.

Q. Which expenses had a significant correlation with the number of customers?

A. The regression analysis indicated that the only expenses that are directly impacted by a change in customer levels are Pumping, Customer Accounts, and Water Treatment expenses. These expenses all have an R squared factor that equals or exceeds .75. An R squared factor of .75 or greater generally indicates there is a significant relationship between data sets. Accordingly these are the only expenses that require annualization. The necessary adjustment to annualize only these expenses is shown on Schedules TJC-11, lines 16, 20, 24, and 33 for each system.

Q. Did you also make the necessary expense adjustments associated with the increases/decreases in 2003 year-end water sales attributable to the 2003 year-end customer count?

A. Yes. I recognized and accounted for the change in expenses that results from the change in 2003 year-end customer counts. I have annualized the Western Group costs as follows:

Casa Grande - 1) Other – Purchased Power, i.e. pumping cost, increased an additional $12,349 to pump the additional necessary gallons, 2) Customer Accounts decreased by $2,837, which are the additional billing and accounting costs, and 3) Water Treatment costs related to treating the annualized level of water increased by $2,242. All these adjustments were related to RUCO's year-end customer count rather than the Company's average-year customer count.

Stanfield - Again, I recognized and accounted for the expenses required to account for the 2003 year-end customer count. The 1) Purchased Power increased an additional $255, 2) Customer Accounts increased an additional $83, and 3) Water Treatment costs increased by $23 more than what the Company filed in its rate application.

White Tank – Since there was a decrease in revenue from what was filed in the Company's rate application, the 2003 year-end customer count will decrease the following expenses as follows: 1) Other – Purchased Power, i.e. pumping cost, decreased by $410 to pump the additional necessary gallons, (2) Customer Accounts decreased by $182, and 3) Water Treatment costs decreased by $46.

Ajo – The 2003 year-end customer count will decrease 1) Purchased Power – by $225, 2) Customer Accounts decreased by $325, 3) Water Treatment costs decreased by $52, and 4) Source of Supply decreased by $2,008. That last adjustment, 4) Source of Supply, is unique only to the Ajo system. Ajo purchases all water sold from Ajo Improvement water system. Thus, an adjustment is necessary to account for less water purchases. All of these adjustments are shown in detail on Schedule TJC-11.

Coolidge – Since there was a decrease in revenue from what was filed in the Company's rate application, the 2003 year-end customer count will decrease the following expenses as follows: 1) Other – Purchased Power decreased by $543 to pump the additional necessary gallons, 2) Customer Accounts decreased by $726, and 3) Water Treatment costs decreased by $91.

Operating Adjustment #4 – Purchased Power

Q. Please explain the purchased power adjustment.

A. Please refer to RUCO witness William A. Rigsby for a full description and explanation concerning this adjustment. The adjustment increased the purchased power expense by $6 for Ajo, increased purchased power expense by $1,088 for Coolidge, and increased purchased power expense by $2,744 for White Tank.

Operating Adjustment #5 – Depreciation & Amortization Expense

Q. Please describe and explain the depreciation and amortization adjustment.

A. RUCO witness Mr. William A. Rigsby sponsored this adjustment. Please refer to his testimony for a full explanation and rationale regarding this adjustment. The adjustment increased the depreciation & amortization expense by $0 for Ajo, increased depreciation & amortization expense by $0 for Coolidge, and increased depreciation & amortization expense by $0 for White Tank.

Operating Adjustment #6 – Property Tax Expense

Q. Have you reviewed the property tax calculation that the Company used in determining its revenue requirement?

A. Yes.

Q. How did the Company arrive at its property tax amount as reported in its filing?

A. The Company computed its property tax calculation the same way I did using the new ADOR formula. However, the Company has used its projected revenues for the Test Year for purposes of valuation as opposed to three years of historical revenue.

Q. How does the Company's methodology vary from the ADOR formula?

A. The property tax formula, as prescribed in ADOR's memo of January 3, 2001 determines the Full Cash Value ("FCV") of water and sewer utilities, for property tax purposes, by multiplying the average of three previous years of reported gross revenues of the Company by a factor of two.

Q. How does the methodology the Company uses to calculate property tax impact the revenue requirement?

A. The Company's methodology overstates the FCV, which will likely allow the Company to over-earn based on its expected property tax expense. Since future revenues are unknown, future property taxes can only be estimated. As with any estimate in the regulatory process, the objective is to be as accurate as possible.

Among the goals of ADOR was to arrive at a forward looking valuation formula that would produce predictive values, logical results, minimize the tax impact from the previous year, and assist in future cases with the ACC regarding projections of future property tax expense.

Q. When will the Company actually pay property taxes based on increased or decreased revenues approved in this case?

A. Assuming the rates go into effect around year-end 2005, it will not be until the end of 2006 before the Company will have one full year of operating revenues at the new rates. The Company will pay property taxes for tax-year 2006 semi-annually, the first payment becoming due in October 2006, and the final payment due in March 2007. Thus, use of the Company's proposed formula will permit over-earnings for several future years.

Q. What adjustment is necessary?

A. It was necessary to recompute the property taxes based on historical revenues as required by the ADOR formula. All five systems in the Western Group experienced a decrease in property taxes as filed in the rate application as follows: Casa Grande – ($51,803), Ajo – ($647), Stanfield – ($866), Coolidge – ($13,765), and White Tank – ($4,847). The adjustment is detailed on Schedule TJC-14.

Operating Adjustment #10 – Income Tax Expense

Q. Please discuss your income tax expense adjustment.

A. As shown on Schedule TJC-14, I calculated Arizona Water Company's state and federal income taxes based on RUCO's recommended level of operating income at present water rates. RUCO witness Mr. William A. Rigsby addresses this adjustment in detail in his testimony.

Q. What were the necessary adjustments based on RUCO's findings and recommendations?

A. My revenue requirements would warrant an increase of $242,979 in state and federal income taxes for Casa Grande, a decrease of $5,303 for Ajo, a decrease of $2,405 for Stanfield, an additional $39,586 for Coolidge, and an additional $21,070 for White Tank. My calculations are supported in detail on Schedule TJC-15.

COST OF CAPITAL

Q. Has RUCO determined cost of capital and a fair return on common equity?

A. Yes, Mr. Rigsby will sponsor that section of the Rate Application in his testimony.

RATE DESIGN

Q. Have you reviewed Arizona Water's proposed rate design?

A. Yes. A comparison of the present rates, Arizona Water's proposed rates, and my proposed rates are exhibited in Schedule TJC-17 for each of the Western Group

systems I am providing direct testimony on and Schedule WAR-17 for each of the Western Group systems that RUCO witness Rigsby is providing direct testimony on.

Q. What is the Company proposing in its rate designs?

A. The Company is proposing to continue the existing single-tier rate structure for all meter sizes in all of the rate designs for the Western Group. The Company is also proposing that the monthly minimum charge, for each of the five Western Group systems, contain zero gallons as opposed to the current design that includes 1,000 gallons in the minimum monthly charge.

Schedules TJC-17 and WAR-17 exhibit the changes in commodity charges that the Company is requesting. For the sake of clarity, I have stated the commodity charges for each of the Western Group systems in both per 100-gallon increments, as the Company did in its Application, and in the more common per 1,000-gallon increments.

Q. Please summarize your recommended rate design for Arizona Water.

A. I recommend that a two-tier rate design be adopted. I also recommend that uniform minimum charges be retained for both residential and commercial customers and that no gallons be included in the minimum charge for all meter sizes.

Schedules TJC-18 and WAR-18 compare my recommended monthly minimum charges for each of the Western Group systems with the Company's present and

proposed monthly minimum charges. With the exception of several systems, I am recommending a uniform increase in each of the monthly minimum charges.

Q. Why does RUCO agree with the Company's proposal to eliminate all gallons from the monthly minimum charge?

A. RUCO believes that the elimination of gallons from the minimum will give ratepayers greater control over their monthly bills. Those ratepayers who use less than a thousand gallons per month would only be billed for their actual level of consumption as opposed to being billed for a full thousand gallons whether they use it or not. Further, it dispels the notion of "free" water, which is counterproductive to conservation.

Q. Please provide a comparison of what a monthly charge would be, at the median level of consumption for a 5/8 X 3/4-inch meter customer, with and without 1,000 gallons of water included in the minimum monthly charge.

A. I will use the Coolidge system as an example. My recommended rate design, with zero gallons in the minimum, sets the monthly minimum charge for a 5/8 X 3/4-inch meter at $11.25. At the 7,317-gallon median level of consumption, a Coolidge system customer would be billed $24.47 ($11.25 minimum monthly charge + $13.22 commodity charge). With 1,000 gallons included in the minimum, the same customer would be billed $24.10 or $0.37 less.

Q. How is your proposed rate design different from the Company's?

A. The biggest area of contention between my rate design and the Company's rate design involves my two-tier commodity charge with a 4,000-gallon breakpoint.

Q. Why are you recommending a two-tier rate design in this case?

A. My decision to recommend a two-tier rate is based on the Commission's preference for tiered rate designs.

Q. Why have you set the break point at 4,000 gallons?

A. The 4,000-gallon level is approximately 6,095 gallons below the average level of consumption for the 5/8 X 3/4-inch meter sizes for all five systems. By placing the break point at this level, a majority of the customers on each of the five systems will experience a price signal as their consumption increases.

Q. Will your rate design provide Arizona Water with the level of revenue recommended by RUCO?

A. Yes, it will. Based on the Test Year billing determinants as adjusted (i.e. annualized), my rate design will generate RUCO's recommended levels of revenue for each of the systems in the Western Group from water sales. This can be viewed in Schedules TJC-20 and WAR-20.

Q. Do you agree with the Company that there should be no difference in the minimum charges billed to either the residential or commercial classes of customers?

A. Yes. There has been no demonstration in this case of a significant incremental cost to the Company of providing service to commercial versus residential customers; therefore, I have utilized a uniform rate design.

Q. For each meter size used during the Test Year; did you prepare a schedule that shows at various consumption levels the resulting monthly bills under present and your proposed rates?

A. Yes. This information is displayed on pages 1 and 2 of Schedules TJC-19 and WAR-19. Pages 3 and 4 of these schedules also display the difference in dollars and percent between the present rates and my proposed rates for each of the Western Group systems.

Q. Does this conclude your testimony on Arizona Water's Western Group systems?

A. Yes, it does.

ARIZONA WATER COMPANY
AJO SYSTEM
DOCKET NO. W-01445A-04-0650
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ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
REVENUE REQUIREMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-1

LINE NO.	DESCRIPTION	(A) COMPANY REQUESTED	(B) RUCO RECOMMENDED
1	ADJUSTED RATE BASE	$ 847,167	$ 846,711
2	ADJUSTED OPERATING INCOME	34,696	37,857
3	CURRENT RATE OF RETURN (L2 / L1)	4.10%	4.47%
4	REQUIRED RATE OF RETURN	10.50%	9.17%
5	REQUIRED OPERATING INCOME (L4 * L1)	88,953	77,643
6	OPERATING INCOME DEFICIENCY (L5 - L2)	54,256	39,786
7	GROSS REVENUE CONVERSION FACTOR	1.63245	1.31426
8	GROSS REVENUE INCREASE	$ 88,571	$ 52,289
9	CURRENT REVENUES T/Y ADJUSTED	409,259	404,072
10	PROPOSED ANNUAL REVENUE (L8 + L9)	497,830	456,361
11	PERCENTAGE AVERAGE INCREASE	21.64%	12.94%

REFERENCES:
COLUMN (A): COMPANY SCHEDULE A-1
COLUMN (B): SCHEDULE TJC-1, PG. 2, TJC-2, TJC-9 AND TJC-15

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUE	1.0000	
2	UNCOLLECTIBLES	0.00234	COMPANY SCH. C-3
3	SUB-TOTAL	0.9977	LINE 1 - LINE 2
4	LESS: TAX RATE	23.68%	NOTE (a)
5	TOTAL	0.7609	LINE 3 - LINE 4
6	REVENUE CONVERSION FACTOR	1.31426	LINE 1/LINE 5

NOTE (a):
CALCULATION OF EFFECTIVE TAX RATE

OPERATING INCOME BEFORE TAXES	100.00%
LESS: ARIZONA STATE TAX	6.97%
TAXABLE INCOME FEDERAL	93.03%
TIMES: FEDERAL INCOME TAX RATE	18.02%
SUBTOTAL	16.76%
ADD STATE TAX RATE	23.73%
LINE 3 ABOVE	99.77%
EFFECTIVE TAX RATE	23.68%

NOTE (b):

STATE INCOME TAX	$ 3,645
FEDERAL INCOME TAX	8,859
TOTAL INCOME TAX LIABILITY	$ 12,503

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE - ORIGINAL COST

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-2

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	$ 1,656,478	$ -	$ 1,656,478
2	PHOENIX OFFICE & METER SHOP ALLOCATION	43,498	5,073	48,571
3	DEFERRED CAP CHARGES	-	-	-
4	ACCUMULATED DEPRECIATION	(624,244)	(6,105)	(630,349)
5	NET PLANT IN SERVICE	$ 1,075,732	$ (1,032)	$ 1,074,700
6	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-
7	TOTAL NET PLANT	$ 1,075,732	$ (1,032)	$ 1,074,700
8	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(36,395)	-	(36,395)
9	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(41,263)	-	(41,263)
10	ACCUMULATED AMORTIZATION OF CIAC	10,797	-	10,797
11	DEFERRED INCOME TAXES	(157,495)	-	(157,495)
12	WORKING CAPITAL	(4,209)	576	(3,633)
13	TOTAL RATE BASE	$ 847,167	$ (456)	$ 846,711

REFERENCES:
COLUMN (A): COMPANY SCHEDULE B-1
COLUMN (B): SCHEDULE TJC-3
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
SUMMARY OF RATE BASE ADJUSTMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-3

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) ADJ #7	(I) RUCO ADJUSTED
1	PLANT IN SERVICE	$ 1,656,478	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,656,478
2	PHOENIX OFFICE & METER SHOP ALLOCATION	43,498 (a)		5,073						48,571
3	DEFERRED CAP CHARGES	-								-
4	ACCUMULATED DEPRECIATION	(624,244)	(889)	(5,073)	(152)	9				(630,349)
5	NET PLANT IN SERVICE	$ 1,075,732	$ (889)	$ -	$ (152)	$ 9	$ -	$ -	$ -	$ 1,074,700
6	CONSTRUCTION WORK IN PROGRESS (CWIP)	-								-
7	TOTAL NET PLANT	$ 1,075,732	$ (889)	$ -	$ (152)	$ 9	$ -	$ -	$ -	$ 1,074,700
8	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(36,395)								(36,395)
9	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(41,263)								(41,263)
10	ACCUMULATED AMORTIZATION OF CIAC	10,797								10,797
11	DEFERRED INCOME TAXES	(157,495)								(157,495)
12	WORKING CAPITAL	(4,209)						576		(3,633)
13	TOTAL RATE BASE	$ 847,167	$ (889)	$ -	$ (152)	$ 9	$ -	$ 576	$ -	$ 846,711

ADJUSTMENT #:	REFERENCE:
1. ACCUMULATED DEPRECIATION - PLANT	SCHEDULE TJC-4
2. RESTATE PHX. OFFICE & METER SHOP AND ACCUM. DEPR.	SCHEDULE TJC-5
3. ACCUMULATED DEPRECIATION - PHOENIX OFFICE	SCHEDULE TJC-6
4. ACCUMULATED DEPRECIATION - METER SHOP	SCHEDULE TJC-7
5. NOT USED	N/A
6. WORKING CAPITAL	SCHEDULE TJC-8

NOTES:
(a) NET OF ACCUMULATED DEPRECIATION

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1990 PLANT VALUE PER COMPANY	1990 ACCUM DEPR. PER COMPANY	1990 NET PLANT PER PRIOR ACC PER COMPANY	1991 ADDITIONS PER COMPANY	1991 (RETIREMENTS) PER COMPANY	1991 YEAR END PLANT VALUE PER RUCO	1991 DEPRECIATION EXPENSE PER RUCO	1991 ACCUMULATED DEPRECIATION PER RUCO	1991 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES. FRANCHISES*	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	3,208	0	3,208	0	0	3,208	0	0	3,208
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	3,015	865	2,150	0	0	3,015	73	938	2,077
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	58,292	16,728	41,564	6,724	0	65,016	1,492	18,220	46,796
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	6,065	0	6,065	0	0	6,065	0	0	6,065
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	154,076	44,214	109,862	5,257	0	159,333	3,792	48,006	111,327
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	390,924	112,181	278,743	324	0	391,248	9,464	121,645	269,603
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	104	30	74	0	0	104	3	32	72
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	124,240	35,652	88,588	10,419	0	134,659	3,133	38,785	95,874
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	44,117	12,660	31,457	1,431	(239)	45,309	1,082	13,503	31,806
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	31,019	8,901	22,118	0	0	31,019	751	9,652	21,367
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	34,987	10,040	24,947	0	0	34,987	847	10,887	24,100
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	2,038	0	2,038	25	25	2,013
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	5,562	1,596	3,966	0	0	5,562	135	1,731	3,831
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	43	12	31	150	0	193	3	15	178
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	7,005	2,010	4,995	24	0	7,029	170	2,180	4,849
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0
36	396.0	GENERAL PLANT: POWER EQUIPMENT	1,883	540	1,343	0	0	1,883	46	586	1,297
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	12,555	3,603	8,952	0	0	12,555	304	3,907	8,648
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	318	91	227	0	0	318	8	99	219
41		TOTALS	$877,413	$249,124	$628,289	$26,367	($239)	$903,541	$21,325	$270,210	$633,331

