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ARIZONA CORPORATION COMMISSION

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August 30, 2005

Ms. Tracy Spoon
Executive Director
Sun City Taxpayers Association, Inc.
12630 North 103rd Avenue
Suite 144
Sun City, Arizona 85351-3476

Arizona-American Water Company **Decision No. 67593**
Docket No. W-01303A-01-0983

WS-01303A-02-0867
WS-01303A-02-0868
WS-01303A-02-0869
WS-01303A-02-0870
W-01303A-02-0908

RE: YOUNGTOWN/SUN CITY FIRE FLOW TASK FORCE REPORT

Dear Ms. Spoon:

Thank you for your letter regarding the referenced subject. In your letter you posed several questions regarding fire flow requirements and Arizona Corporation Commission ("Commission") procedures. Please keep in my mind that the answers provided in this letter are my views only and do not express the official position of the Commission.

With regard to the first item in your letter, your understanding is correct – Commission rules do not require any water company to provide specific water flows for fire protection. Although, when reviewing a water system, the Commission's Utilities Division Staff ("Staff") does require the water system to have adequate total storage and water production to properly service its customers, including fire flow if there are fire hydrants on the system. However, due to resource and time constraints, Staff is unable to review the system configuration, pipe sizes, pump applications, etc. to determine if adequate fire flows can be provided to all parts of the water system. In addition, there is no Commission requirement that a water system provide fire hydrants in the first place. Currently there are no open dockets at the Commission to alter its rules or requirements with regard to fire protection.

Your second point speaks to pre-approval of this project. The Commission is not requiring pre-approval of this project. Arizona-American, or any water company, may make such upgrades prior to Commission approval. Not to speak for Arizona-American, but perhaps the reason it may seek pre-approval of this project is to better ensure itself that it may receive cost recovery of its investment in these fire protection upgrades. The Commission does not routinely engage in pre-approval of projects of this sort.

Your last point asks about the re-opening of previous Arizona-American cases and a possible surcharge. A surcharge or surcharge mechanism may only be implemented during a rate case; therefore, it is not a mechanism to recover costs "in between" rate cases. There is no reason that Arizona-American must re-open an old case to request a surcharge or surcharge mechanism for cost recovery of fire flow upgrades. Arizona-American is certainly free to go ahead with such improvements now and request cost recovery in a future rate case.

Again thank you for inquiry in to these matters. Hopefully, the information I provided is what you were looking for. If you have additional questions or if I can be of further assistance, please feel free to call my office at 602-542-3935.

Sincerely,

William A. Mundell, Commissioner
Arizona Corporation Commission

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August 1, 2005

Mr. William Mundell, Commissioner
Arizona Corporation Commission
1200 W. Washington 85007
Phoenix, AZ

SUBJECT: Youngtown/Sun City Fire Flow Task Force Report

Dear Mr. Mundell,

The Sun City Taxpayers Association (SCTA) has been asked by Arizona-American Water (AZ-AM) to submit written support to the Arizona Corporation Commission with regard to the recommendations made in the Youngtown/Sun City Fire Flow Task Force Report. AZ-AM has expressed to us that it has to obtain pre-approval and acknowledgment of rates from the ACC for the proposed investment otherwise AZ-AM is not obligated to complete the improvements. To comply with AZ-AM's request, we are in the process of preparing materials for Board consideration and we would like your help in answering a few questions. We will include your response in the materials presented to the Board. The questions are as follows:

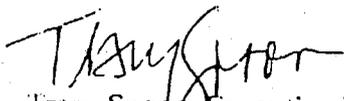
1. It is our understanding that AZ-AM is not required to provide specific water flows for fire protection. It appears that AZ-AM is concerned about going forward with the necessary repairs because it is not required to under the Administration Code. Could you provide a brief explanation of why AZ-AM isn't required to provide water flows for fire protection? Will the commission be addressing this issue in the Administrative Code?
2. Is the ACC requiring pre-approval of this project or is AZ-AM? Does the pre-approval requirement have to do with AZ-AM's understanding that it is not required under the Administrative Code to make the repairs and it needs authorization from the ACC to go ahead?
3. AZ-AM has expressed a desire to re-open the existing docket (WS-01303A-02-0867). Decision number 67593 on the aforementioned docket did allow for a limited reopening for the arsenic and the Paradise Valley fire flow issues. AZ-AM is proposing to re-open the docket to include the Youngtown/Sun City Fire Flow improvements and ask the ACC to recover its costs by implementing a surcharge. Our understanding is that a surcharge, if approved by the ACC, is a mechanism for a utility to recover costs in between rate increase applications. Other than reopening the docket and implementing a surcharge, is there any reason why AZ-AM couldn't go forward with the improvements and ask for cost recovery in a future rate increase application?

Mr. William Mundell
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Our Board does not formally meet during the summer months, but we are considering a special session to deal with this issue. We would like to hear from you and/or your staff before we schedule a meeting so that our Board has all the information available before making a decision.

If you have any questions or you need to contact me, I can be reached by telephone at 623-933-7530 (Monday through Friday, 9:00 a.m. until noon), afternoons at 623-566-5303 or by e-mail at sctal@juno.com. Thank you.

Yours truly,



Tracy Spoon, Executive Director
For the Board of Directors