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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

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AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS PARADISE VALLEY DISTRICT

DOCKET NO. W-01303A-05-0405

Arizona Corporation Commission

DOCKETED

AUG -9 2006

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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, INC., AN ARIZONA CORPORATION, FOR APPROVAL OF AN AGREEMENT WITH THE PARADISE VALLEY COUNTRY CLUB

DOCKET NO. W-01303A-05-0910

NOTICE OF COMPLIANCE
FILING

1 In compliance with Decision No. 68858 in the above-captioned docket, Arizona-
 2 American Water Company hereby files an executed copy of the special contract agreement with
 3 Paradise Valley Country Club.

4 RESPECTFULLY SUBMITTED on August 9, 2006.

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Craig A. Marks
Corporate Counsel
Arizona-American Water Company
19820 N. 7th Street, Suite 201
Phoenix, Arizona 85024
(623) 445-2442
Craig.Marks@amwater.com
Attorney for Arizona-American Water Company

1 Original and 15 copies filed
2 on August 9, 2006, with:

3
4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

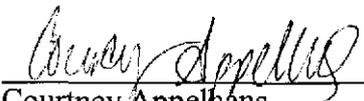
8
9 Copies of the foregoing mailed
10 on August 9, 2006, to:

11
12 Teena Wolfe
13 Administrative Law Judge
14 Hearing Division
15 Arizona Corporation Commission
16 1200 West Washington St.
17 Phoenix, Arizona 85007

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19 Maureen Scott
20 Legal Division
21 Arizona Corporation Commission
22 1200 West Washington St.
23 Phoenix, Arizona 85007

24
25 Daniel W. Pozefsky
26 Residential Utility Consumer Office
27 1110 West Washington Street
28 Suite 220
29 Phoenix, Arizona 85007

30
31 Robert J. Metli, Esq.
32 Snell & Wilmer LLP
33 One Arizona Center
34 400 E. Van Buren
35 Phoenix, Arizona 85004-2202
36 Attorneys for Paradise Valley Country Club

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41 By: 
Courtney Appelhans

WATER SERVICE AGREEMENT

THIS WATER SERVICE AGREEMENT is made this 15 day of December, 2005, by and between PARADISE VALLEY COUNTRY CLUB, INC., an Arizona not-for-profit corporation ("PVCC"), and ARIZONA-AMERICAN WATER COMPANY, an Arizona public service corporation ("Water Company"), for the purposes and consideration set forth hereinafter.

RECITALS

A. PVCC owns and operates an 18-hole golf course, clubhouse and related facilities known as the Paradise Valley Country Club Golf Course, located at 7101 North Tatum Boulevard, in Paradise Valley, Arizona 85253 ("Golf Course"). The Golf Course includes a 122-acre, 18-hole course, driving range, putting and pitching areas and other facilities directly related to the play and practice of golf.

B. Water Company is a public service corporation and holds a Certificate of Convenience and Necessity authorizing it to furnish water utility service within its certificated service areas in accordance with Arizona law and the rules and regulations of the Arizona Corporation Commission ("ACC"). The Golf Course is located within one of the Water Company's certificated service areas.

C. The Water Company currently delivers water to the Golf Course for use by PVCC for the irrigation and maintenance of the turf, trees, shrubs and other exterior landscaping at the Golf Course and for filling and refilling a storage reservoir at the Golf Course (collectively, "Turf Irrigation") under that certain Agreement Regarding Water Service, dated June 16, 1995 ("1995 Agreement"), which was approved by the ACC in Decision No. 59079 (May 5, 1995). The Water Company delivers water for Turf Irrigation through a meter located just inside the Golf Course property at a location east of the second fairway off Desert Fairway Street

("Delivery Point"). The water received at the Delivery Point is used by PVCC solely for Turf Irrigation.

D. In the Amendment to Agreement Regarding Water Service, dated September 29, 1999, the parties modified the 1995 Agreement to reflect the ACC's approval in Decision No. 61831 (July 20, 1999) of a surcharge to allow the recovery of costs associated with the use of Central Arizona Project water, as more particularly provided therein.

E. PVCC and the Water Company subsequently entered into several amendments to the 1995 Agreement, which extended that agreement's term. Throughout 2005, PVCC and the Water Company have been working diligently and in good faith to negotiate a new water service agreement.

F. The purpose of this Water Service Agreement ("the Agreement") is to establish the terms and conditions under which the Water Company will provide water service to PVCC's Golf Course for Turf Irrigation. The Agreement is intended to supersede and replace the 1995 Agreement.