ACCT. NO.	PLANT ACCOUNT NAME	1992 ADDITIONS PER COMPANY	1992 (RETIREMENTS) PER COMPANY	1992 YEAR END PLANT VALUE PER RUCO	1992 DEPRECIATION EXPENSE PER RUCO	1992 ACCUMULATED DEPRECIATION PER RUCO	1992 YEAR END NET PLANT PER RUCO	1993 ADDITIONS PER COMPANY	1993 (RETIREMENTS) PER COMPANY	1993 YEAR END PLANT VALUE PER RUCO	1993 DEPRECIATION EXPENSE PER RUCO	1993 ACCUMULATED DEPRECIATION PER RUCO	1993 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	258	0	258	0	0	258
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
320.0	PUMPING PLANT: LAND*	0	0	3,208	0	0	3,208	0	0	3,208	0	0	3,208
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	3,015	73	1,011	2,004	0	0	3,015	78	1,089	1,926
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	65,016	1,573	19,793	45,223	0	0	65,016	1,684	21,477	43,539
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	6,065	0	0	6,065	0	0	6,065	0	0	6,065
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	159,333	3,856	51,862	107,471	0	0	159,333	4,127	55,989	103,344
343.0	TRANSMISSION & DISTRIBUTION: MAINS	26,037	(1,962)	415,323	9,760	129,442	285,881	660	(87)	415,896	10,764	140,120	275,776
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	104	3	35	69	0	0	104	3	38	66
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	7,087	0	141,746	3,345	42,129	99,617	9,043	(43)	150,746	3,788	45,874	104,872
346.0	TRANSMISSION & DISTRIBUTION: METERS	1,905	(479)	46,735	1,114	14,138	32,597	0	0	46,735	1,210	15,348	31,387
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	31,019	751	10,403	20,616	0	0	31,019	803	11,206	19,813
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	34,987	847	11,733	23,254	0	0	34,987	906	12,640	22,347
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	2,038	49	74	1,964	1,883	0	3,921	77	151	3,770
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	5,562	135	1,865	3,697	0	0	5,562	144	2,009	3,553
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	193	5	20	173	0	0	193	5	25	168
394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	7,029	170	2,350	4,679	0	0	7,029	182	2,532	4,497
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
396.0	GENERAL PLANT: POWER EQUIPMENT	113	0	1,996	47	633	1,363	657	0	2,653	60	693	1,960
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	12,555	304	4,210	8,345	0	0	12,555	325	4,536	8,019
397.1	GENERAL PLANT: MOBILE RADIOS	44	0	44	1	1	43	0	0	44	1	2	42
397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
398.0	GENERAL PLANT: MISC.	0	0	318	8	107	211	0	0	318	8	115	203
	TOTALS	$35,186	($2,441)	$936,286	$22,038	$289,807	$646,479	$12,501	($130)	$948,657	$24,167	$313,843	$634,814

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1994 ADDITIONS PER COMPANY	1994 (RETIREMENTS) PER COMPANY	1994 YEAR END PLANT VALUE PER RUCO	1994 DEPRECIATION EXPENSE PER RUCO	1994 ACCUMULATED DEPRECIATION PER RUCO	1994 YEAR END NET PLANT PER RUCO	1995 ADDITIONS PER COMPANY	1995 (RETIREMENTS) PER COMPANY	1995 YEAR END PLANT VALUE PER RUCO	1995 DEPRECIATION EXPENSE PER RUCO	1995 ACCUMULATED DEPRECIATION PER RUCO	1995 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	66	0	324	0	0	324	298	0	622	0	0	622
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	3,208	0	0	3,208	0	0	3,208	0	0	3,208
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	3,015	76	1,167	1,848	0	0	3,015	78	1,245	1,770
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	233	0	65,249	1,687	23,164	42,085	3	0	65,252	1,690	24,854	40,398
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	6,065	0	0	6,065	0	0	6,065	0	0	6,065
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	105	0	159,438	4,128	60,117	99,321	0	0	159,438	4,129	64,246	95,192
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	64,942	0	480,838	11,613	151,732	329,106	80,567	(3,011)	558,394	13,458	162,180	396,214
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	104	3	40	64	0	0	104	3	43	61
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	9,007	(7)	159,746	4,021	49,888	109,858	7,622	(861)	166,507	4,225	53,252	113,255
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	2,525	(89)	49,171	1,242	16,501	32,670	0	(141)	49,030	1,272	17,632	31,398
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	31,019	803	12,009	19,010	0	0	31,019	803	12,813	18,206
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	34,987	906	13,546	21,441	0	0	34,987	906	14,452	20,535
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	7,503	0	11,424	199	350	11,074	0	0	11,424	296	646	10,778
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	5,562	144	2,153	3,409	0	0	5,562	144	2,297	3,265
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	1,163	0	1,163	15	15	1,148	1,616	0	2,779	51	66	2,713
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: TJCEHOUSE EQUIPMENT	0	0	193	5	30	163	0	0	193	5	35	158
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	7,029	182	2,714	4,315	0	0	7,029	182	2,896	4,133
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
36	396.0	GENERAL PLANT: POWER EQUIPMENT	581	0	3,234	76	769	2,465	0	0	3,234	84	853	2,381
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	12,555	325	4,861	7,694	0	0	12,555	325	5,186	7,369
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	44	1	3	41	0	0	44	1	4	40
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	1,743	0	1,743	23	23	1,720
40	398.0	GENERAL PLANT: MISC.	0	0	318	8	123	(115)	0	0	318	8	131	187
41		TOTALS	$86,125	($96)	$1,034,686	$25,437	$339,184	$695,193	$91,849	($4,013)	$1,122,522	$27,683	$362,854	$759,668

ACCT. NO.	PLANT ACCOUNT NAME	1996 ADDITIONS PER COMPANY	1996 (RETIREMENTS) PER COMPANY	1996 YEAR END PLANT VALUE PER RUCO	1996 DEPRECIATION EXPENSE PER RUCO	1996 ACCUMULATED DEPRECIATION PER RUCO	1996 YEAR END NET PLANT PER RUCO	1997 ADDITIONS PER COMPANY	1997 (RETIREMENTS) PER COMPANY	1997 YEAR END PLANT VALUE PER RUCO	1997 DEPRECIATION EXPENSE PER RUCO	1997 ACCUMULATED DEPRECIATION PER RUCO	1997 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	91	0	713	0	0	713	27	0	740	0	0	740
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
320.0	PUMPING PLANT: LAND*	0	0	3,208	0	0	3,208	0	0	3,208	0	0	3,208
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	3,015	78	1,323	1,692	0	0	3,015	78	1,402	1,613
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	65,252	1,690	26,544	38,708	0	0	65,252	1,690	28,234	37,018
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	6,065	0	0	6,065	0	0	6,065	0	0	6,065
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	159,438	4,129	68,376	91,062	0	0	159,438	4,129	72,505	86,933
343.0	TRANSMISSION & DISTRIBUTION: MAINS	28,257	(1,911)	584,740	14,804	175,072	409,668	43,687	(1,674)	626,753	15,689	189,087	437,666
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	104	3	46	58	0	0	104	3	48	56
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	23,333	(2,061)	187,779	4,588	55,779	132,000	16,015	(742)	203,052	5,061	60,098	142,954
346.0	TRANSMISSION & DISTRIBUTION: METERS	0	(642)	48,388	1,262	18,251	30,137	0	0	48,388	1,253	19,505	28,883
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	31,019	803	13,616	17,403	0	0	31,019	803	14,420	16,599
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	34,987	906	15,358	19,629	0	0	34,987	906	16,264	18,723
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	11,424	296	942	10,482	0	0	11,424	296	1,238	10,186
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	5,562	144	2,442	3,120	0	0	5,562	144	2,586	2,976
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	2,779	72	138	2,641	0	0	2,779	72	210	2,569
391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
393.0	GENERAL PLANT: TJCEHOUSE EQUIPMENT	0	0	193	5	40	153	0	0	193	5	45	148
394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	7,029	182	3,078	3,951	0	0	7,029	182	3,260	3,769
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	3,234	84	937	2,297	0	0	3,234	84	1,021	2,213
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	12,555	325	5,511	7,044	0	0	12,555	325	5,836	6,719
397.1	GENERAL PLANT: MOBILE RADIOS	0	0	44	1	5	39	0	0	44	1	6	38
397.2	GENERAL PLANT: AUTO CONTROLS	0	0	1,743	45	68	1,675	0	0	1,743	45	113	1,630
398.0	GENERAL PLANT: MISC.	0	0	318	8	140	(131)	450	0	768	14	154	614
	TOTALS	$51,681	($4,614)	$1,169,589	$29,425	$387,666	$781,614	$60,179	($2,416)	$1,227,352	$30,781	$416,031	$811,321

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO	ACCT. NO	PLANT ACCOUNT NAME	1998 ADDITIONS PER COMPANY	1998 (RETIREMENTS) PER COMPANY	1998 YEAR END PLANT VALUE PER RUCO	1998 DEPRECIATION EXPENSE PER RUCO	1998 ACCUMULATED DEPRECIATION PER RUCO	1998 YEAR END NET PLANT PER RUCO	1999 ADDITIONS PER COMPANY	1999 (RETIREMENTS) PER COMPANY	1999 YEAR END PLANT VALUE PER RUCO	1999 DEPRECIATION EXPENSE PER RUCO	1999 ACCUMULATED DEPRECIATION PER RUCO	1999 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	25	0	765	0	0	765	254	0	1,019	0	0	1,019
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	3,208	0	0	3,208	0	0	3,208	0	0	3,208
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	3,015	78	1,480	1,535	0	0	3,015	78	1,558	1,457
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	1,799	0	67,051	1,713	29,947	37,104	871	0	67,922	1,748	31,695	36,227
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	6,065	0	0	6,065	0	0	6,065	0	0	6,065
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	159,438	4,129	76,635	82,803	0	0	159,438	4,129	80,764	78,674
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	35,466	(1,859)	660,360	16,668	203,896	456,464	81,214	(16)	741,558	18,155	222,035	519,523
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	104	3	51	53	0	0	104	3	54	50
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	4,032	0	207,084	5,311	65,410	141,674	3,475	(226)	210,333	5,406	70,589	139,744
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	(78)	48,310	1,252	20,679	27,631	0	0	48,310	1,251	21,930	26,380
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	31,019	803	15,223	15,796	0	0	31,019	803	16,026	14,993
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	34,987	906	17,170	17,817	0	0	34,987	906	18,076	16,911
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	11,424	296	1,533	9,891	0	0	11,424	296	1,829	9,595
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	5,562	144	2,730	2,832	0	0	5,562	144	2,874	2,688
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	2,779	72	282	2,497	0	0	2,779	72	354	2,425
32	391.2	GENERAL PLANT: OFFICE FURNITURE	191	0	191	2	2	189	0	0	191	5	7	184
33	393.0	GENERAL PLANT: TJCEHOUSE EQUIPMENT	0	0	193	5	50	143	0	0	193	5	55	138
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	7,029	182	3,442	3,587	0	0	7,029	182	3,624	3,405
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	3,234	84	1,104	2,130	0	0	3,234	84	1,188	2,046
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	12,555	325	6,162	6,393	0	0	12,555	325	6,487	6,068
38	397.1	GENERAL PLANT: MOBILE RADIOS	235	0	279	4	10	269	77	0	356	8	19	337
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	1,743	45	158	1,585	1,428	0	3,171	64	222	2,949
40	398.0	GENERAL PLANT: MISC.	0	0	768	20	174	(154)	0	0	768	20	193	575
41		TOTALS	$41,748	($1,937)	$1,267,163	$32,044	$446,138	$820,277	$87,319	($242)	$1,354,240	$33,684	$479,580	$874,660

ACCT. NO.	PLANT ACCOUNT NAME	2000 ADDITIONS PER COMPANY	2000 (RETIREMENTS) PER COMPANY	2000 YEAR END PLANT VALUE PER RUCO	2000 DEPRECIATION EXPENSE PER RUCO	2000 ACCUMULATED DEPRECIATION PER RUCO	2000 YEAR END NET PLANT PER RUCO	2001 ADDITIONS PER COMPANY	2001 (RETIREMENTS) PER COMPANY	2001 YEAR END PLANT VALUE PER RUCO	2001 DEPRECIATION EXPENSE PER RUCO	2001 ACCUMULATED DEPRECIATION PER RUCO	2001 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	199	0	1,218	0	0	1,218	53	0	1,271	0	0	1,271
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
320.0	PUMPING PLANT: LAND*	0	0	3,208	0	0	3,208	0	0	3,208	0	0	3,208
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	3,015	78	1,636	1,379	0	0	3,015	78	1,714	1,301
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	170	0	68,092	1,761	33,457	34,635	1,456	0	69,548	1,782	35,239	34,309
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	6,065	0	0	6,065	0	0	6,065	0	0	6,065
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	159,438	4,129	84,894	74,544	679	0	160,117	4,138	89,032	71,085
343.0	TRANSMISSION & DISTRIBUTION: MAINS	103,210	(3,703)	841,065	20,495	238,827	602,238	101,409	(1,924)	940,550	23,072	259,975	680,575
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	104	3	56	48	0	0	104	3	59	45
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	6,375	(378)	216,330	5,525	75,736	140,594	16,501	(548)	232,283	5,810	80,998	151,285
346.0	TRANSMISSION & DISTRIBUTION: METERS	609	(152)	48,767	1,257	23,035	25,732	16	0	48,783	1,263	24,299	24,484
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	8,543	(709)	38,853	905	16,222	22,631	2,308	0	41,161	1,036	17,258	23,903
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	34,987	906	18,983	16,004	0	0	34,987	906	19,889	15,098
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	11,424	296	2,125	9,299	0	0	11,424	296	2,421	9,003
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	5,562	144	3,018	2,544	0	0	5,562	144	3,162	2,400
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	2,779	72	426	2,353	314	0	3,093	76	502	2,591
391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	191	5	12	179	0	0	191	5	17	174
393.0	GENERAL PLANT: TJCEHOUSE EQUIPMENT	0	0	193	5	60	133	0	0	193	5	65	128
394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	7,029	182	3,806	3,223	203	0	7,232	185	3,991	3,241
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	3,234	84	1,272	1,962	0	0	3,234	84	1,356	1,878
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	12,555	325	6,812	5,743	0	0	12,555	325	7,137	5,418
397.1	GENERAL PLANT: MOBILE RADIOS	0	0	356	9	28	328	0	0	356	9	37	319
397.2	GENERAL PLANT: AUTO CONTROLS	0	0	3,171	82	304	2,867	0	0	3,171	82	386	2,785
398.0	GENERAL PLANT: MISC.	0	0	768	20	213	(193)	0	0	768	20	233	535
	TOTALS	$119,106	($4,942)	$1,468,404	$36,284	$510,922	$956,734	$122,939	($2,472)	$1,588,871	$39,319	$547,770	$1,041,101

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	2002 ADDITIONS PER COMPANY	2002 (RETIREMENTS) PER COMPANY	2002 YEAR END PLANT VALUE PER RUCO	2002 DEPRECIATION EXPENSE PER RUCO	2002 ACCUMULATED DEPRECIATION PER RUCO	2002 YEAR END NET PLANT PER RUCO	2003 ADDITIONS PER COMPANY	2003 (RETIREMENTS) PER COMPANY	2003 YEAR END PLANT VALUE PER RUCO	2003 DEPRECIATION EXPENSE PER RUCO	2003 ACCUMULATED DEPRECIATION PER RUCO	2003 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	625	0	1,896	0	0	1,896	1,020	0	2,916	0	0	2,916
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	3,208	0	0	3,208	0	0	3,208	0	0	3,208
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	3,015	78	1,792	1,223	0	0	3,015	78	1,870	1,145
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	2,117	0	71,665	1,829	37,068	34,597	2,336	0	74,001	1,886	38,954	35,047
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	6,065	0	0	6,065	0	0	6,065	0	0	6,065
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	240	0	160,357	4,150	93,182	67,175	0	0	160,357	4,153	97,335	63,022
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	45,868	(3,626)	982,792	24,907	281,256	701,536	2,153	0	984,945	25,482	306,738	678,207
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	104	3	62	42	0	0	104	3	65	39
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	9,476	(394)	241,365	6,134	86,738	154,627	2,679	0	244,044	6,286	93,024	151,020
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	1,027	(308)	49,502	1,273	25,263	24,239	0	(135)	49,367	1,280	26,409	22,958
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	(526)	40,635	1,059	17,792	22,843	901	0	41,536	1,064	18,856	22,680
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	34,987	906	20,795	14,192	0	0	34,987	906	21,701	13,286
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	11,424	296	2,717	8,707	0	0	11,424	296	3,013	8,411
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	5,562	144	3,306	2,256	0	0	5,562	144	3,450	2,112
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	535	0	3,628	87	589	3,039	0	0	3,628	94	683	2,945
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	191	5	22	169	0	0	191	5	27	164
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	193	5	70	123	0	0	193	5	75	118
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	782	0	8,014	197	4,189	3,825	348	0	8,362	212	4,401	3,961
35	395.0	GENERAL PLANT: LAB EQUIPMENT	2,103	0	2,103	27	27	2,076	0	0	2,103	54	82	2,021
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	3,234	84	1,439	1,795	0	0	3,234	84	1,523	1,711
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	12,555	325	7,462	5,093	0	(1,743)	10,812	303	6,022	4,790
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	356	9	46	310	2,101	0	2,457	36	83	2,374
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	3,171	82	468	2,703	28	0	3,199	82	551	2,648
40	398.0	GENERAL PLANT: MISC.	0	0	768	20	253	(233)	0	0	768	20	273	495
41		TOTALS	$62,773	($4,854)	$1,646,790	$41,621	$584,536	$1,061,506	$11,566	($1,878)	$1,656,478	$42,475	$625,133	$1,031,345
42														
43		BALANCES PER COMPANY									$ 1,656,478		$ 624,244	
44														
45		BALANCES PER RUCO									$ 1,656,478		$ 625,133	
46														
47		TOTAL ADJUSTMENTS									$ -		$ 889	

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT
** LEASEHOLD IMPROVEMENT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJ. #2 - RESTATE ALLOCATED PHOENIX OFFICE
& METER SHOP AND ACCUMULATED DEPRECIATION

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-5

LINE NO.	DESCRIPTION	TEST YEAR COMPANY
1	GROSS PHOENIX OFFICE PLANT	$ 4,999,117
2	GROSS METER SHOP	113,608
3	GROSS PHOENIX OFFICE PLANT & METER SHOP	$ 5,112,725
4	TIMES: ALLOCATION FACTOR	0.0095
5	ALLOCATED GROSS PHOENIX OFFICE PLANT & METER SHOP	$ 48,571
6	NET ALLOCATED PHOENIX OFFICE PLANT & METER SHOP	43,498
7	RUCO ADJUSTMENT TO PHOENIX OFFICE & METER SHOP ALLOCATION AND ACCUMULATED DEPRECIATION	$ 5,073

REFERENCES:
LINE 1: COMPANY SCHEDULE B-2 PAGE 7
LINE 2: COMPANY SCHEDULE B-2 PAGE 8
LINE 3: LINE 1 + LINE 2
LINE 4: COMPANY SCHEDULE B-1 PAGE 2
LINE 5: LINE 3 x LINE 4
LINE 6: COMPANY SCHEDULE B-1 PAGE 2 (SUM OF LINES 6 AND 7)
LINE 7: LINE 5 - LINE 6

