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BEFORE THE ARIZONA CORPORATION COMM.
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Arizona Corporation Commission
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MIKE GLEASON
Commissioner

JUL 18 2006

KRISTIN K. MAYES
Commissioner

DOCKETED BY

In the Matter of the Application For a)
Finding of No Jurisdiction or For a Waiver of)
the Affiliated Interests Rules Pursuant to)
A.A.C. R14-2-806, or, in the Alternative, For)
Approval of an Affiliated Interests)
Transaction Pursuant to A.A.C. R14-2-801 *et*)
seq.)

Docket No: SW-01303A-06-0274
W-01303A-06-0274
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WS

**ARIZONA-AMERICAN WATER
COMPANY'S RESPONSE TO
REQUEST FOR EXTENSION**

Arizona-American Water Company ("Arizona-American") has requested that the Arizona Corporation Commission (the "Commission") approve a proposed transaction that will result in Arizona-American's parent, American Water Works Company, Inc. ("American Water") returning to its prior status as a publicly traded company (the "Proposed Transaction"). The Proposed Transaction is in the public interest and will result in the continuous and seamless provision of reliable service by Arizona-American to all of its customers at just and reasonable rates.

THE APPLICATION AND PROPOSED TRANSACTION

Arizona-American has asked the Commission to take one of three actions:

1. Declare that it has no jurisdiction over the Proposed Transaction because it is essentially an initial public offering of stock;
2. Grant Arizona-American a limited waiver under the Affiliated Interests Rules for purposes of the Proposed Transaction; or
3. Approve the Proposed Transaction under the Affiliated Interests Rules.

To Arizona-American's knowledge, the Commission has never asserted jurisdiction over the public offering of stock by a foreign corporation even if that foreign corporation is the "grandparent" or "great-grandparent" of an Arizona public service corporation. The normal affiliated interest transaction reviewed by the Commission involves the creation of a holding company or the sale of stock by one entity to another entity often structured as a merger transaction. In the typical stock sale case, the control of the Arizona utility is transferred to a new entity, and the Commission reviews and evaluates the transaction with particular attention to the new owner. In this case, the new owners will be thousands of stockholders purchasing stock on the public market, subject to the nation's securities laws and oversight of securities regulators. For this reason, Arizona-American has respectfully requested that the Commission not assert jurisdiction over the Proposed Transaction.

Even if the Commission asserts jurisdiction, the Proposed Transaction is an appropriate case in which to grant a waiver. Arizona-American concurs with the Staff's initial evaluation that the Proposed Transaction does not raise any specific concerns. The Proposed Transaction is beneficial to American Water and Arizona-American and their customers and employees and, for these reasons, is in the public interest.

For nearly 60 years, American Water was one of the largest publicly-traded water companies in the United States, with its shares listed on the New York Stock Exchange. The Proposed Transaction is expected to result in American Water again becoming the largest publicly-traded water company in the U.S. Being publicly-traded, like so many utility holding companies, served American Water, its subsidiaries, and their customers and employees well for many years and will again serve them well in the future.

As a publicly-traded company, American Water will be managed under the supervision of American Water's board of directors. Arizona-American will continue to be operated by its local management, under the supervision of Arizona-American's board of directors. American Water will have a sound financial structure and, as a publicly-traded company, will be subject to the extensive disclosure and governance requirements of the Securities and Exchange Commission ("SEC") (including Sarbanes-Oxley-related requirements) and the stock exchange on which its shares are traded (intended to be the New York Stock Exchange). The Proposed Transaction will also provide American Water with access to the public equity and debt capital markets in the U.S., maintaining American Water's ability to finance necessary and vital investments in the infrastructure of its subsidiaries, including Arizona-American.

The Proposed Transaction will produce benefits for Arizona-American's customers. It will result in a publicly-traded company that is focused on water and wastewater in the U.S. and dedicated to maintaining a high level of service at just and reasonable rates. Corporate decision-making will be closer to Arizona, and it will increase the transparency of American Water's activities as a result of SEC regulation.

THE STAFF'S EXTENSION REQUEST

Arizona-American appreciates the Staff's desire for additional time to review the Proposed Transaction. Arizona-American has a large number of cases pending at the Commission and understands Staff's workload. However, a prompt decision relating to the Proposed Transaction will add certainty and direction that will assist in processing Arizona-American's other pending applications. Arizona-American has provided, and will continue to provide, relevant information to Staff and to meet with Staff on matters before this Commission. Nevertheless, Arizona-American is concerned about potential delay.

As the Staff notes, the Proposed Transaction is subject to approval in a number of states. Three of those states have ruled favorably on the transaction already, and Arizona-American anticipates that the other states will favorably finalize their evaluations prior to the end of this year. Arizona-American respectfully requests that the Commission complete its evaluation by that time as well.

Staff has requested an extension until September 30, 2006. If the Staff ultimately recommends a waiver or approval without a hearing and if the Commission agrees with that recommendation, then the Proposed Transaction would be approved in a timely fashion even with an extension until September 30, 2006. Arizona-American is concerned that, even if the Staff recommends a waiver or approval without a hearing, the Commission may deem a hearing necessary. If a hearing determination is not made until the end of September, it may take several months to schedule and hold a hearing, prepare a proposed order, and hear the matter at an Open Meeting. Final resolution of this matter could extend into 2007.

As set forth above, Arizona-American does not believe that a hearing is warranted in this matter. However, if the Commission deems a hearing necessary, Arizona-American requests the hearing be set as soon as possible so that the matter can be processed as

expeditiously as possible. Finally, Arizona-American also suggests that if the Commission believes a hearing is not necessary, a waiver of the Affiliated Interests Rules could be granted at the July 25, 2006 Open Meeting based on the current record.

Respectfully submitted this 18th day of July, 2006.

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ORIGINAL and seventeen (17) copies of the foregoing filed this 18th day of July, 2006, with:

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COPY of the foregoing hand-delivered this 18th day of July, 2006, to:

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