AGREEMENTS

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows.

1. Service of Water for Turf Irrigation. The Water Company will deliver water for Turf Irrigation at the Golf Course in amounts sufficient, in quantity and quality, to satisfy the Turf Irrigation demand for water at the Golf Course, as that demand may change from time to time, subject, however, to the terms and conditions set forth below. Delivery will be made to the Delivery Point, as described above, or to another meter location reasonably acceptable to the parties.

2. Limitations On Water Service. In addition to the circumstances and conditions under which the Water Company may curtail, restrict or terminate water service under the rules and regulations of the ACC, the Water Company's general tariffs governing water service, or as otherwise permitted by law, water service to the Golf Course for Turf Irrigation is subject to the following conditions and limitations:

a. Temporary Interruption of Service. The Water Company may curtail, restrict or temporarily discontinue water service to the extent necessary to provide a continuous and satisfactory level of service to the Water Company's other customers. Any such curtailment, restriction or discontinuance of service shall continue only so long as reasonably necessary and, in any case, shall not continue for a longer period than two (2) consecutive calendar days without the prior consent of PVCC. The Water Company will immediately notify PVCC of the particular circumstances and the estimated length of time during which service will be curtailed, restricted or temporarily discontinued, and will make reasonable efforts to resume normal service to the Golf Course as quickly as possible.

b. Off-Peak Water Deliveries. PVCC will take delivery of water for Turf Irrigation during off-peak delivery hours, unless PVCC can demonstrate that its then-existing demand for water for Turf Irrigation cannot be satisfied by daily water deliveries during such period. For the purpose of this Agreement, "off-peak delivery hours" means the hours between 2:00 p.m. and 4:00 a.m., unless otherwise agreed by the parties.

3. Payment for Water Service. In consideration of the limitations on water service set forth in section 2 of this Agreement, the amount PVCC shall pay for water delivered by the Water Company for Turf Irrigation at the Golf Course shall be as follows:

a. Rates and Charges for Water Service. PVCC will pay the Water Company on a monthly basis for all water delivered to the Golf Course for Turf Irrigation based on the Water Company's rates and charges applicable to other turf-related facilities in the Water Company's service territory, including (without limitation) all surcharges authorized by the ACC, reduced by fifteen percent (15%). In the event the Water Company's rate classification for customers operating turf-related facilities is discontinued, then the rates and charges applicable to PVCC will be based on the rates and charges applicable to other turf-related facilities within the Water Company's service territory, including (without limitation) all surcharges authorized by the ACC, again reduced by fifteen percent (15%).

b. Other Charges. PVCC will pay all other taxes, assessments and other governmental impositions generally applicable to water service, as authorized from time to time by the ACC and published in the Water Company's schedules of rates and charges for service.

4. Clubhouse Use. The Water Company also delivers water to PVCC for use by PVCC in and around the clubhouse and other recreational facilities at PVCC, including use for domestic purposes, for filling and refilling swimming pools, for maintaining and cleaning landscaping equipment and golf carts, and for maintaining landscaped areas immediately surrounding the clubhouse and other recreational facilities not directly related to the playing of golf ("Clubhouse Use"). The Water Company delivers water to PVCC for Clubhouse Use through meters other than the Delivery Point. The Water Company will continue to provide water service to PVCC for Clubhouse Use in accordance with the rules and regulations of the ACC and at the rates approved by the ACC from time to time for service of water to the commercial customers of the Water Company. Except as stated in this paragraph, this Agreement is not applicable to the service of water to PVCC for Clubhouse Use. Water supplied

under this Agreement is not to be used for Clubhouse Use.

5. ACC Approval; Term of Agreement. This Agreement is subject to and will become effective after (1) approval of this Agreement by the ACC and (2) the effective date of new permanent rates approved in pending rate case docket No. W-01303A-05-0405. This Agreement will remain in effect for a period of fifteen (15) years from the date on which the later of the foregoing conditions has been satisfied, unless earlier terminated as provided under section 7, below. The expiration or termination of this Agreement does not limit, modify or otherwise affect the obligation of the Water Company to serve water for Turf Irrigation at the Golf Course to the extent such service is required by law or by the rules and regulations of the ACC, or is required by the terms of this Agreement and is not prohibited by law or by the rules and regulations of the ACC.