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO.	ACCT. NO	PLANT ACCOUNT NAME	1990 PLANT VALUE PER COMPANY	1990 ACCUM DEPR. PER COMPANY	1990 NET PLANT PER PRIOR ACC PER COMPANY	1991 ADDITIONS PER COMPANY	1991 (RETIREMENTS) PER COMPANY	1991 YEAR END PLANT VALUE PER RUCO	1991 DEPRECIATION EXPENSE PER RUCO	1991 ACCUMULATED DEPRECIATION PER RUCO	1991 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$651	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	8,496	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	530,962	1,901	529,061	10,977	0	541,939	424	2,325	539,614
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	3,478	378	3,100	542	0	4,020	91	468	3,552
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	547,751	59,472	488,279	0	(1,399)	546,352	13,239	71,311	475,041
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	898,103	97,511	800,592	115,709	0	1,013,812	23,134	120,645	893,167
32	391.2	GENERAL PLANT: OFFICE FURNITURE	89,500	9,717	79,783	5,125	0	94,625	2,228	11,945	82,680
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	2,470	0	2,470	30	30	2,440
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	27,037	2,936	24,101	83	0	27,120	655	3,591	23,529
35	395.0	GENERAL PLANT: LAB EQUIPMENT	51	6	45	0	0	51	1	7	44
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	(510)	(510)	(6)	(516)	6
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	41,418	4,497	36,921	0	0	41,418	1,002	5,499	35,919
38	397.1	GENERAL PLANT: MOBILE RADIOS	8,656	940	7,716	1,344	0	10,000	226	1,166	8,834
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	3,939	428	3,511	0	0	3,939	95	523	3,416
41		TOTALS	$2,160,042	$177,785	$1,982,257	$136,250	($1,909)	$2,294,383	$41,119	$216,995	$2,077,388
42											
43											
44											
45											

46 / 47	ACCT NO	PLANT ACCOUNT NAME	1992 ADDITIONS PER COMPANY	1992 (RETIREMENTS) PER COMPANY	1992 YEAR END PLANT VALUE PER RUCO	1992 DEPRECIATION EXPENSE PER RUCO	1992 ACCUMULATED DEPRECIATION PER RUCO	1992 YEAR END NET PLANT PER RUCO	1993 ADDITIONS PER COMPANY	1993 (RETIREMENTS) PER COMPANY	1993 YEAR END PLANT VALUE PER RUCO	1993 DEPRECIATION EXPENSE PER RUCO	1993 ACCUMULATED DEPRECIATION PER RUCO	1993 YEAR END NET PLANT PER RUCO
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
56	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	541,939	424	2,749	539,190	12,076	0	554,015	454	3,203	550,812
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,020	97	566	3,454	0	0	4,020	104	670	3,350
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	546,352	13,222	84,533	461,819	0	(2,779)	543,573	14,115	95,869	447,704
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	123,305	0	1,137,117	26,026	146,672	990,445	209,346	(107)	1,346,356	32,161	178,726	1,167,630
80	391.2	GENERAL PLANT: OFFICE FURNITURE	3,614	(1,810)	96,429	2,312	12,447	83,982	2,749	(3,458)	95,720	2,488	11,477	84,243
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	60	90	2,380	0	0	2,470	64	154	2,316
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	30	0	27,150	657	4,247	22,903	684	0	27,834	712	4,960	22,874
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	8	43	0	0	51	1	9	42
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(12)	(529)	19	0	0	(510)	(13)	(542)	32
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	41,418	1,002	6,502	34,916	4,091	0	45,509	1,126	7,627	37,882
86	397.1	GENERAL PLANT: MOBILE RADIOS	1,775	0	11,775	263	1,429	10,346	0	0	11,775	305	1,734	10,041
87	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
88	398.0	GENERAL PLANT: MISC.	0	0	3,939	95	618	3,321	0	0	3,939	102	720	3,219
89		TOTALS	$128,724	($1,810)	$2,421,297	$44,147	$259,332	$2,161,965	$228,946	($6,344)	$2,643,899	$51,618	$304,607	$2,339,292

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1994 ADDITIONS PER COMPANY	1994 (RETIREMENTS) PER COMPANY	1994 YEAR END PLANT VALUE PER RUCO	1994 DEPRECIATION EXPENSE PER RUCO	1994 ACCUMULATED DEPRECIATION PER RUCO	1994 YEAR END NET PLANT PER RUCO	1995 ADDITIONS PER COMPANY	1995 (RETIREMENTS) PER COMPANY	1995 YEAR END PLANT VALUE PER RUCO	1995 DEPRECIATION EXPENSE PER RUCO	1995 ACCUMULATED DEPRECIATION PER RUCO	1995 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	17,033	0	571,048	454	3,656	567,392	9,407	0	580,455	454	4,110	576,345
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,020	104	774	3,246	0	0	4,020	104	878	3,142
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	(5,960)	537,613	14,001	103,910	433,703	0	0	537,613	13,924	117,834	419,779
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	110,780	(100)	1,457,036	36,304	214,929	1,242,107	265,498	0	1,722,534	41,175	256,105	1,466,429
32	391.2	GENERAL PLANT: OFFICE FURNITURE	15,186	0	110,906	2,676	14,153	96,753	7,313	0	118,219	2,967	17,120	101,099
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	64	218	2,252	0	0	2,470	64	282	2,188
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	27,834	721	5,680	22,154	203	0	28,037	724	6,404	21,633
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	11	40	0	0	51	1	12	39
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(555)	45	0	0	(510)	(13)	(568)	58
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	45,509	1,179	8,806	36,703	4,564	0	50,073	1,238	10,044	40,029
38	397.1	GENERAL PLANT: MOBILE RADIOS	2,306	0	14,081	335	2,069	12,012	0	0	14,081	365	2,434	11,647
39	397.2	GENERAL PLANT: AUTO CONTROLS	468	0	468	6	6	462	0	0	468	12	18	450
40	398.0	GENERAL PLANT: MISC.	0	0	3,939	102	822	(720)	0	0	3,939	102	924	3,015
41		TOTALS	$145,773	($6,060)	$2,783,612	$55,933	$354,480	$2,425,295	$286,985	$0	$3,070,597	$61,117	$415,597	$2,655,000
42														
43														
44														
45														
46	ACCT.		1996 ADDITIONS	1996 (RETIREMENTS)	1996 YEAR END PLANT VALUE	1996 DEPRECIATION EXPENSE	1996 ACCUMULATED DEPRECIATION	1996 YEAR END NET PLANT	1997 ADDITIONS	1997 (RETIREMENTS)	1997 YEAR END PLANT VALUE	1997 DEPRECIATION EXPENSE	1997 ACCUMULATED DEPRECIATION	1997 YEAR END NET PLANT
47	NO.	PLANT ACCOUNT NAME	PER COMPANY	PER COMPANY	PER RUCO	PER RUCO	PER RUCO	PER RUCO	PER COMPANY	PER COMPANY	PER RUCO	PER RUCO	PER RUCO	PER RUCO
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
55	314.0	SOURCE OF SUPPLY: WELLS	604	0	604	8	8	596	0	(604)	0	8	(588)	588
56	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	9,971	0	590,426	454	4,563	585,863	11,226	0	601,652	454	5,017	596,635
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	4,020	104	982	3,038	0	0	4,020	104	1,086	2,934
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	(24,401)	513,212	13,608	107,041	406,171	0	(725)	512,487	13,283	119,599	392,888
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	78,774	(17,770)	1,783,538	45,404	283,739	1,499,799	269,995	(3,869)	2,049,664	49,640	329,509	1,720,155
80	391.2	GENERAL PLANT: OFFICE FURNITURE	24,572	0	142,791	3,380	20,500	122,291	9,326	0	152,117	3,819	24,320	127,797
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	64	346	2,124	0	0	2,470	64	410	2,060
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	1,050	0	29,087	740	7,144	21,943	0	0	29,087	753	7,897	21,190
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	13	38	0	0	51	1	15	36
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(581)	71	0	0	(510)	(13)	(595)	85
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	11,341	38,732	0	0	50,073	1,297	12,638	37,435
86	397.1	GENERAL PLANT: MOBILE RADIOS	5,743	0	19,824	439	2,873	16,951	6,062	0	25,886	592	3,465	22,421
87	397.2	GENERAL PLANT: AUTO CONTROLS	743	0	1,211	22	40	1,171	0	0	1,211	31	71	1,140
88	398.0	GENERAL PLANT: MISC.	1,227	0	5,166	118	1,042	(924)	396	0	5,562	139	1,181	4,381
89		TOTALS	$122,684	($42,171)	$3,151,110	$65,625	$439,051	$2,707,011	$297,005	($5,198)	$3,442,917	$70,172	$504,024	$2,938,893

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1998 ADDITIONS PER COMPANY	1998 (RETIREMENTS) PER COMPANY	1998 YEAR END PLANT VALUE PER RUCO	1998 DEPRECIATION EXPENSE PER RUCO	1998 ACCUMULATED DEPRECIATION PER RUCO	1998 YEAR END NET PLANT PER RUCO	1999 ADDITIONS PER COMPANY	1999 (RETIREMENTS) PER COMPANY	1999 YEAR END PLANT VALUE PER RUCO	1999 DEPRECIATION EXPENSE PER RUCO	1999 ACCUMULATED DEPRECIATION PER RUCO	1999 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	(588)	588	0	0	0	0	(588)	588
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	32,375	0	634,027	454	5,471	628,556	9,331	0	643,358	454	5,924	637,434
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	10,262	0	14,282	237	1,323	12,959	0	0	14,282	370	1,693	12,589
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	(197)	512,290	13,271	132,673	379,617	0	0	512,290	13,268	145,941	366,349
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	67,502	(406,605)	1,710,561	48,695	(28,401)	1,738,962	196,237	(220,044)	1,686,754	43,995	(204,449)	1,891,203
32	391.2	GENERAL PLANT: OFFICE FURNITURE	12,072	0	164,189	4,096	28,416	135,773	2,700	0	166,889	4,287	32,703	134,186
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	2,470	64	473	1,997	1,235	0	3,705	80	553	3,152
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	197	0	29,284	756	9,653	20,631	0	0	29,284	758	9,411	19,873
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	51	1	16	35	926	0	977	13	29	948
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(608)	98	0	0	(510)	(13)	(621)	111
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	13,934	36,139	0	0	50,073	1,297	15,231	34,842
38	397.1	GENERAL PLANT: MOBILE RADIOS	2,284	0	28,170	700	4,165	24,005	46,675	0	74,845	1,334	5,499	69,346
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	1,211	31	103	1,108	0	0	1,211	31	134	1,077
40	398.0	GENERAL PLANT: MISC.	295	0	5,857	148	1,329	(1,181)	123	0	5,980	153	1,482	4,498
41		TOTALS	$124,987	($406,802)	$3,161,102	$69,737	$166,959	$2,988,434	$257,227	($220,044)	$3,198,285	$66,029	$12,944	$3,185,341
42														
43														
44														
45														
46	ACCT.		2000 ADDITIONS	2000 (RETIREMENTS)	2000 YEAR END PLANT VALUE	2000 DEPRECIATION EXPENSE	2000 ACCUMULATED DEPRECIATION	2000 YEAR END NET PLANT	2001 ADDITIONS	2001 (RETIREMENTS)	2001 YEAR END PLANT VALUE	2001 DEPRECIATION EXPENSE	2001 ACCUMULATED DEPRECIATION	2001 YEAR END NET PLANT
47	NO.	PLANT ACCOUNT NAME	PER COMPANY	PER COMPANY	PER RUCO	PER RUCO	PER RUCO	PER RUCO	PER COMPANY	PER COMPANY	PER RUCO	PER RUCO	PER RUCO	PER RUCO
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	(588)	588	0	0	0	0	(588)	588
56	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	73,580	0	716,938	454	6,378	710,560	11,791	0	728,729	454	6,831	721,898
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	14,282	370	2,063	12,219	0	0	14,282	370	2,433	11,849
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	512,290	13,268	159,210	353,080	0	0	512,290	13,268	172,478	339,812
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	312,681	0	1,999,435	47,736	(156,713)	2,156,148	377,076	(93,632)	2,282,879	55,456	(194,889)	2,477,768
80	391.2	GENERAL PLANT: OFFICE FURNITURE	14,611	0	181,500	4,512	37,215	144,285	1,983	0	183,483	4,727	41,941	141,542
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	3,705	96	649	3,056	0	0	3,705	96	745	2,960
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	29,284	758	10,170	19,114	709	0	29,993	768	10,938	19,055
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	977	25	55	922	0	0	977	25	80	897
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	(510)	(13)	(634)	124	0	0	(510)	(13)	(647)	137
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	50,073	1,297	16,528	33,545	0	0	50,073	1,297	17,825	32,248
86	397.1	GENERAL PLANT: MOBILE RADIOS	2,507	0	77,352	1,971	7,470	69,882	0	3,950	81,302	2,055	13,474	67,828
87	397.2	GENERAL PLANT: AUTO CONTROLS	343	0	1,554	36	170	1,384	0	0	1,554	40	210	1,344
88	398.0	GENERAL PLANT: MISC.	0	0	5,980	155	1,637	(1,482)	0	0	5,980	155	1,792	4,188
89		TOTALS	$403,722	$0	$3,602,007	$70,665	$83,608	$3,512,574	$391,559	($89,682)	$3,903,884	$78,697	$72,623	$3,831,261

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #3 - ACCUMULATED DEPRECIATION - PHOENIX OFFICE

LINE NO.	ACCT NO.	PLANT ACCOUNT NAME	2002 ADDITIONS PER COMPANY	2002 (RETIREMENTS) PER COMPANY	2002 YEAR END PLANT VALUE PER RUCO	2002 DEPRECIATION EXPENSE PER RUCO	2002 ACCUMULATED DEPRECIATION PER RUCO	2002 YEAR END NET PLANT PER RUCO	2003 ADDITIONS PER COMPANY	2003 (RETIREMENTS) PER COMPANY	2003 YEAR END PLANT VALUE PER RUCO	2003 DEPRECIATION EXPENSE PER RUCO	2003 ACCUMULATED DEPRECIATION PER RUCO	2003 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$651	$0	$0	$651	$0	$0	$651	$0	$0	$651
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	8,496	0	0	8,496	0	0	8,496	0	0	8,496
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	0	0	0	0	0	0	0	0	0	0
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	(588)	588	0	0	0	0	(588)	588
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	7,215	0	735,944	454	7,285	728,659	548,941	0	1,284,885	454	7,739	1,277,146
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	14,282	370	2,803	11,479	0	0	14,282	370	3,173	11,109
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	512,290	13,268	185,746	326,544	0	0	512,290	13,268	199,015	313,275
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	504,040	(153,472)	2,633,447	63,666	(284,695)	2,918,142	195,986	(75,130)	2,754,303	69,771	(290,053)	3,044,356
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	710	0	184,193	4,761	46,703	137,490	54,624	0	238,817	5,478	52,181	186,636
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	3,705	96	841	2,864	0	0	3,705	96	937	2,768
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	29,993	777	11,714	18,279	457	0	30,450	783	12,497	17,953
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	977	25	105	872	0	0	977	25	130	847
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	(510)	(13)	(661)	151	0	0	(510)	(13)	(674)	164
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	50,073	1,297	19,122	30,951	0	0	50,073	1,297	20,419	29,654
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	2,762	0	84,064	2,141	15,616	68,448	7,874	0	91,938	2,279	17,895	74,043
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	1,554	40	250	1,304	0	0	1,554	40	291	1,263
39	397.2	GENERAL PLANT: AUTO CONTROLS	1,226	0	7,206	171	1,963	(1,792)	0	0	7,206	187	2,150	5,056
40	398.0	GENERAL PLANT: MISC.	$515,953	($153,472)	$4,266,365	$87,054	$6,205	$4,253,125	$807,882	($75,130)	$4,999,117	$94,035	$25,110	$4,974,007
41		TOTALS												
42											$ 4,999,117		$ 9,125	
43		BALANCES PER COMPANY												
44											$ 4,999,117		$ 25,110	
45		BALANCES PER RUCO												
46											$ -		$ 15,985	
47		DIFFERENCE												
48											0.0095		0.0095	
49		TIMES: ALLOCATION FACTOR												
50											$ -		$ 152	
51		TOTAL ADJUSTMENTS												

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1990 PLANT VALUE PER COMPANY	1990 ACCUM DEPR. PER COMPANY	1990 NET PLANT PER PRIOR ACC PER COMPANY	1991 ADDITIONS PER COMPANY	1991 (RETIREMENTS) PER COMPANY	1991 YEAR END PLANT VALUE PER RUCO	1991 DEPRECIATION EXPENSE PER RUCO	1991 ACCUMULATED DEPRECIATION PER RUCO	1991 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	80	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	2,050	370	1,680	0	0	2,050	50	420	1,630
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	6,066	1,095	4,971	0	0	6,066	147	1,242	4,824
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	43	8	35	0	0	43	1	9	34
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	16,566	2,992	13,574	0	0	16,566	401	3,392	13,174
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	742	134	608	0	0	742	18	152	590
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	14,969	2,703	12,266	0	0	14,969	362	3,065	11,904
35	395.0	GENERAL PLANT: LAB EQUIPMENT	2,981	538	2,443	0	0	2,981	72	610	2,371
36	396.0	GENERAL PLANT: POWER EQUIPMENT	1,458	263	1,195	0	0	1,458	35	299	1,159
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0
41		TOTALS	$44,955	$8,104	$36,851	$0	$0	$44,955	$1,086	$9,190	$35,765

46 / 47	ACCT. NO.	PLANT ACCOUNT NAME	1992 ADDITIONS PER COMPANY	1992 (RETIREMENTS) PER COMPANY	1992 YEAR END PLANT VALUE PER RUCO	1992 DEPRECIATION EXPENSE PER RUCO	1992 ACCUMULATED DEPRECIATION PER RUCO	1992 YEAR END NET PLANT PER RUCO	1993 ADDITIONS PER COMPANY	1993 (RETIREMENTS) PER COMPANY	1993 YEAR END PLANT VALUE PER RUCO	1993 DEPRECIATION EXPENSE PER RUCO	1993 ACCUMULATED DEPRECIATION PER RUCO	1993 YEAR END NET PLANT PER RUCO
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
56	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	50	469	1,581	0	0	2,050	53	523	1,527
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	147	1,389	4,677	0	0	6,066	157	1,546	4,520
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	43	1	10	33	0	0	43	1	11	32
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	16,566	401	3,793	12,773	0	0	16,566	429	4,222	12,344
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	18	170	572	0	0	742	19	189	553
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
80	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	14,969	362	3,428	11,541	333	0	15,302	392	3,820	11,482
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	72	683	2,298	0	0	2,981	77	760	2,221
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	35	334	1,124	0	0	1,458	38	372	1,086
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
86	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
87	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
88	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
89		TOTALS	$0	$0	$44,955	$1,086	$10,276	$34,679	$333	$0	$45,288	$1,167	$11,442	$33,846

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1994 ADDITIONS PER COMPANY	1994 (RETIREMENTS) PER COMPANY	1994 YEAR END PLANT VALUE PER RUCO	1994 DEPRECIATION EXPENSE PER RUCO	1994 ACCUMULATED DEPRECIATION PER RUCO	1994 YEAR END NET PLANT PER RUCO	1995 ADDITIONS PER COMPANY	1995 (RETIREMENTS) PER COMPANY	1995 YEAR END PLANT VALUE PER RUCO	1995 DEPRECIATION EXPENSE PER RUCO	1995 ACCUMULATED DEPRECIATION PER RUCO	1995 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	576	1,474	0	0	2,050	53	629	1,421
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	1,703	4,363	0	0	6,066	157	1,860	4,206
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	43	1	12	31	0	0	43	1	13	30
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	16,566	429	4,652	11,914	0	0	16,566	429	5,081	11,485
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	742	19	208	534	0	0	742	19	228	514
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	227	0	15,529	399	4,219	11,310	4,710	0	20,239	463	4,682	15,557
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	2,981	77	837	2,144	0	0	2,981	77	914	2,067
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	1,458	38	409	1,049	0	0	1,458	38	447	1,011
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
41		TOTALS	$227	$0	$45,515	$1,174	$12,816	$32,899	$4,710	$0	$50,225	$1,238	$13,854	$36,371

46 / 47	ACCT. NO.	PLANT ACCOUNT NAME	1996 ADDITIONS PER COMPANY	1996 (RETIREMENTS) PER COMPANY	1996 YEAR END PLANT VALUE PER RUCO	1996 DEPRECIATION EXPENSE PER RUCO	1996 ACCUMULATED DEPRECIATION PER RUCO	1996 YEAR END NET PLANT PER RUCO	1997 ADDITIONS PER COMPANY	1997 (RETIREMENTS) PER COMPANY	1997 YEAR END PLANT VALUE PER RUCO	1997 DEPRECIATION EXPENSE PER RUCO	1997 ACCUMULATED DEPRECIATION PER RUCO	1997 YEAR END NET PLANT PER RUCO
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
51	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
56	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	2,050	53	682	1,368	0	0	2,050	53	735	1,315
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	0	0	0	0	0	0	0	0	0	0
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	6,066	157	2,017	4,049	0	0	6,066	157	2,175	3,891
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	0	0	0	0	0	0	0	0	0	0
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	(34)	9	1	(20)	29	1,258	0	1,267	17	(4)	1,271
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS	0	0	16,566	429	5,510	11,056	344	0	16,910	434	5,943	10,967
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	742	19	247	495	0	0	742	19	266	476
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
80	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	1,867	0	22,106	548	5,231	16,875	17,090	0	39,196	794	6,024	33,172
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	2,981	77	991	1,990	0	0	2,981	77	1,069	1,912
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	1,458	38	485	973	0	0	1,458	38	523	935
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
86	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
87	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
88	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
89		TOTALS	$1,867	($34)	$52,098	$1,322	$15,142	$36,916	$18,692	$0	$70,750	$1,588	$16,731	$54,019

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO	ACCT. NO	PLANT ACCOUNT NAME	1998 ADDITIONS PER COMPANY	1998 (RETIREMENTS) PER COMPANY	1998 YEAR END PLANT VALUE PER RUCO	1998 DEPRECIATION EXPENSE PER RUCO	1998 ACCUMULATED DEPRECIATION PER RUCO	1998 YEAR END NET PLANT PER RUCO	1999 ADDITIONS PER COMPANY	1999 (RETIREMENTS) PER COMPANY	1999 YEAR END PLANT VALUE PER RUCO	1999 DEPRECIATION EXPENSE PER RUCO	1999 ACCUMULATED DEPRECIATION PER RUCO	1999 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	2,050	53	788	1,262	0	0	2,050	53	841	1,209
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	6,066	157	2,332	3,734	0	0	6,066	157	2,489	3,577
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	(472)	795	27	(449)	1,244	0	(1,222)	(427)	5	(1,666)	1,239
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	4,898	0	21,808	501	6,445	15,363	0	0	21,808	565	7,009	14,799
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	742	19	285	457	0	0	742	19	304	438
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	1,541	0	40,737	1,035	7,060	33,677	817	0	41,554	1,066	8,125	33,429
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	2,981	77	1,146	1,835	0	0	2,981	77	1,223	1,758
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	1,458	38	560	898	0	0	1,458	38	598	860
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	$6,439	($472)	$76,717	$1,908	$18,166	$58,551	$817	($1,222)	$76,312	$1,980	$18,924	$57,388
41		TOTALS												

ACCT. NO.	PLANT ACCOUNT NAME	2000 ADDITIONS PER COMPANY	2000 (RETIREMENTS) PER COMPANY	2000 YEAR END PLANT VALUE PER RUCO	2000 DEPRECIATION EXPENSE PER RUCO	2000 ACCUMULATED DEPRECIATION PER RUCO	2000 YEAR END NET PLANT PER RUCO	2001 ADDITIONS PER COMPANY	2001 (RETIREMENTS) PER COMPANY	2001 YEAR END PLANT VALUE PER RUCO	2001 DEPRECIATION EXPENSE PER RUCO	2001 ACCUMULATED DEPRECIATION PER RUCO	2001 YEAR END NET PLANT PER RUCO
301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	2,050	53	894	1,156	0	0	2,050	53	947	1,103
332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	6,066	157	2,646	3,420	0	0	6,066	157	2,803	3,263
343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	(427)	(11)	(1,677)	1,250	0	0	(427)	(11)	(1,688)	1,261
345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
390.1	GENERAL PLANT: OFFICE BUILDINGS	1,654	0	1,654	21	21	1,633	478	0	2,130	49	70	2,060
390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	4,465	0	26,273	623	7,632	18,641	2,168	0	28,441	709	8,341	20,100
390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	742	19	324	418	0	0	742	19	343	399
391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	831	0	831	11	11	820	0	0	831	22	32	799
391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	0	0	0	0	0	0	0	0	0	0
393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	1,088	0	1,088	14	14	1,074
394.0	GENERAL PLANT: GARAGE EQUIPMENT	11,551	0	53,105	1,226	9,351	43,754	559	0	53,664	1,383	10,734	42,930
395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	2,981	77	1,300	1,681	0	0	2,981	77	1,377	1,604
396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	1,458	38	636	822	0	0	1,458	38	674	784
397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
	TOTALS	$18,501	$0	$94,813	$2,214	$21,138	$73,675	$4,291	$0	$99,104	$2,509	$23,647	$75,457

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #4 - ACCUMULATED DEPRECIATION - METER SHOP

LINE NO	ACCT. NO.	PLANT ACCOUNT NAME	2002 ADDITIONS PER COMPANY	2002 (RETIREMENTS) PER COMPANY	2002 YEAR END PLANT VALUE PER RUCO	2002 DEPRECIATION EXPENSE PER RUCO	2002 ACCUMULATED DEPRECIATION PER RUCO	2002 YEAR END NET PLANT PER RUCO	2003 ADDITIONS PER COMPANY	2003 (RETIREMENTS) PER COMPANY	2003 YEAR END PLANT VALUE PER RUCO	2003 DEPRECIATION EXPENSE PER RUCO	2003 ACCUMULATED DEPRECIATION PER RUCO	2003 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	0	0	0	0	0	0	0	0	0	0
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	80	0	0	80	0	0	80	0	0	80
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	0	0	0	0	0	0	0	0	0	0
8	320.0	PUMPING PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	0	0	0	0	0	0	0	0	0	0
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	2,050	53	1,000	1,050	0	0	2,050	53	1,053	997
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	0	0	0	0	0	0	0	0
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	6,066	157	2,960	3,106	0	0	6,066	157	3,117	2,949
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	0	0	0	0	0	0	0	0	0	0	0	0
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	426	0	(1)	(6)	(1,694)	1,693	0	0	(1)	(0)	(1,694)	1,693
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	0	0	0	0	0	0	0	0	0	0	0	0
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	0	0	0	0	0	0	0	0	0	0	0	0
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	0	0	0	0	0	0	0	0	0	0	0	0
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	2,130	55	126	2,004	0	0	2,130	55	181	1,949
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	6,902	0	35,343	826	9,167	26,176	0	0	35,343	915	10,082	25,261
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	0	0	0	0	0	0	0	0	0	0
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	742	19	362	380	0	0	742	19	381	361
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	1,377	0	2,208	39	72	2,136	1,033	0	3,241	71	142	3,099
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	1,088	28	42	1,046	0	0	1,088	28	70	1,018
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	53,664	1,390	12,124	41,540	4,766	0	58,430	1,452	13,575	44,855
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	0	0	2,981	77	1,455	1,526	0	0	2,981	77	1,532	1,449
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	1,458	38	711	747	0	0	1,458	38	749	709
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
38	397.1	GENERAL PLANT: MOBILE RADIOS	0	0	0	0	0	0	0	0	0	0	0	0
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	0	0	0	0	0	0	0	0	0	0
40	398.0	GENERAL PLANT: MISC.	0	0	0	0	0	0	0	0	0	0	0	0
41		TOTALS	$8,705	$0	$107,809	$2,677	$26,325	$81,484	$5,799	$0	$113,608	$2,865	$29,190	$84,418
42														
43		BALANCES PER COMPANY									$ 113,607		$ 30,118	
44														
45		BALANCES PER RUCO									$ 113,608		$ 29,190	
46														
47		DIFFERENCE									$ 1		$ (928)	
48														
49		TIMES: ALLOCATION FACTOR									0.0095		0.0095	
50														
51		TOTAL ADJUSTMENTS									$ 0		$ (9)	

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	CASH WORKING CAPITAL PER COMPANY	$ (17,417)	COMPANY SCH. B-5, PG. 1
2	CASH WORKING CAPITAL PER RUCO	(16,841)	SCH. TJC-8, PG. 3
3	DECREASE IN CASH WORKING CAPITAL	$ 576	LINE 2 - LINE 1
4	MATERIALS & SUPPLIES PER COMPANY	$ 3,000	COMPANY SCH. B-5, PG. 1
5	MATERIALS & SUPPLIES PER RUCO	3,000	
6	MATERIALS & SUPPLIES ADJUSTMENT	$ -	LINE 5 - LINE 4
7	PREPAYMENTS PER COMPANY AND SPECIAL DEPOSITS	$ 4,020	COMPANY SCH. B-5, PG. 1
8	PREPAYMENTS PER RUCO	4,020	
9	PREPAYMENTS ADJUSTMENT	$ -	LINE 8 - LINE 7
10	REQUIRED BANK BALANCES PER COMPANY	$ 6,188	COMPANY SCH. B-5, PG. 1
11	REQUIRED BANK BALANCES PER RUCO	6,188	
12	REQUIRED BANK BALANCE ADJUSTMENT	$ -	LINE 11 - LINE 10
13	TOTAL WORKING CAPITAL ADJUSTMENT	$ 576	LINES 3, 6, 9 & 12

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
LEAD/LAG CALCULATION

LINE NO.	DESCRIPTION	(A) EXPENSES PER COMPANY	(B) RUCO ADJUSTMENTS	(C) ADJUSTED EXPENSES	(D) (LEAD)/LAG DAYS	(E) $ DAYS
1	PURCHASED POWER	$ 3,458	$ (476)	$ 2,982	38.26	$ 114,084
2	PAYROLL	59,654	-	59,654	14.00	835,156
3	PURCHASED WATER	162,873	(759)	162,114	40.34	6,539,679
4	CHEMICALS	-	-	-	N/A	N/A
5	PROPERTY & LIABILITY INSURANCE	2,050	-	2,050	(45.27)	(92,804)
6	WORKER'S COMPENSATION	835	-	835	(46.50)	(38,828)
7	HEALTH INSURANCE	12,758	-	12,758	(8.92)	(113,801)
8	OTHER O&M EXPENSES	42,528	(25,447)	17,081	(9.27)	(158,342)
9	DEPRECIATION & AMORTIZATION	-	-	-	N/A	N/A
10	FEDERAL INCOME TAXES	25,017	(12,018)	12,999	61.95	805,369
11	STATE INCOME TAXES	7,566	(2,200)	5,366	99.80	535,495
12	DEFERRED INCOME TAXES	-	-	-	N/A	N/A
13	FICA TAXES	4,555	-	4,555	14.00	63,770
14	FUTA & SUTA TAXES	106	-	106	83.10	8,809
15	PROPERTY TAXES	53,744	(27,292)	26,452	212.00	5,607,815
16	REG., CONTRACT, & MISCELLANEOUS FEES	5,137	-	5,137	(98.83)	(507,714)
17	SALES & OCCUPATION TAXES	24,407	-	24,407	37.53	916,004
18	PENSION EXPENSE	5,184	-	5,184	34.72	179,997
19	SUBTOTAL	$ 409,873	$ (68,192)	$ 341,681 *		$ 14,694,689
20	SYCHRONIZED INTEREST	19,156	(137)	19,019	91.25	1,735,475
21	TOTAL	$ 429,029	$ (68,329)	$ 360,700	45.55	$ 16,430,163

REFERENCES:
COLUMN (A): COMPANY SCHEDULE B-6, W/P B6-1, PAGE 4 of 5
COLUMN (B): DIFFERENCE BETWEEN COLUMN (A) AND SCHEDULE TJC-9 COLUMN (E)
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): LINES 1 THRU 8 AND 13 THRU 18 AND LINE 20 - COMPANY SCHEDULE B-6, W/P B6-1, PAGE 4 OF 5
COLUMN (D): LINE 10 AND 11 - SCHEDULE TJC-8, PAGE 4 OF 5 AND PAGE 5 OF 5, LINE 7 RESPECTIVELY
COLUMN (E): *COLUMN (C) x COLUMN (D)*

NOTE
N/A = NON CASH CHARGES EXCLUDED FROM WORKING CAPITAL CALCULATION
* RUCO RECOMMENDED LEVEL OF OPERATING EXPENSE - SCHEDULE TJC-9 COLUMN (E), LINE 16 MINUS LINE 12

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
CALCULATION OF CASH WORKING CAPITAL

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	AVERAGE EXPENSE LAG	45.55	SCH. TJC-8, PG. 2
2	AVERAGE REVENUE COLLECTION LAG	27.56	CO. SCH. B-6, PG. 2
3	EXCESS EXPENSE OVER REVENUE LAG	(17.99)	LINE 2 - LINE 1
4	TOTAL EXPENSES	$ 341,681	SCH. TJC-8, PG. 2
5	CASH WORKING CAPITAL REQUIREMENT	(16,841)	(LINE 3 X LINE 4)/365 DAYS
6	PER COMPANY	$ (17,417)	CO. SCH. B-6, PG. 1
7	INCREASE (DECREASE) IN WORKING CAPITAL	$ 576	LINE 5 - LINE 6

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
CALCULATION OF FEDERAL INCOME TAX LAG

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-8

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/12/99		07/01/99		(80.00)		$ 397,000		$ (31,760,000)
2	06/11/99		07/01/99		(20.00)		50,000		(1,000,000)
3	09/14/99		07/01/99		75.00		486,000		36,450,000
4	12/14/99		07/01/99		166.00		970,000		161,020,000
5	03/14/00		07/01/99		257.00		(240,000)		(61,680,000)
6	TOTALS						$ 1,663,000		$ 103,030,000
7	INCOME TAX LAG				61.95				

REFERENCE
COMPANY'S WORKPAPERS SCHEDULE B-6, W/P EL-11, PAGE 2 OF 2

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
RATE BASE ADJUSTMENT #6 - WORKING CAPITAL
CALCULATION OF STATE INCOME TAX LAG

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-8

LINE NO.	(A) PAYMENT DATE	-	(B) SERVICE PERIOD MIDPOINT	=	(C) (LEAD)/LAG DAYS	X	(D) PAYMENT AMOUNT	=	(E) DOLLAR DAYS
1	04/15/99		07/01/99		(77.00)		$ 50,000		$ (3,850,000)
2	06/15/99		07/01/99		(16.00)		12,000		(192,000)
3	09/15/99		07/01/99		76.00		112,000		8,512,000
4	12/15/99		07/01/99		167.00		220,000		36,740,000
5	04/15/00		07/01/99		289.00		(9,983)		(2,885,087)
6	TOTALS						$ 384,017		$ 38,324,913
7	INCOME TAX LAG				99.80				

REFERENCE
COMPANY'S WORKPAPERS SCHEDULE B-6, W/P EL-12, PAGE 2 OF 2

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
OPERATING INCOME - TEST YEAR AND RUCO PROPOSED

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-9

LINE NO.	DESCRIPTION	(A) COMPANY TEST YEAR AS FILED	(B) RUCO TEST YEAR ADJUSTMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO RECOMMENDED
	REVENUES - WATER:					
1	REVENUE FROM WATER SALES	$ 409,259	$ (5,187)	$ 404,072	$ 52,289	$ 456,361
2	OTHER REVENUES	2,944	-	2,944		2,944
3	TOTAL OPERATING REVENUES	$ 412,203	$ (5,187)	$ 407,016	$ 52,289	$ 459,305
	OPERATING EXPENSES:					
4	PURCHASED WATER	$ 162,114	$ -	$ 162,114	$ -	$ 162,114
5	OTHER	316	(225)	91		91
6	PURCHASED POWER	2,976	6	2,982		2,982
7	PURCHASED GAS	-	-	-		-
8	OTHER	14,594	(2,008)	12,586		12,586
9	WATER TREATMENT	3,443	(52)	3,391		3,391
10	TRANSMISSION & DISTRIBUTION	38,687	206	38,893		38,893
11	CUSTOMER ACCOUNTS	27,613	(325)	27,288		27,288
12	SALES	142	-	142		142
13	ADMINISTRATIVE & GENERAL	45,617	-	45,617		45,617
14	DEPRECIATION & AMORTIZATION	39,981	0	39,981		39,981
15	PROPERTY TAXES	27,099	(647)	26,452		26,452
16	OTHER TAXES	3,759	-	3,759		3,759
17	FEDERAL INCOME TAXES	9,756	(5,615)	4,141	8,859	12,999
18	STATE INCOME TAXES	1,409	312	1,721	3,645	5,366
19	TOTAL OPERATING EXPENSES	$ 377,507	$ (8,348)	$ 369,159	$ 12,503	$ 381,662
20	NET INCOME	$ 34,696	$ 3,161	$ 37,857	$ 39,786	$ 77,643