6. Rates at Termination or Expiration. At the time of the termination or expiration of this Agreement, and under the condition that a new water service agreement has not been entered into, PVCC will pay for all water delivered by the Water Company to the Golf Course for Turf Irrigation at the then currently applicable rates and charges approved by the ACC for turf-related irrigation. If such rate classification no longer exists, PVCC will pay for water service based on the rates and charges applicable to other turf-related facilities that use water for landscape irrigation.

7. PVCC's Right to Serve Itself. The parties acknowledge that the Water Company's water supply is the only developed supply of water currently available for Turf Irrigation at the Golf Course. PVCC may elect to develop its own supply of water for Turf Irrigation, in accordance with Arizona law, such as untreated Central Arizona Project water or effluent. In that event and at any time during the term of this Agreement, PVCC may terminate

this Agreement by providing no less than sixty (60) days written notice of termination to the Water Company and paying the Water Company a termination fee of \$1,000.00. Thereafter, the Water Company will continue to deliver water for Turf Irrigation at the Golf Course as an emergency, backup supply and as a supplemental supply of water at the Water Company's rates and charges applicable to other turf-related facilities in the Water Company's service territory.

8. Other Terms and Conditions of Service. Except as otherwise expressly provided herein, PVCC will be subject to and comply with all terms, conditions and requirements relating to water service, as set forth in the Water Company's general tariffs and the ACC's rules and regulations.

9. Miscellaneous.

a. Manner of Giving Notice. Any notice required or permitted to be given hereunder shall be in writing and directed to the address set forth below for the party to whom the notice is given and shall be deemed delivered (i) by personal delivery, on the date of delivery; (ii) by first class United States mail, three (3) business days after being mailed; or (iii) by Federal Express Corporation (or other reputable overnight delivery service), one (1) business day after being deposited into the custody of such service. The address of the Water Company for all notices under this Agreement shall be:

Arizona-American Water Company
19820 North 7th Street, Suite 201
Phoenix, AZ 85024
ATTN: Brian Biesemeyer

With a copy also provided to:

Arizona-American Water Company
19820 North 7th Street, Suite 201
Phoenix, AZ 85024
ATTN: Craig Marks

///

Norman D. James, Esq.
Fennemore Craig
3003 N. Central Avenue, Suite 2600
Phoenix, Arizona 85012

The address of PVCC for all notices under this Agreement shall be:

Paradise Valley Country Club, Inc.
7101 North Tatum Blvd.
Paradise Valley, AZ 85253
ATTN: Manager

With a copy also provided to:

Philip A. Edlund
7100 N. 46th Place
Paradise Valley, Arizona 85253

Any party may designate another person or address for notices under this Agreement by giving the other party notice at least thirty (30) days prior to the effective date of the new designation.

b. Arbitration. If any dispute arises between the parties with respect to any provision, term, covenant or obligation contained in or arising under this Agreement, and the parties cannot through their good faith efforts resolve that dispute, the parties agree to submit that dispute to arbitration. A party may demand arbitration of a dispute by written notice to the other party. Within fifteen (15) days after notice is given, each party shall appoint their own arbitrator, and the two appointed arbitrators shall, within fifteen (15) days of their appointment, choose a third arbitrator. The dispute shall then be arbitrated under the arbitration rules and procedures of the American Arbitration Association. An arbitration decision acceptable to two of the three arbitrators shall be final and binding. Each party shall bear the costs and expenses of their own arbitrator and shall equally bear the costs and expenses of the third arbitrator.

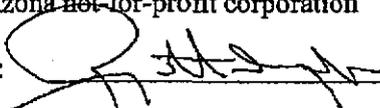
c. Attorneys Fees and Costs. If any action at law or in equity is necessary to

enforce or interpret the terms of this Agreement, including any arbitration award, the prevailing party or parties shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such party or parties may be entitled.

d. Binding Effect. This Agreement is binding upon and inures to the benefit of the parties hereto and their respective successors and assigns. PVCC may assign its rights under this Agreement to any future owner of the Golf Course, without restriction. Upon the assumption in writing by a successor or assignee of PVCC of the obligations of PVCC under this Agreement, PVCC will be released and discharged from all further obligations and liabilities hereunder.

IN WITNESS WHEREOF, the parties have caused this Agreement to be made on the day and year first above written.

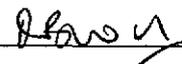
PARADISE VALLEY COUNTRY CLUB, INC. an
Arizona not-for-profit corporation

By:  _____

Its: _____

President
(Roy Herberger)

ARIZONA-AMERICAN WATER COMPANY, an
Arizona corporation

By:  _____

Its: _____

VICE PRESIDENT.

(Robert Bloor)

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