REFERENCES:
COLUMN (A): CO. SCH. C-1, PG. 3
COLUMN (B): SCH. TJC-10
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): SCH. TJC-1, PAGE 2 OF 2
COLUMN (E): COLUMN (C) + COLUMN (D)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
SUMMARY OF OPERATING ADJUSTMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-10

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ. #1	(C) ADJ. #2	(D) ADJ. #3	(E) ADJ. #4	(F) ADJ. #5	(G) ADJ. #6	(H) ADJ. #7	(I) RUCO ADJUSTED
	REVENUES - WATER:									
1	REVENUE FROM WATER SALES	$ 409,259	$ -	$ -	$ (5,187)	$ -	$ -	$ -	$ -	$ 404,072
2	OTHER REVENUES	2,944								2,944
3	TOTAL OPERATING REVENUES	$ 412,203	$ -	$ -	$ (5,187)	$ -	$ -	$ -	$ -	$ 407,016
	OPERATING EXPENSES:									
2	PURCHASED WATER	$ 162,114	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 162,114
3	OTHER	316			(225)					91
4	PURCHASED POWER	2,976				6				2,982
5	PURCHASED GAS	-								-
6	OTHER	14,594			(2,008)					12,586
7	WATER TREATMENT	3,443			(52)					3,391
8	TRANSMISSION & DISTRIBUTION	38,687			206					38,893
9	CUSTOMER ACCOUNTS	27,613			(325)					27,288
10	SALES	142								142
11	ADMINISTRATIVE & GENERAL	45,617								45,617
12	DEPRECIATION & AMORTIZATION	39,981					0			39,981
13	PROPERTY TAXES	27,099						(647)		26,452
14	OTHER TAXES	3,759								3,759
15	FEDERAL INCOME TAXES	9,756							(5,615)	4,141
16	STATE INCOME TAXES	1,409							312	1,721
17	TOTAL OPERATING EXPENSES	$ 377,507	$ -	$ -	$ (2,404)	$ 6	$ 0	$ (647)	$ (5,303)	$ 369,159
18	NET INCOME	$ 34,696	$ -	$ -	$ (2,783)	$ (6)	$ (0)	$ 647	$ 5,303	$ 37,857

ADJUSTMENT #:	REFERENCE:
1. NOT USED	N/A
2. NOT USED	N/A
3. REVENUE AND EXPENSE ANNUALIZATION FOR 2003	SCHEDULE TJC-11
4. PURCHASED POWER	SCHEDULE TJC-12
5. DEPRECIATION AND AMORTIZATION EXPENSE	SCHEDULE TJC-13
6. PROPERTY TAX EXPENSE	SCHEDULE TJC-14
7. INCOME TAX EXPENSE	SCHEDULE TJC-15

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
OPERATING ADJ. #3 - REVENUE AND EXPENSE ANNUALIZATION FOR 2003

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-11

LINE NO.	DESCRIPTION	JANUARY	FEBRUARY	MARCH	APRIL	MAY	JUNE	JULY	AUGUST	SEPTEMBER	OCTOBER	NOVEMBER	DECEMBER
1	YEAR END CUSTOMERS - 2003	681	681	681	681	681	681	681	681	681	681	681	681
2	2003 CUSTOMERS	694	695	699	701	701	692	697	695	688	688	685	681
3	INCREASE IN CUSTOMERS - 2003	(13)	(14)	(18)	(20)	(20)	(11)	(16)	(14)	(7)	(7)	(4)	-
4	AVERAGE REVENUE FOR THE MONTH	$ 43.04	$ 48.03	$ 40.49	$ 46.62	$ 50.51	$ 60.48	$ 61.59	$ 56.93	$ 48.32	$ 47.90	$ 48.56	$ 44.44
5	INCREASE IN REVENUES	$ (560)	$ (672)	$ (729)	$ (932)	$ (1,010)	$ (665)	$ (985)	$ (797)	$ (338)	$ (335)	$ (194)	$ -
6	TOTAL INCREASE IN REVENUE	(7,219)											
7	INCREASE IN REVENUE PER COMPANY	(2,032)											
8	REVENUE ADJUSTMENT PER RUCO	$ (5,187)											
9	GALLONS SOLD PER AVERAGE CUSTOMER	5,170	6,086	4,690	5,854	6,550	8,357	8,560	7,716	6,102	6,089	6,197	5,007
10	INCREASE IN CUSTOMERS	(13)	(14)	(18)	(20)	(20)	(11)	(16)	(14)	(7)	(7)	(4)	0
11	INCREASE IN GALLONS	(67,207)	(85,211)	(84,412)	(117,084)	(131,004)	(91,922)	(136,962)	(108,028)	(42,714)	(42,622)	(24,789)	0
12	TOTAL INCREASE IN GALLONS	(931,954)											
13	PUMPING COST PER GALLON	0.000333											
14	INCREASE IN PUMPING COST PER RUCO	(310)	Line 12 X Line 13										
15	INCREASE IN PUMPING COST PER COMPANY	(85)											
16	PUMPING COST ADJUSTMENT PER RUCO	$ (225)											
17	WATER TREATMENT COSTS PER GALLON	0.000077											
18	INCREASE IN WATER TREATMENT COSTS PER RUCO	(72)	Line 12 X Line 17										
19	INCREASE IN WATER TREATMENT COST PER CO.	(20)											
20	WATER TREATMENT COST ADJUSTMENT PER RUCO	$ (52)											
21	SOURCE OF SUPPLY COST PER GALLON	0.002969											
22	INCREASE IN SOURCE OF SUPPLY COST	(2,767)											
23	INCREASE IN SOURCE OF SUPPLY COST PER CO.	(759)											
24	SOURCE OF SUPPLY ADJUSTMENT PER RUCO	$ (2,008)											
25	TRANSMISSION & DISTRIBUTION COST PER GALLON	0											
26	INCREASE IN TRANSMISSION & DISTRIBUTION COST	0											
27	INCREASE IN T & D COST PER CO.	(206)											
28	T & D ADJUSTMENT PER RUCO	$ 206											
29	TOTAL INCREASE IN BILLS	(144)											
30	MONTHLY ACCOUNTING COST PER BILL	3.38											
31	INCREASE IN ACCOUNTING COST PER RUCO	(487)											
32	INCREASE IN ACCOUNTING COST PER COMPANY	(162)											
33	ACCOUNTING COST ADJUSTMENT PER RUCO	$ (325)											

REFERENCES:
LINE #1 - COMPANY'S RATE FILING, BOOK 2 OF 2 - 2003 CUSTOMER COUNT
LINE #2 - COMPANY'S RATE FILING, BOOK 2 OF 2 - 2003 CUSTOMER COUNT
LINE #3 - LINE #1 MINUS LINE #2
LINE #4 - TOTAL MONTH REV. MINUS OTHER REV. LESS SALES TAX / TOTAL MONTHLY CUSTOMERS FOR TEST-YEAR
LINE #5 - LINE #3 MULTIPLIED BY LINE #4
LINE #6 - SUMMATION OF LINE #5
LINE #7 - COMPANY'S WORKPAPERS C2-5, RATE FILING - BOOK 1 OF 2
LINE #8 - LINE #6 MINUS LINE #7
LINE #9 - GALLONS SOLD / MONTHLY CUSTOMERS, COMPANY'S RATE FILING, BOOK 2 OF 2
LINE #10 - LINE #3
LINE #11 - LINE #9 X LINE #10
LINE #12 - SUMMATION OF LINE #11
LINE #13 - CO. W/P C2-5a, PAGE 3 OF 4
LINE #14 - LINE #12 X LINE #13
LINE #15 - COMPANY'S WORKPAPERS, W/P C2-5
LINE #16 - LINE #14 MINUS LINE #15
LINE #17 - CO. W/P C2-5a, PAGE 3 OF 4
LINE #19 - COMPANY'S W/P's, W/P C2-5, 2 OF 2
LINE #20 - LINE #18 MINUS LINE #19
LINE #21 - PRICE OF PURCHASED WATER
LINE #23 - CO. W/P C2-5a, PAGE 1 OF 4
LINE #25 - RUCO'S ANALYSIS
LINE #27 - CO. W/P C2-5a, PAGE 1 OF 4
LINE #29 - SUMMATION OF LINE #'s 3 OR 10
LINE #30 - CO. W/P C2-5a, PAGE 4 OF 4 / 12
LINE #31 - LINE #29 X LINE #30
LINE #32 - CO. W/P C2-5a, PAGE 1 OF 4
LINE #33 - LINE #31 MINUS LINE #32

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
OPERATING ADJ. #4 - PURCHASED POWER

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-12

LINE NO.	DESCRIPTION	
1	ACTUAL TEST YEAR PURCHASED POWER FROM APS	$ 181
2	TEST YEAR PURCHASED POWER FROM OTHER SERVICE PROVIDERS	3,065
3	TOTAL TEST YEAR PURCHASED POWER (LINE 1 + LINE 2)	$ 3,246
4	PERCENTAGE OF TEST YEAR PURCHASED POWER FROM APS (LINE 1 ÷ LINE 3)	5.58%
5	COMPANY PROPOSED LEVEL OF PURCHASED POWER EXPENSE (LINE 3 X LINE 4)	$ 2,976
6	TIMES: PERCENTAGE OF TEST YEAR PURCHASED POWER FROM APS (LINE 4)	5.58%
7	PERCENTAGE OF PURCHASED POWER SUBJECT TO APS INCREASE (LINE 5 X LINE 6)	$ 166
8	TIMES APS COMMERCIAL RATE INCREASE	3.50%
9	INCREASE IN APS PORTION OF PURCHASED POWER (LINE 7 X LINE 8)	$ 6

REFERENCES:
LINE 1: COMPANY WORKPAPER EL-2 PAGE 2 OF 2
LINE 2: COMPANY WORKPAPER EL-2 PAGE 2 OF 2
LINE 5: COMPANY APPLICATION SCHEDULE C1 PAGE 2 OF 3
LINE 8: ACC DECISION NO. 67744, DATED APRIL 7, 2005 - APS SETTLEMENT AGREEMENT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
OPERATING ADJ. #5 - DEPRECIATION AND AMORTIZATION EXPENSE

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-13

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	(A) ACTUAL TEST YEAR BALANCE PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED BALANCE	(D) COMPONENT DEPRECIATION RATES	(E) RUCO RECOMMENDED DEPRECIATION EXPENSE
1	301.0	INTANGIBLES: ORGANIZATION*	$ -	$ -	$0	0.00%	$ -
2	302.0	INTANGIBLES: FRANCHISES*	-	-	-	0.00%	-
3	303.0	INTANGIBLES: MISC.*	-	-	-	0.00%	-
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	2,916	-	2,916	0.00%	-
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	-	-	-	0.00%	-
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	-	-	-	0.00%	-
7	314.0	SOURCE OF SUPPLY: WELLS	-	-	-	3.13%	-
8	320.0	PUMPING PLANT: LAND*	3,208	-	3,208	0.00%	-
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	3,015	-	3,015	2.86%	86
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	74,000	1	74,001	5.88%	4,351
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	-	-	-	4.00%	-
12	330.0	WATER TREATMENT PLANT: LAND*	-	-	-	0.00%	-
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	-	-	-	2.50%	-
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	-	-	-	2.86%	-
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	6,065	-	6,065	0.00%	-
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	-	-	-	0.00%	-
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	-	-	-	2.00%	-
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	160,356	1	160,357	2.00%	3,207
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	984,946	(1)	984,945	1.79%	17,631
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	104	-	104	2.00%	2
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	244,045	(1)	244,044	2.38%	5,808
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	49,367	-	49,367	4.55%	2,246
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	41,536	-	41,536	1.82%	756
24	389.1	GENERAL PLANT: LAND - OFFICE*	-	-	-	0.00%	-
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	-	-	-	0.00%	-
26	389.3	GENERAL PLANT: LAND - MISC.*	-	-	-	0.00%	-
27	390.1	GENERAL PLANT: OFFICE BUILDINGS	34,987	-	34,987	2.50%	875
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	11,424	-	11,424	2.50%	286
29	390.3	GENERAL PLANT: MISC. BUILDINGS	-	-	-	2.50%	-
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	5,562	-	5,562	6.67%	371
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	3,628	-	3,628	6.67%	242
32	391.2	GENERAL PLANT: OFFICE FURNITURE	191	-	191	6.67%	13
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	193	-	193	5.00%	10
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	8,362	-	8,362	4.00%	334
35	395.0	GENERAL PLANT: LAB EQUIPMENT	2,103	-	2,103	5.00%	105
36	396.0	GENERAL PLANT: POWER EQUIPMENT	3,234	-	3,234	6.67%	216
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	10,812	-	10,812	6.67%	721
38	397.1	GENERAL PLANT: MOBILE RADIOS	2,457	-	2,457	6.67%	164
39	397.2	GENERAL PLANT: AUTO CONTROLS	3,199	-	3,199	6.67%	213
40	398.0	GENERAL PLANT: MISC.	768	-	768	3.33%	26
41							
42		TEST YEAR PLANT IN SERVICE TOTALS	$ 1,656,478	$ -	$ 1,656,478		$ 37,663
43							
44		GROSS DEPRECIABLE PHOENIX OFFICE AND METER SHOP ALLOCATION	48,571	1,009,763	1,058,334		$ 2,374
45							
46		GROSS LEASHOLD IMPROVEMENTS	12,040	-	12,040 **		$ 770
47							
48		DEFERRED CAP CHARGES	-	-	-		$ -
49							
50		TEST YEAR TOTALS	$ 1,717,089	$ 1,009,763	$ 2,726,852		$ 40,807
51							
52							
53		LESS:					
54		AMORTIZATION OF CONTRIBUTIONS IN AID OF CONSTRUCTION @ 2.00% COMPOSITE RATE ***					825
55							
56		TOTAL PRO FORMA DEPRECIATION & AMORTIZATION EXPENSE PER RUCO					$ 39,981
57							
58		DEPRECIATION & AMORTIZATION EXPENSE PER COMPANY					$ 39,981
59							
60		LESS:					
61		10-YEAR AMORTIZATION OF DEFERRED CAP CHARGES					-
62							
63		DEPRECIATION & AMORTIZATION EXPENSE PER COMPANY EXCLUDING 10-YEAR AMORTIZATION OF DEFERRED CAP CHARGES					$ 39,981
64							
65		DEPRECIATION & AMORTIZATION EXPENSE ADJUSTMENT (LINE 56 - LINE 63)					$ 0

REFERENCES:
COLUMN (A): COMPANY SCHEDULE E-5 PAGE 2 OF 3
COLUMN (B): COLUMN (C) - COLUMN (A)
COLUMN (C): RUCO SCHEDULE TJC-4, PAGE 4
COLUMN (D): COMPANY SCHEDULE C-2, W/P C2-15b, PAGE 2 OF 4
COLUMN (E): COLUMN (C) x COLUMN (D)

NOTE:
* NON-DEPRECIABLE PLANT ASSETS
** PHOENIX OFFICE LEASEHOLD IMPROVEMENTS x ALLOCATION FACTOR = $1,267,373 x 0.0095 = $12,040
*** TEST YEAR ADJUSTED CIAC x 2.00% COMPOSITE RATE OF DEPRECIATION = $41,263 x 2.00% = $825

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
OPERATING ADJ. #6 - PROPERTY TAX EXPENSE

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-14

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUES - 2001	$ 414,383	COMPANY SCH. C-2, W/P C2-16a
2	REVENUES - 2002	435,154	COMPANY SCH. C-2, W/P C2-16a
3	REVENUES - 2003	415,772	COMPANY SCH. C-2, W/P C2-16a
4	TOTAL	$ 1,265,309	SUM LINES 1, 2, & 3
5	3 YEAR AVERAGE	$ 421,770	LINE 4/3 YEARS
6	MULTIPLIER FOR REVENUES (2 X LAST 3 YRS. AVERAGE REVENUE)	x 2	ADOR VALUATION FACTOR
7	REVENUES FOR FULL CASH VALUE	$ 843,539	LINE 5 X 2 (MULTIPLIER FOR REVENUES)
8	ADD: 10% OF CWIP BALANCE	-	COMPANY SCH. B-2, PG. 5; LINE 4 X 10%
9	LESS: LICENSED VEHICLES	664	COMPANY SCH. C-2, W/P C2-16a
10	FULL CASH VALUE	$ 842,875	LINE 7 + LINE 8 MINUS LINE 9
11	ASSESSMENT RATIO	25%	PER ADOR VALUATION METHOD
12	ASSESSED VALUE	$ 210,719	LINE 10 X LINE 11
13	PROPERTY TAX RATE	12.5532%	PER TAX BILLS
14	PROPERTY TAXES PAYABLE PER RUCO	$ 26,452	LINE 12 X LINE 13
15	PROPERTY TAXES PER COMPANY	27,099	COMPANY SCH. C-1, PG. 3
16	ADJUSTMENT	$ (647)	LINE 14 MINUS LINE 15

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
OPERATING ADJ. #7 - INCOME TAXES

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-15

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
	FEDERAL INCOME TAXES:		
1	OPERATING INCOME BEFORE INCOME TAXES	$ 43,719	SCH. TJC-9
	LESS:		
2	ARIZONA STATE TAX	1,721	LINE 11
3	INTEREST EXPENSE	19,019	NOTE (a)
4	FEDERAL TAXABLE INCOME	$ 22,979	LINE 1 - LINES 2 & 3
5	FEDERAL INCOME TAX RATE	18.02%	TAX RATE
6	FEDERAL INCOME TAX EXPENSE	$ 4,141	LINE 4 X LINE 5
7	FEDERAL INCOME TAXES PER COMPANY FILING	9,756	COMPANY SCH. C-1, PG. 3
8	RUCO FEDERAL INCOME TAX ADJUSTMENT	$ (5,615)	LINE 6 - LINE 7
	STATE INCOME TAXES:		
9	OPERATING INCOME BEFORE INCOME TAXES	$ 43,719	LINE 1
	LESS:		
10	INTEREST EXPENSE	19,019	NOTE (A)
11	STATE TAXABLE INCOME	$ 24,700	LINE 7 - LINE 8
12	STATE TAX RATE	6.968%	TAX RATE
13	STATE INCOME TAX EXPENSE	$ 1,721	LINE 9 X LINE 10
14	STATE INCOME TAXES PER COMPANY FILING	1,409	COMPANY SCH. C-1, PG. 3
15	RUCO STATE INCOME TAX ADJUSTMENT	$ 312	LINE 13 - LINE 14

NOTE (a):
INTEREST SYCHRONIZATION

ADJUSTED RATE BASE	$ 846,711
WEIGHTED COST OF DEBT	2.25%
	$ 19,019

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
COST OF CAPITAL

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-16

LINE NO.	DESCRIPTION	(A) AMOUNT	(B) ADJUSTMENT	(C) ADJUSTED BALANCE	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	LONG-TERM DEBT	$ 22,200,000	$ -	$ 22,200,000	26.65%	8.43%	2.25%
2	SHORT-TERM DEBT	-	-	-	0.00%	0.00%	0.00%
3	COMMON EQUITY	61,116,374	-	61,116,374	73.35%	9.44%	6.92%
4	TOTAL	$ 83,316,374	$ -	$ 83,316,374	100.00%		9.17%

REFERENCES:
COLUMN (A): COMPANY SCH. D - 1
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) ÷ COLUMN (C), LINE 5
COLUMN (E): TESTIMONY, WAR
COLUMN (F): COLUMN (D) x COLUMN (E)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
PROPOSED RATES

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-17

LINE NO.	DESCRIPTION	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
1	**MONTHLY MINIMUM USAGE CHARGE:**			
2				
3	(RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS)			
4	5/8 X 3/4 - INCH	$18.02	$21.90	$18.50
5	1 - INCH	46.61	55.63	47.85
6	2 - INCH	140.87	173.23	145.02
7	3 - INCH	155.37	258.64	159.51
8	4 - INCH	207.16	399.68	212.68
9	6 - INCH	362.53	767.81	372.19
10	8 - INCH	362.53	1,096.31	372.19
11	10 - INCH	673.27	1,777.84	691.20
12				
13	**GALLONS INCLUDED IN MONTHLY MINIMUM USAGE CHARGE:**			
14				
15	RESIDENTIAL, COMMERCIAL AND MISC. CUSTOMERS	1,000	0	0
16				
17	**TIER 1**			
18				
19	**COMMODITY RATE (PER 100 GAL. OVER MINIMUM) - 0 TO 4,000 GALLONS:**	$0.54560	$ 0.57450	$ 0.49500
20				
21	**COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - 0 TO 4,000 GALLONS:**	$5.45600	$ 5.74500	$ 4.95000
22				
23	**TIER 2**			
24				
25	**COMMODITY RATE (PER 100 GAL. OVER MINIMUM) - OVER 4,000 GALLONS:**	$0.54560	$ 0.57450	$ 0.61350
26				
27	**COMMODITY RATE (PER 1,000 GAL. OVER MINIMUM) - OVER 4,000 GALLONS:**	$5.45600	$ 5.74500	$ 6.13500

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
MONTHLY MINIMUM CHARGES

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-18

LINE NO.	METER SIZE	(A) COMPANY PRESENT RATES	(B) COMPANY PROPOSED RATES	(C) COMPANY DOLLAR INCREASE	(D) COMPANY PERCENT. INCREASE	(E) RUCO PROPOSED RATES	(F) RUCO DOLLAR INCREASE	(G) RUCO PERCENT. INCREASE
1	5/8 X 3/4 - INCH	$ 18.02	$ 21.90	$ 3.88	21.53%	$ 18.50	$ 0.48	2.66%
2	1 - INCH	46.61	55.63	9.02	19.35%	47.85	1.24	2.66%
3	2 - INCH	140.87	173.23	32.36	22.97%	145.02	4.15	2.95%
4	3 - INCH COMMERCIAL	155.37	258.64	103.27	66.47%	159.51	4.14	2.66%
5	4 - INCH COMMERCIAL	207.16	399.68	192.52	92.93%	212.68	5.52	2.66%
6	6 - INCH	362.53	767.81	405.28	111.79%	372.19	9.66	2.66%
7	8 - INCH	362.53	1,096.31	733.78	202.41%	372.19	9.66	2.66%
8	10 - INCH	673.27	1,777.84	1,104.57	164.06%	691.20	17.93	2.66%
9	GALLONS INCLUDED IN MONHTLY MINIMUM CHARGE	1,000	0			0		

REFERENCES
COLUMN (A) THRU COLUMN (D): COMPANY SCHEDULE H-3, PAGE 1 OF 3
COLUMN (E): TESTIMONY WAR
COLUMN (F): COLUMN (E) - COLUMN (A)
COLUMN (G): COLUMN (F) ÷ COLUMN (A)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-19

PRESENT RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	$18.02	$46.61	$140.87	$0.00	$0.00	$0.00	$0.00	$0.00
2	1,000	18.02	46.61	140.87	0.00	0.00	0.00	0.00	0.00
3	2,000	23.48	52.07	146.33	0.00	0.00	0.00	0.00	0.00
4	3,000	28.93	57.52	151.78	0.00	0.00	0.00	0.00	0.00
5	4,000	34.39	62.98	157.24	0.00	0.00	0.00	0.00	0.00
6	5,000	39.84	68.43	162.69	0.00	0.00	0.00	0.00	0.00
7	6,000	45.30	73.89	168.15	0.00	0.00	0.00	0.00	0.00
8	7,000	50.76	79.35	173.61	0.00	0.00	0.00	0.00	0.00
9	8,000	56.21	84.80	179.06	0.00	0.00	0.00	0.00	0.00
10	9,000	61.67	90.26	184.52	0.00	0.00	0.00	0.00	0.00
11	10,000	67.12	95.71	189.97	0.00	0.00	0.00	0.00	0.00
12	15,000	94.40	122.99	217.25	0.00	0.00	0.00	0.00	0.00
13	20,000	121.68	150.27	244.53	0.00	0.00	0.00	0.00	0.00
14	25,000	148.96	177.55	271.81	0.00	0.00	0.00	0.00	0.00
15	50,000	285.36	313.95	408.21	0.00	0.00	0.00	0.00	0.00
16	75,000	421.76	450.35	544.61	0.00	0.00	0.00	0.00	0.00
17	100,000	558.16	586.75	681.01	0.00	0.00	0.00	0.00	0.00
18	125,000	694.56	723.15	817.41	0.00	0.00	0.00	0.00	0.00
19	150,000	830.96	859.55	953.81	0.00	0.00	0.00	0.00	0.00
20	175,000	967.36	995.95	1,090.21	0.00	0.00	0.00	0.00	0.00
21	200,000	1,103.76	1,132.35	1,226.61	0.00	0.00	0.00	0.00	0.00
22									
23	AVG. NO. OF CUST:	646	29	2	N/A	N/A	N/A	N/A	N/A
24									
25	AVG. USE (GAL.):	5,315	29,898	20,021	N/A	N/A	N/A	N/A	N/A
26	MONTHLY BILL:	$41.56	$204.28	$244.65	N/A	N/A	N/A	N/A	N/A
27									
28	MEDIAN USE (GAL.) :	3,778	12,071	14,333	N/A	N/A	N/A	N/A	N/A
29	MONTHLY BILL:	$33.18	$107.02	$213.62	N/A	N/A	N/A	N/A	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-19
PAGE 2 OF 4

RUCO PROPOSED RATES

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	$18.50	$47.85	$145.02	$0.00	$0.00	$0.00	$0.00	$0.00
2	1,000	23.45	52.80	149.97	0.00	0.00	0.00	0.00	0.00
3	2,000	28.40	57.75	154.92	0.00	0.00	0.00	0.00	0.00
4	3,000	33.35	62.70	159.87	0.00	0.00	0.00	0.00	0.00
5	4,000	38.30	67.65	164.82	0.00	0.00	0.00	0.00	0.00
6	5,000	44.44	73.79	170.96	0.00	0.00	0.00	0.00	0.00
7	6,000	50.57	79.92	177.09	0.00	0.00	0.00	0.00	0.00
8	7,000	56.71	86.06	183.23	0.00	0.00	0.00	0.00	0.00
9	8,000	62.84	92.19	189.36	0.00	0.00	0.00	0.00	0.00
10	9,000	68.98	98.33	195.50	0.00	0.00	0.00	0.00	0.00
11	10,000	75.11	104.46	201.63	0.00	0.00	0.00	0.00	0.00
12	15,000	105.79	135.14	232.31	0.00	0.00	0.00	0.00	0.00
13	20,000	136.46	165.81	262.98	0.00	0.00	0.00	0.00	0.00
14	25,000	167.14	196.49	293.66	0.00	0.00	0.00	0.00	0.00
15	50,000	320.51	349.86	447.03	0.00	0.00	0.00	0.00	0.00
16	75,000	473.89	503.24	600.41	0.00	0.00	0.00	0.00	0.00
17	100,000	627.26	656.61	753.78	0.00	0.00	0.00	0.00	0.00
18	125,000	780.64	809.99	907.16	0.00	0.00	0.00	0.00	0.00
19	150,000	934.01	963.36	1,060.53	0.00	0.00	0.00	0.00	0.00
20	175,000	1,087.39	1,116.74	1,213.91	0.00	0.00	0.00	0.00	0.00
21	200,000	1,240.76	1,270.11	1,367.28	0.00	0.00	0.00	0.00	0.00
22									
23	AVG. NO. OF CUST:	646	29	2	N/A	N/A	N/A	N/A	N/A
24									
25	AVG. USE (GAL.):	5,315	29,898	20,021	N/A	N/A	N/A	N/A	N/A
26	MONTHLY BILL:	$46.37	$226.54	$263.11	N/A	N/A	N/A	N/A	N/A
27									
28	MEDIAN USE (GAL.) :	3,778	12,071	14,333	N/A	N/A	N/A	N/A	N/A
29	MONTHLY BILL:	$37.20	$117.17	$228.22	N/A	N/A	N/A	N/A	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-19
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RUCO PROPOSED CHANGES EXPRESSED IN DOLLARS

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	$0.48	$1.24	$4.15	$0.00	$0.00	$0.00	$0.00	$0.00
2	1,000	5.43	6.19	9.10	0.00	0.00	0.00	0.00	0.00
3	2,000	4.92	5.68	8.59	0.00	0.00	0.00	0.00	0.00
4	3,000	4.42	5.18	8.09	0.00	0.00	0.00	0.00	0.00
5	4,000	3.91	4.67	7.58	0.00	0.00	0.00	0.00	0.00
6	5,000	4.59	5.35	8.26	0.00	0.00	0.00	0.00	0.00
7	6,000	5.27	6.03	8.94	0.00	0.00	0.00	0.00	0.00
8	7,000	5.95	6.71	9.62	0.00	0.00	0.00	0.00	0.00
9	8,000	6.63	7.39	10.30	0.00	0.00	0.00	0.00	0.00
10	9,000	7.31	8.07	10.98	0.00	0.00	0.00	0.00	0.00
11	10,000	7.99	8.75	11.66	0.00	0.00	0.00	0.00	0.00
12	15,000	11.38	12.14	15.05	0.00	0.00	0.00	0.00	0.00
13	20,000	14.78	15.54	18.45	0.00	0.00	0.00	0.00	0.00
14	25,000	18.17	18.93	21.84	0.00	0.00	0.00	0.00	0.00
15	50,000	35.15	35.91	38.82	0.00	0.00	0.00	0.00	0.00
16	75,000	52.12	52.88	55.79	0.00	0.00	0.00	0.00	0.00
17	100,000	69.10	69.86	72.77	0.00	0.00	0.00	0.00	0.00
18	125,000	86.07	86.83	89.74	0.00	0.00	0.00	0.00	0.00
19	150,000	103.05	103.81	106.72	0.00	0.00	0.00	0.00	0.00
20	175,000	120.02	120.78	123.69	0.00	0.00	0.00	0.00	0.00
21	200,000	137.00	137.76	140.67	0.00	0.00	0.00	0.00	0.00
22									
23	AVG. NO. OF CUST:	646	29	2	N/A	N/A	N/A	N/A	N/A
24									
25	AVG. USE (GAL.):	5,315	29,898	20,021	N/A	N/A	N/A	N/A	N/A
26	MONTHLY BILL:	$4.80	$22.26	$18.46	N/A	N/A	N/A	N/A	N/A
27									
28	MEDIAN USE (GAL.) :	3,778	12,071	14,333	N/A	N/A	N/A	N/A	N/A
29	MONTHLY BILL:	$4.02	$10.15	$14.60	N/A	N/A	N/A	N/A	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
BILLING ANALYSIS

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-19

RUCO PROPOSED CHANGES EXPRESSED AS A PERCENTAGE

LINE NO.	CONSUMPTION IN GALLONS	(A) 5/8 - INCH	(B) 1 - INCH	(C) 2 - INCH	(D) 3 - INCH	(E) 4 - INCH	(F) 6 - INCH	(G) 8 - INCH	(H) 10 - INCH
1	0	2.7%	2.7%	2.9%	$0.00	$0.00	$0.00	$0.00	$0.00
2	1,000	30.1%	13.3%	6.5%	0.00	0.00	0.00	0.00	0.00
3	2,000	21.0%	10.9%	5.9%	0.00	0.00	0.00	0.00	0.00
4	3,000	15.3%	9.0%	5.3%	0.00	0.00	0.00	0.00	0.00
5	4,000	11.4%	7.4%	4.8%	0.00	0.00	0.00	0.00	0.00
6	5,000	11.5%	7.8%	5.1%	0.00	0.00	0.00	0.00	0.00
7	6,000	11.6%	8.2%	5.3%	0.00	0.00	0.00	0.00	0.00
8	7,000	11.7%	8.5%	5.5%	0.00	0.00	0.00	0.00	0.00
9	8,000	11.8%	8.7%	5.8%	0.00	0.00	0.00	0.00	0.00
10	9,000	11.8%	8.9%	5.9%	0.00	0.00	0.00	0.00	0.00
11	10,000	11.9%	9.1%	6.1%	0.00	0.00	0.00	0.00	0.00
12	15,000	12.1%	9.9%	6.9%	0.00	0.00	0.00	0.00	0.00
13	20,000	12.1%	10.3%	7.5%	0.00	0.00	0.00	0.00	0.00
14	25,000	12.2%	10.7%	8.0%	0.00	0.00	0.00	0.00	0.00
15	50,000	12.3%	11.4%	9.5%	0.00	0.00	0.00	0.00	0.00
16	75,000	12.4%	11.7%	10.2%	0.00	0.00	0.00	0.00	0.00
17	100,000	12.4%	11.9%	10.7%	0.00	0.00	0.00	0.00	0.00
18	125,000	12.4%	12.0%	11.0%	0.00	0.00	0.00	0.00	0.00
19	150,000	12.4%	12.1%	11.2%	0.00	0.00	0.00	0.00	0.00
20	175,000	12.4%	12.1%	11.3%	0.00	0.00	0.00	0.00	0.00
21	200,000	12.4%	12.2%	11.5%	0.00	0.00	0.00	0.00	0.00
22									
23	AVG. NO. OF CUST:	646	29	2	N/A	N/A	N/A	N/A	N/A
24									
25	AVG. USE (GAL.):	5,315	29,898	20,021	N/A	N/A	N/A	N/A	N/A
26	MONTHLY BILL:	10.4%	9.8%	7.0%	N/A	N/A	N/A	N/A	N/A
27									
28	MEDIAN USE (GAL.) :	3,778	12,071	14,333	N/A	N/A	N/A	N/A	N/A
29	MONTHLY BILL:	10.8%	8.7%	6.4%	N/A	N/A	N/A	N/A	N/A

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
AJO SYSTEM
REVENUE SUMMARY BY METER SIZE AND CUSTOMER CLASS

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-20

LINE NO.	DESCRIPTION	(A) RUCO PROPOSED MINIMUM REVENUE	(B) RUCO PROPOSED COMMODITY REVENUE	(C) RUCO PROPOSED TOTAL REVENUE	
1	5/8 X 3/4 - INCH	$143,357	$227,308	$ 370,664	
2	1 - INCH	16,700	62,673	79,373	
3	2 - INCH	3,480	2,844	6,325	
4	3 - INCH	0	0	0	
5	4 - INCH	0	0	0	
6	6 - INCH	0	0	0	
7	8 - INCH	0	0	0	
13	10 - INCH	0	0	0	
14					
15	TOTALS	$ 163,537	$ 292,825	$ 456,361	(a)
16					
17	PERCENTAGE OF TOTAL REVENUE	36.00%	64.00%	100.00%	

NOTE (a):

RUCO REQUIRED REVENUE		$ 459,305
LESS:		
FIRE SPRINKLER REVENUE	$ -	
FIRE HYDRANT REVENUE	-	
MISCELLANEOUS REVENUE	1,167	
RENT - WATER PROPERTY REVENUE	-	
OTHER WATER REVENUE	1,777	
TOTAL		$ 2,944
REVENUE TO BE GENERATED FROM WATER SALES		$ 456,361

ARIZONA WATER COMPANY
COOLIDGE SYSTEM
DOCKET NO. W-01445A-04-0650
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ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
COOLIDGE SYSTEM
REVENUE REQUIREMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-1
PAGE 1 OF 2

LINE NO.	DESCRIPTION	(A) COMPANY REQUESTED	(B) RUCO RECOMMENDED
1	ADJUSTED RATE BASE	$ 3,817,510	$ 2,868,652
2	ADJUSTED OPERATING INCOME	100,737	231,813
3	CURRENT RATE OF RETURN (L2 / L1)	2.64%	8.08%
4	REQUIRED RATE OF RETURN	10.50%	9.17%
5	REQUIRED OPERATING INCOME (L4 * L1)	400,839	263,055
6	OPERATING INCOME DEFICIENCY (L5 - L2)	300,101	31,243
7	GROSS REVENUE CONVERSION FACTOR	1.63245	1.61740
8	GROSS REVENUE INCREASE	$ 489,901	$ 50,532
9	CURRENT REVENUES T/Y ADJUSTED	1,363,049	1,358,121
10	PROPOSED ANNUAL REVENUE (L8 + L9)	1,852,950	1,408,653
11	PERCENTAGE AVERAGE INCREASE	35.94%	3.72%

REFERENCES:
COLUMN (A): COMPANY SCHEDULE A-1
COLUMN (B): SCHEDULE TJC-1, PG. 2, TJC-2, TJC-9 AND TJC-16

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
COOLIDGE SYSTEM
GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	REVENUE	1.0000	
2	UNCOLLECTIBLES	0.00234	COMPANY SCH. C-3
3	SUB-TOTAL	0.9977	LINE 1 - LINE 2
4	LESS: TAX RATE	37.94%	NOTE (a)
5	TOTAL	0.6183	LINE 3 - LINE 4
6	REVENUE CONVERSION FACTOR	1.61740	LINE 1/LINE 5

NOTE (a):
CALCULATION OF EFFECTIVE TAX RATE

OPERATING INCOME BEFORE TAXES	100.00%
LESS: ARIZONA STATE TAX	6.97%
TAXABLE INCOME FEDERAL	93.03%
TIMES: FEDERAL INCOME TAX RATE	33.38%
SUBTOTAL	31.06%
ADD STATE TAX RATE	38.03%
LINE 3 ABOVE	99.77%
EFFECTIVE TAX RATE	37.94%

NOTE (b):

STATE INCOME TAX	$ 3,522
FEDERAL INCOME TAX	15,767
TOTAL INCOME TAX LIABILITY	$ 19,289

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
COOLIDGE SYSTEM
RATE BASE - ORIGINAL COST

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-2

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED
1	PLANT IN SERVICE	$ 6,083,129	$ -	$ 6,083,129
2	PHOENIX OFFICE & METER SHOP ALLOCATION	201,010	23,439	224,449
3	DEFERRED CAP CHARGES	1,046,011	(1,046,011)	-
4	ACCUMULATED DEPRECIATION	(2,271,697)	107,767	(2,163,930)
5	NET PLANT IN SERVICE	$ 5,058,453	$ (914,805)	$ 4,143,648
6	CONSTRUCTION WORK IN PROGRESS (CWIP)	-	-	-
7	TOTAL NET PLANT	$ 5,058,453	$ (914,805)	$ 4,143,648
8	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(406,644)	-	(406,644)
9	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(437,102)	-	(437,102)
10	ACCUMULATED AMORTIZATION OF CIAC	74,970	-	74,970
11	DEFERRED INCOME TAXES	(504,369)	-	(504,369)
12	WORKING CAPITAL	32,202	(34,053)	(1,851)
13	TOTAL RATE BASE	$ 3,817,510	$ (948,858)	$ 2,868,652

REFERENCES:
COLUMN (A): COMPANY SCHEDULE B-1
COLUMN (B): SCHEDULE TJC-3
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
COOLIDGE SYSTEM
SUMMARY OF RATE BASE ADJUSTMENTS

DOCKET NO. W-01445A-04-0650
SCHEDULE TJC-3

LINE NO.	DESCRIPTION	(A) COMPANY PROPOSED	(B) ADJ #1	(C) ADJ #2	(D) ADJ #3	(E) ADJ #4	(F) ADJ #5	(G) ADJ #6	(H) RUCO ADJUSTED
1	PLANT IN SERVICE	$ 6,083,129	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,083,129
2	PHOENIX OFFICE & METER SHOP ALLOCATION	201,010 (a)		23,439					224,449
3	DEFERRED CAP CHARGES	1,046,011					(1,046,011)		-
4	ACCUMULATED DEPRECIATION	(2,271,697)	131,867	(23,439)	(702)	41			(2,163,930)
5	NET PLANT IN SERVICE	$ 5,058,453	$ 131,867	$ -	$ (702)	$ 41	$ (1,046,011)	$ -	$ 4,143,648
6	CONSTRUCTION WORK IN PROGRESS (CWIP)	-							-
7	TOTAL NET PLANT	$ 5,058,453	$ 131,867	$ -	$ (702)	$ 41	$ (1,046,011)	$ -	$ 4,143,648
8	ADVANCES IN AID OF CONSTRUCTION (AIAC)	(406,644)							(406,644)
9	CONTRIBUTIONS IN AID OF CONSTRUCTION (CIAC)	(437,102)							(437,102)
10	ACCUMULATED AMORTIZATION OF CIAC	74,970							74,970
11	DEFERRED INCOME TAXES	(504,369)							(504,369)
12	WORKING CAPITAL	32,202						(34,053)	(1,851)
13	TOTAL RATE BASE	$ 3,817,510	$ 131,867	$ -	$ (702)	$ 41	$ (1,046,011)	$ (34,053)	$ 2,868,652

ADJUSTMENT #:	REFERENCE:
1. ACCUMULATED DEPRECIATION - PLANT	SCHEDULE TJC-4
2. RESTATE PHX. OFFICE & METER SHOP AND ACCUM. DEPR.	SCHEDULE TJC-5
3. ACCUMULATED DEPRECIATION - PHOENIX OFFICE	SCHEDULE TJC-6
4. ACCUMULATED DEPRECIATION - METER SHOP	SCHEDULE TJC-7
5. DEFERRED CAP CHARGES	TESTIMONY - WAR
6. WORKING CAPITAL	SCHEDULE TJC-8

NOTES:
(a) NET OF ACCUMULATED DEPRECIATION

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
COOLIDGE SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1990 PLANT VALUE PER COMPANY	1990 ACCUM DEPR. PER COMPANY	1990 NET PLANT PER PRIOR ACC PER COMPANY	1991 ADDITIONS PER COMPANY	1991 (RETIREMENTS) PER COMPANY	1991 YEAR END PLANT VALUE PER RUCO	1991 DEPRECIATION EXPENSE PER RUCO	1991 ACCUMULATED DEPRECIATION PER RUCO	1991 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	3,716	0	3,716	0	0	3,716	0	0	3,716
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	0	0	0
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	3,077	0	3,077	0	0	3,077	0	0	3,077
7	314.0	SOURCE OF SUPPLY: WELLS	194,304	55,193	139,111	0	0	194,304	4,702	59,895	134,409
8	320.0	PUMPING PLANT: LAND*	25,685	0	25,685	0	0	25,685	0	0	25,685
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	4,298	1,221	3,077	0	0	4,298	104	1,325	2,973
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	538,392	152,933	385,459	6,296	(3,000)	541,688	13,069	163,002	378,686
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	20,026	5,688	14,338	0	0	20,026	485	6,173	13,853
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	1,847	525	1,322	0	0	1,847	45	569	1,278
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	82,138	23,332	58,806	0	0	82,138	1,988	25,319	56,819
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	331	0	331	0	(331)	0	0	(331)	331
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	283,268	80,464	202,804	0	(9,343)	273,925	6,742	77,863	196,062
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	1,401,468	398,094	1,003,374	48,782	(46,046)	1,404,204	33,949	385,997	1,018,207
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	18,557	5,271	13,286	0	0	18,557	449	5,720	12,837
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	431,915	122,688	309,227	22,318	(4,529)	449,704	10,668	128,826	320,878
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	160,302	45,535	114,767	1,226	(2,585)	158,943	3,863	46,812	112,131
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	126,555	35,949	90,606	4,549	(384)	130,720	3,113	38,678	92,042
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS**	13,767	0	13,767	526	0	14,293	0	0	14,293
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	13,758	3,908	9,850	0	0	13,758	333	4,241	9,517
29	390.3	GENERAL PLANT: MISC. BUILDINGS	7,060	2,005	5,055	0	0	7,060	171	2,176	4,884
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	12,250	3,480	8,770	0	0	12,250	296	3,776	8,474
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	12,965	3,683	9,282	459	0	13,424	319	4,002	9,422
32	391.2	GENERAL PLANT: OFFICE FURNITURE	9,047	2,570	6,477	948	0	9,995	230	2,800	7,195
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	32,725	9,296	23,429	872	0	33,597	802	10,098	23,499
35	395.0	GENERAL PLANT: LAB EQUIPMENT	5,548	1,576	3,972	0	0	5,548	134	1,710	3,838
36	396.0	GENERAL PLANT: POWER EQUIPMENT	11,782	3,347	8,435	0	0	11,782	285	3,632	8,150
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	34,811	9,888	24,923	0	0	34,811	842	10,731	24,080
38	397.1	GENERAL PLANT: MOBILE RADIOS	808	230	578	2,532	0	3,340	50	280	3,060
39	397.2	GENERAL PLANT: AUTO CONTROLS	1,384	393	991	0	0	1,384	33	427	957
40	398.0	GENERAL PLANT: MISC.	3,158	897	2,261	0	0	3,158	76	973	2,185
41		TOTALS	$3,454,942	$968,164	$2,486,778	$88,508	($66,218)	$3,477,232	$82,750	$984,696	$2,492,536
42											
43											
44											

45 / 46 / 47	ACCT. NO.	PLANT ACCOUNT NAME	1992 ADDITIONS PER COMPANY	1992 (RETIREMENTS) PER COMPANY	1992 YEAR END PLANT VALUE PER RUCO	1992 DEPRECIATION EXPENSE PER RUCO	1992 ACCUMULATED DEPRECIATION PER RUCO	1992 YEAR END NET PLANT PER RUCO	1993 ADDITIONS PER COMPANY	1993 (RETIREMENTS) PER COMPANY	1993 YEAR END PLANT VALUE PER RUCO	1993 DEPRECIATION EXPENSE PER RUCO	1993 ACCUMULATED DEPRECIATION PER RUCO	1993 YEAR END NET PLANT PER RUCO
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	3,716	0	0	3,716	0	0	3,716	0	0	3,716
51	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	0	0	0	0	0	0	931	0	931	0	0	931
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	3,077	0	0	3,077	0	0	3,077	0	0	3,077
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	194,304	4,702	64,597	129,707	242	0	194,546	5,036	69,633	124,913
56	320.0	PUMPING PLANT: LAND*	0	0	25,685	0	0	25,685	0	0	25,685	0	0	25,685
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	4,298	104	1,429	2,869	0	0	4,298	111	1,540	2,758
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	969	0	542,657	13,121	176,123	366,534	25,004	0	567,661	14,379	190,501	377,160
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	20,026	485	6,658	13,368	0	0	20,026	519	7,176	12,850
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	1,847	45	614	1,233	0	0	1,847	46	662	1,185
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	10,783	0	92,921	2,118	27,438	65,483	3,589	0	96,510	2,453	29,891	66,619
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	(331)	331	0	0	0	0	(331)	331
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	273,925	6,629	84,492	189,433	0	0	273,925	7,095	91,586	182,339
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	974	0	1,405,178	33,994	419,990	985,188	84,879	(3,387)	1,486,670	37,449	454,053	1,032,617
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	0	0	18,557	449	6,169	12,388	0	0	18,557	481	6,650	11,907
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	20,569	(467)	469,806	11,126	139,485	330,321	30,594	(1,372)	499,028	12,546	150,660	348,368
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	5,440	(7,057)	157,326	3,827	43,582	113,744	3,512	(1,267)	159,571	4,104	46,419	113,152
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	1,857	0	132,577	3,186	41,864	90,713	2,592	(256)	134,913	3,464	45,072	89,841
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS**	0	0	14,293	0	0	14,293	0	0	14,293	0	0	14,293
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	13,758	333	4,574	9,184	0	0	13,758	356	4,930	8,828
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	7,060	171	2,347	4,713	0	0	7,060	183	2,530	4,530
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	(1,500)	10,750	278	2,554	8,196	0	0	10,750	278	2,833	7,917
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	13,424	325	4,327	9,097	2,599	0	16,023	381	4,708	11,315
80	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	9,995	242	3,042	6,953	0	0	9,995	259	3,301	6,694
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	1,658	(6,047)	29,208	760	4,811	24,397	1,046	0	30,254	770	5,581	24,673
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	5,548	134	1,844	3,704	0	0	5,548	144	1,988	3,560
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	(138)	11,644	283	3,777	7,867	0	0	11,644	302	4,079	7,565
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	34,811	842	11,573	23,238	0	0	34,811	902	12,475	22,336
86	397.1	GENERAL PLANT: MOBILE RADIOS	963	0	4,303	92	372	3,931	672	0	4,975	120	492	4,483
87	397.2	GENERAL PLANT: AUTO CONTROLS	1,493	0	2,877	52	478	2,399	1,526	0	4,403	94	572	3,831
88	398.0	GENERAL PLANT: MISC.	0	0	3,158	76	1,050	2,108	0	0	3,158	82	1,132	2,026
89		TOTALS	$44,706	($15,209)	$3,506,729	$83,374	$1,052,861	$2,453,868	$157,186	($6,282)	$3,657,633	$91,555	$1,138,134	$2,519,499

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT
** LEASEHOLD IMPROVEMENT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
COOLIDGE SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1994 ADDITIONS PER COMPANY	1994 (RETIREMENTS) PER COMPANY	1994 YEAR END PLANT VALUE PER RUCO	1994 DEPRECIATION EXPENSE PER RUCO	1994 ACCUMULATED DEPRECIATION PER RUCO	1994 YEAR END NET PLANT PER RUCO	1995 ADDITIONS PER COMPANY	1995 (RETIREMENTS) PER COMPANY	1995 YEAR END PLANT VALUE PER RUCO	1995 DEPRECIATION EXPENSE PER RUCO	1995 ACCUMULATED DEPRECIATION PER RUCO	1995 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	3,716	0	0	3,716	0	0	3,716	0	0	3,716
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	255	0	1,186	0	0	1,186	2,563	0	3,749	0	0	3,749
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	3,077	0	0	3,077	0	0	3,077	0	0	3,077
7	314.0	SOURCE OF SUPPLY: WELLS	797	0	195,343	5,049	74,682	120,661	0	0	195,343	5,059	79,741	115,602
8	320.0	PUMPING PLANT: LAND*	0	0	25,685	0	0	25,685	0	0	25,685	0	0	25,685
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	38	0	4,336	112	1,652	2,684	0	0	4,336	112	1,764	2,572
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	243	(12,693)	555,211	14,541	192,349	362,862	21,521	(61)	576,671	14,658	206,946	369,725
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	20,026	519	7,695	12,331	0	0	20,026	519	8,214	11,812
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	1,847	48	710	1,137	0	0	1,847	48	758	1,089
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	96,510	2,500	32,390	64,120	0	0	96,510	2,500	34,890	61,620
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	(331)	331	0	0	0	0	(331)	331
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	273,925	7,095	98,681	175,244	5,855	(1,684)	278,096	7,149	104,146	173,950
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	137,906	(8,132)	1,616,444	40,185	486,106	1,130,338	57,455	(2,947)	1,670,952	42,572	525,731	1,145,221
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	826	0	19,383	491	7,141	12,242	3,641	0	23,024	549	7,690	15,334
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	51,280	(1,155)	549,153	13,574	163,079	386,074	39,511	(6,000)	582,664	14,657	171,736	410,928
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	6,601	(1,975)	164,197	4,193	48,637	115,560	832	(3,613)	161,416	4,217	49,241	112,175
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	11,317	(868)	145,362	3,630	47,833	97,529	386	0	145,748	3,770	51,603	94,145
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS**	0	0	14,293	0	0	14,293	31,228	0	45,521	0	0	45,521
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	1,031	0	14,789	370	5,300	9,489	0	0	14,789	383	5,683	9,106
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	7,060	183	2,713	4,347	0	0	7,060	183	2,896	4,164
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	10,750	278	3,111	7,639	0	0	10,750	278	3,390	7,360
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	534	0	16,557	422	5,130	11,427	17,429	(158)	33,828	652	5,625	28,203
32	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	9,995	259	3,560	6,435	780	0	10,775	269	3,829	6,946
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	192	0	30,446	766	6,367	24,079	6,650	(267)	36,829	871	6,971	29,858
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	5,548	144	2,132	3,416	0	0	5,548	144	2,276	3,272
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	11,644	302	4,380	7,264	0	0	11,644	302	4,682	6,962
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	34,811	902	13,376	21,435	0	0	34,811	902	14,278	20,533
38	397.1	GENERAL PLANT: MOBILE RADIOS	38	0	5,013	129	622	4,391	0	0	5,013	130	752	4,261
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	4,403	114	686	3,717	0	0	4,403	114	801	3,602
40	398.0	GENERAL PLANT: MISC.	0	0	3,158	82	1,213	(1,132)	0	0	3,158	82	1,295	1,863
41		TOTALS	$211,058	($24,823)	$3,843,868	$95,906	$1,209,217	$2,631,575	$187,851	($14,730)	$4,016,989	$100,118	$1,294,605	$2,722,384
42														
43														
44														
45														
46	ACCT.		1996 ADDITIONS	1996 (RETIREMENTS)	1996 YEAR END PLANT VALUE	1996 DEPRECIATION EXPENSE	1996 ACCUMULATED DEPRECIATION	1996 YEAR END NET PLANT	1997 ADDITIONS	1997 (RETIREMENTS)	1997 YEAR END PLANT VALUE	1997 DEPRECIATION EXPENSE	1997 ACCUMULATED DEPRECIATION	1997 YEAR END NET PLANT
47	NO.	PLANT ACCOUNT NAME	PER COMPANY	PER COMPANY	PER RUCO	PER RUCO	PER RUCO	PER RUCO	PER COMPANY	PER COMPANY	PER RUCO	PER RUCO	PER RUCO	PER RUCO
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	3,716	0	0	3,716	0	0	3,716	0	0	3,716
51	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	310	0	4,059	0	0	4,059	90	0	4,149	0	0	4,149
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	3,077	0	0	3,077	0	(150)	2,927	0	(150)	3,077
55	314.0	SOURCE OF SUPPLY: WELLS	0	0	195,343	5,059	84,801	110,542	0	0	195,343	5,059	89,860	105,483
56	320.0	PUMPING PLANT: LAND*	0	0	25,685	0	0	25,685	0	0	25,685	0	0	25,685
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	4,336	112	1,877	2,459	0	0	4,336	112	1,989	2,347
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	7,440	0	584,111	15,032	221,978	362,133	52,588	(7,907)	628,792	15,707	229,778	399,014
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	20,026	519	8,732	11,294	0	0	20,026	519	9,251	10,775
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	1,847	48	805	1,042	0	0	1,847	48	853	994
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	997	0	97,507	2,513	37,403	60,104	105	0	97,612	2,527	39,929	57,683
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	(331)	331	0	0	0	0	(331)	331
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	278,096	7,203	111,348	166,748	0	0	278,096	7,203	118,551	159,545
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	138,430	(7,149)	1,802,233	44,978	563,560	1,238,673	93,334	(11,754)	1,883,813	47,734	599,540	1,284,273
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	112	0	23,136	598	8,288	14,848	0	0	23,136	599	8,887	14,249
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	164,065	(2,669)	744,060	17,181	186,248	557,812	23,683	(1,701)	766,042	19,556	204,103	561,939
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	2,240	(735)	162,921	4,200	52,706	110,215	(856)	(1,063)	161,002	4,195	55,838	105,164
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	8,835	(56)	154,527	3,889	55,436	99,091	2,176	0	156,703	4,030	59,466	97,237
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS**	6,144	0	51,665	0	0	51,665	0	(7,519)	44,146	0	(7,519)	51,665
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	14,789	383	6,066	8,723	0	0	14,789	383	6,449	8,340
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	7,060	183	3,079	3,981	0	0	7,060	183	3,261	3,799
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	10,750	278	3,668	7,082	0	0	10,750	278	3,947	6,803
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	1,574	0	35,402	897	6,521	28,881	0	0	35,402	917	7,438	27,964
80	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	10,775	279	4,108	6,667	1,610	0	12,385	300	4,408	7,977
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	3,532	(201)	40,160	997	7,767	32,393	4,092	0	44,252	1,093	8,861	35,391
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	5,548	144	2,419	3,129	0	0	5,548	144	2,563	2,985
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	11,644	302	4,984	6,660	0	0	11,644	302	5,285	6,359
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	34,811	902	15,180	19,631	0	0	34,811	902	16,081	18,730
86	397.1	GENERAL PLANT: MOBILE RADIOS	458	0	5,471	136	887	4,584	0	0	5,471	142	1,029	4,442
87	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	4,403	114	915	3,488	0	0	4,403	114	1,029	3,374
88	398.0	GENERAL PLANT: MISC.	792	0	3,950	92	1,387	(1,295)	0	0	3,950	102	1,490	2,460
89		TOTALS	$334,929	($10,810)	$4,341,108	$106,037	$1,389,832	$2,947,419	$176,822	($30,094)	$4,487,836	$112,149	$1,471,886	$3,015,950

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT
** LEASEHOLD IMPROVEMENT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
COOLIDGE SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	1998 ADDITIONS PER COMPANY	1998 (RETIREMENTS) PER COMPANY	1998 YEAR END PLANT VALUE PER RUCO	1998 DEPRECIATION EXPENSE PER RUCO	1998 ACCUMULATED DEPRECIATION PER RUCO	1998 YEAR END NET PLANT PER RUCO	1999 ADDITIONS PER COMPANY	1999 (RETIREMENTS) PER COMPANY	1999 YEAR END PLANT VALUE PER RUCO	1999 DEPRECIATION EXPENSE PER RUCO	1999 ACCUMULATED DEPRECIATION PER RUCO	1999 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	0	0	3,716	0	0	3,716	0	0	3,716	0	0	3,716
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	85	0	4,234	0	0	4,234	844	0	5,078	0	0	5,078
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	2,927	0	(150)	3,077	0	0	2,927	0	(150)	3,077
7	314.0	SOURCE OF SUPPLY: WELLS	0	0	195,343	5,059	94,920	100,423	0	0	195,343	5,059	99,979	95,364
8	320.0	PUMPING PLANT: LAND*	0	0	25,685	0	0	25,685	0	0	25,685	0	0	25,685
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	4,336	112	2,101	2,235	0	0	4,336	112	2,214	2,122
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	0	0	628,792	16,286	246,064	382,728	2,658	0	631,450	16,320	262,384	369,066
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	20,026	519	9,770	10,256	0	0	20,026	519	10,288	9,738
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	1,847	48	901	946	0	0	1,847	48	949	898
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	0	0	97,612	2,528	42,457	55,155	1,105	0	98,717	2,542	45,000	53,717
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	(331)	331	0	0	0	0	(331)	331
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	278,096	7,203	125,754	152,342	0	0	278,096	7,203	132,956	145,140
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	59,693	(3,329)	1,940,177	49,521	645,732	1,294,445	215,891	(1,633)	2,154,435	53,025	697,124	1,457,311
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	7,252	0	30,388	693	9,581	20,807	0	0	30,388	787	10,368	20,020
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	26,712	(1,554)	791,200	20,166	222,715	568,485	40,159	(2,023)	829,336	20,986	241,678	587,658
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	4,138	(827)	164,313	4,213	59,223	105,090	5,372	(690)	168,995	4,316	62,850	106,145
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	8,871	(1,404)	164,170	4,155	62,217	101,953	8,519	(1,660)	171,029	4,341	64,898	106,131
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS**	0	0	44,146	0	(7,519)	51,665	0	0	44,146	0	(7,519)	51,665
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	14,789	383	6,832	7,957	0	0	14,789	383	7,215	7,574
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	7,060	183	3,444	3,616	0	0	7,060	183	3,627	3,433
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	10,750	278	4,225	6,525	0	0	10,750	278	4,503	6,247
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	0	0	35,402	917	8,355	27,047	9,739	0	45,141	1,043	9,398	35,743
32	391.2	GENERAL PLANT: OFFICE FURNITURE	651	0	13,036	329	4,737	8,299	170	0	13,206	340	5,077	8,129
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	1,251	0	45,503	1,162	10,023	35,480	0	0	45,503	1,179	11,201	34,302
35	395.0	GENERAL PLANT: LAB EQUIPMENT	0	0	5,548	144	2,707	2,841	0	0	5,548	144	2,850	2,698
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	11,644	302	5,587	6,057	3,371	0	15,015	345	5,932	9,083
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	34,811	902	16,983	17,828	0	(2,505)	32,306	869	15,347	16,959
38	397.1	GENERAL PLANT: MOBILE RADIOS	79	0	5,550	143	1,172	4,378	0	0	5,550	144	1,315	4,235
39	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	4,403	114	1,143	3,260	0	0	4,403	114	1,257	3,146
40	398.0	GENERAL PLANT: MISC.	536	0	4,486	109	1,599	(1,490)	2,068	0	6,554	143	1,742	4,812
41		TOTALS	$109,268	($7,114)	$4,589,990	$115,469	$1,580,241	$3,005,373	$289,896	($8,511)	$4,871,375	$120,423	$1,692,153	$3,179,222
42														
43														
44														
45														
46	ACCT.		2000 ADDITIONS	2000 (RETIREMENTS)	2000 YEAR END PLANT VALUE	2000 DEPRECIATION EXPENSE	2000 ACCUMULATED DEPRECIATION	2000 YEAR END NET PLANT	2001 ADDITIONS	2001 (RETIREMENTS)	2001 YEAR END PLANT VALUE	2001 DEPRECIATION EXPENSE	2001 ACCUMULATED DEPRECIATION	2001 YEAR END NET PLANT
47	NO.	PLANT ACCOUNT NAME	PER COMPANY	PER COMPANY	PER RUCO	PER RUCO	PER RUCO	PER RUCO	PER COMPANY	PER COMPANY	PER RUCO	PER RUCO	PER RUCO	PER RUCO
48														
49	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
50	302.0	INTANGIBLES: FRANCHISES*	0	0	3,716	0	0	3,716	0	0	3,716	0	0	3,716
51	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
52	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	623	0	5,701	0	0	5,701	161	0	5,862	0	0	5,862
53	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
54	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	2,927	0	(150)	3,077	0	0	2,927	0	(150)	3,077
55	314.0	SOURCE OF SUPPLY: WELLS	7,504	0	202,847	5,157	105,136	97,711	912	0	203,759	5,266	110,401	93,358
56	320.0	PUMPING PLANT: LAND*	0	0	25,685	0	0	25,685	0	0	25,685	0	0	25,685
57	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	4,336	112	2,326	2,010	0	0	4,336	112	2,438	1,898
58	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	87,617	(31,919)	687,148	17,076	247,541	439,607	8,523	0	695,671	17,908	265,449	430,222
59	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	20,026	519	10,807	9,219	0	0	20,026	519	11,326	8,700
60	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
61	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	1,847	48	997	850	0	0	1,847	48	1,045	802
62	332.0	WATER TREATMENT PLANT: EQUIPMENT	7,495	0	106,212	2,654	47,654	58,558	0	0	106,212	2,751	50,405	55,807
63	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	(331)	331	0	0	0	0	(331)	331
64	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
65	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
66	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	0	0	278,096	7,203	140,159	137,937	7,643	0	285,739	7,302	147,461	138,278
67	343.0	TRANSMISSION & DISTRIBUTION: MAINS	111,122	0	2,265,557	57,239	754,363	1,511,194	185,804	(5,517)	2,445,844	61,013	809,858	1,635,986
68	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	11,574	0	41,962	937	11,305	30,657	6,127	0	48,089	1,166	12,471	35,618
69	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	74,289	(184)	903,441	22,439	263,933	639,508	88,843	(912)	991,372	24,538	287,559	703,813
70	346.0	TRANSMISSION & DISTRIBUTION: METERS	11,665	(342)	180,318	4,524	67,031	113,287	6,721	(207)	186,832	4,755	71,579	115,253
71	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	7,568	0	178,597	4,528	69,426	109,171	20,659	0	199,256	4,893	74,319	124,937
72	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
73	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
74	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
75	390.1	GENERAL PLANT: OFFICE BUILDINGS**	0	0	44,146	0	(7,519)	51,665	0	0	44,146	0	(7,519)	51,665
76	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	0	0	14,789	383	7,598	7,191	0	0	14,789	383	7,981	6,808
77	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	7,060	183	3,810	3,250	0	0	7,060	183	3,993	3,067
78	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	10,750	278	4,782	5,968	0	0	10,750	278	5,060	5,690
79	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	2,122	0	47,263	1,197	10,595	36,668	1,446	0	48,709	1,243	11,838	36,871
80	391.2	GENERAL PLANT: OFFICE FURNITURE	0	0	13,206	342	5,419	7,787	0	0	13,206	342	5,761	7,445
81	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
82	394.0	GENERAL PLANT: GARAGE EQUIPMENT	1,147	0	46,650	1,193	12,395	34,255	2,045	0	48,695	1,235	13,630	35,065
83	395.0	GENERAL PLANT: LAB EQUIPMENT	0	(1,024)	4,524	130	1,957	2,567	99	0	4,623	118	2,075	2,548
84	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	15,015	389	6,321	8,694	0	0	15,015	389	6,710	8,305
85	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	32,306	837	16,184	16,122	0	(3,750)	28,556	788	13,222	15,334
86	397.1	GENERAL PLANT: MOBILE RADIOS	7,496	0	13,046	241	1,556	11,490	0	0	13,046	338	1,894	11,152
87	397.2	GENERAL PLANT: AUTO CONTROLS	0	0	4,403	114	1,371	3,032	845	0	5,248	125	1,496	3,752
88	398.0	GENERAL PLANT: MISC.	0	0	6,554	170	1,912	(1,742)	0	0	6,554	170	2,081	4,473
89		TOTALS	$330,222	($33,469)	$5,168,128	$127,891	$1,786,575	$3,375,168	$329,828	($10,386)	$5,487,570	$135,861	$1,912,050	$3,575,520

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT
** LEASEHOLD IMPROVEMENT

ARIZONA WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2003
COOLIDGE SYSTEM
RATE BASE ADJUSTMENT #1 - ACCUMULATED DEPRECIATION - PLANT

LINE NO.	ACCT. NO.	PLANT ACCOUNT NAME	2002 ADDITIONS PER COMPANY	2002 (RETIREMENTS) PER COMPANY	2002 YEAR END PLANT VALUE PER RUCO	2002 DEPRECIATION EXPENSE PER RUCO	2002 ACCUMULATED DEPRECIATION PER RUCO	2002 YEAR END NET PLANT PER RUCO	2003 ADDITIONS PER COMPANY	2003 (RETIREMENTS) PER COMPANY	2003 YEAR END PLANT VALUE PER RUCO	2003 DEPRECIATION EXPENSE PER RUCO	2003 ACCUMULATED DEPRECIATION PER RUCO	2003 YEAR END NET PLANT PER RUCO
1	301.0	INTANGIBLES: ORGANIZATION*	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
2	302.0	INTANGIBLES: FRANCHISES*	5,025	0	8,741	0	0	8,741	0	0	8,741	0	0	8,741
3	303.0	INTANGIBLES: MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
4	310.1	SOURCE OF SUPPLY: LAND - WATER RIGHTS*	2,932	0	8,794	0	0	8,794	4,715	0	13,509	0	0	13,509
5	310.2	SOURCE OF SUPPLY: LAND - RESERVOIRS*	0	0	0	0	0	0	0	0	0	0	0	0
6	310.3	SOURCE OF SUPPLY: LAND - WELLS*	0	0	2,927	0	(150)	3,077	0	0	2,927	0	(150)	3,077
7	314.0	SOURCE OF SUPPLY: WELLS	22,569	0	226,328	5,570	115,971	110,357	0	0	226,328	5,862	121,833	104,495
8	320.0	PUMPING PLANT: LAND*	0	0	25,685	0	0	25,685	0	0	25,685	0	0	25,685
9	321.0	PUMPING PLANT: STRUCTURES & IMPROVEMENTS	0	0	4,336	112	2,550	1,786	4,012	0	8,348	164	2,715	5,633
10	325.0	PUMPING PLANT: ELECTRICAL EQUIPMENT	22,307	(33,459)	684,519	17,873	249,863	434,656	47,847	0	732,366	18,349	268,212	464,154
11	328.0	PUMPING PLANT: GAS ENGINE EQUIPMENT	0	0	20,026	519	11,844	8,182	0	0	20,026	519	12,363	7,663
12	330.0	WATER TREATMENT PLANT: LAND*	0	0	0	0	0	0	0	0	0	0	0	0
13	331.0	WATER TREATMENT PLANT: STRUCTURES & IMPROVEMENTS	0	0	1,847	48	1,092	755	0	0	1,847	48	1,140	707
14	332.0	WATER TREATMENT PLANT: EQUIPMENT	1,102	0	107,314	2,765	53,170	54,144	3,187	(6,896)	103,605	2,731	49,005	54,600
15	340.0	TRANSMISSION & DISTRIBUTION: LAND - TANKS & MAINS*	0	0	0	0	(331)	331	0	0	0	0	(331)	331
16	340.1	TRANSMISSION & DISTRIBUTION: LAND RIGHTS - FEES*	0	0	0	0	0	0	0	0	0	0	0	0
17	341.0	TRANSMISSION & DISTRIBUTION: STRUCTURES	0	0	0	0	0	0	0	0	0	0	0	0
18	342.0	TRANSMISSION & DISTRIBUTION: STORAGE TANKS	1,019	0	286,758	7,414	154,875	131,883	0	0	286,758	7,427	162,302	124,456
19	343.0	TRANSMISSION & DISTRIBUTION: MAINS	184,449	(13,508)	2,616,785	65,561	861,911	1,754,874	104,800	(214)	2,721,371	69,129	930,827	1,790,544
20	344.0	TRANSMISSION & DISTRIBUTION: FIRE SPRINKLERS	42	0	48,131	1,246	13,717	34,414	25,000	0	73,131	1,570	15,287	57,844
21	345.0	TRANSMISSION & DISTRIBUTION: SERVICES	55,269	(455)	1,046,186	26,386	313,491	732,695	107,590	(2,575)	1,151,201	28,456	339,372	811,829
22	346.0	TRANSMISSION & DISTRIBUTION: METERS	4,360	(138)	191,054	4,694	76,335	114,719	18,822	(140)	209,736	5,190	81,365	128,351
23	348.0	TRANSMISSION & DISTRIBUTION: HYDRANTS	11,363	(197)	210,422	5,305	79,427	130,995	7,872	0	218,294	5,552	84,979	133,315
24	389.1	GENERAL PLANT: LAND - OFFICE*	0	0	0	0	0	0	0	0	0	0	0	0
25	389.2	GENERAL PLANT: LAND - WAREHOUSE*	0	0	0	0	0	0	0	0	0	0	0	0
26	389.3	GENERAL PLANT: LAND - MISC.*	0	0	0	0	0	0	0	0	0	0	0	0
27	390.1	GENERAL PLANT: OFFICE BUILDINGS**	1,990	0	46,136	0	(7,519)	53,655	2,045	0	48,181	0	(7,519)	55,700
28	390.2	GENERAL PLANT: WAREHOUSE BUILDINGS	3,332	0	18,121	426	8,407	9,714	0	0	18,121	469	8,877	9,244
29	390.3	GENERAL PLANT: MISC. BUILDINGS	0	0	7,060	183	4,176	2,884	0	0	7,060	183	4,359	2,701
30	391.0	GENERAL PLANT: OFFICE EQUIPMENT	0	0	10,750	278	5,339	5,411	0	0	10,750	278	5,617	5,133
31	391.1	GENERAL PLANT: ELECTRICAL EQUIPMENT	181	0	48,890	1,264	13,101	35,789	2,123	0	51,013	1,294	14,395	36,618
32	391.2	GENERAL PLANT: OFFICE FURNITURE	2,423	0	15,629	373	6,134	9,495	520	0	16,149	412	6,546	9,603
33	393.0	GENERAL PLANT: WAREHOUSE EQUIPMENT	0	0	0	0	0	0	0	0	0	0	0	0
34	394.0	GENERAL PLANT: GARAGE EQUIPMENT	2,861	0	51,556	1,298	14,928	36,628	4,740	(9,080)	47,216	1,279	7,127	40,089
35	395.0	GENERAL PLANT: LAB EQUIPMENT	2,103	0	6,726	147	2,222	4,504	0	0	6,726	174	2,396	4,330
36	396.0	GENERAL PLANT: POWER EQUIPMENT	0	0	15,015	389	7,099	7,916	0	0	15,015	389	7,488	7,527
37	397.0	GENERAL PLANT: COMMUNICATIONS EQUIPMENT	0	0	28,556	740	13,961	14,595	0	0	28,556	740	14,701	13,855
38	397.1	GENERAL PLANT: MOBILE RADIOS	777	0	13,823	348	2,242	11,581	2,048	0	15,871	385	2,627	13,244
39	397.2	GENERAL PLANT: AUTO CONTROLS	2,109	0	7,357	163	1,659	5,698	685	0	8,042	199	1,858	6,184
40	398.0	GENERAL PLANT: MISC.	0	0	6,554	170	2,251	(2,081)	0	0	6,554	170	2,421	4,133
41		TOTALS	$326,213	($47,757)	$5,766,026	$143,473	$2,007,766	$3,751,876	$336,006	($18,905)	$6,083,127	$150,969	$2,139,830	$3,943,297
42														
43		BALANCES PER COMPANY									$ 6,083,129		$ 2,271,697	
44														
45		BALANCES PER RUCO									$ 6,083,127		$ 2,139,830	
46														
47		TOTAL ADJUSTMENTS									$ (2)		$ (131,867)	

REFERENCE:
COMPANY WORKPAPERS PROVIDED WITH APPLICATION

NOTE:
* NON-DEPRECIABLE PLANT
** LEASEHOLD IMPROVEMENT