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NEW APPLICATION  
ORIGINAL

RECEIVED

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**CARL J. KUNASEK**  
Chairman  
**JIM IRVIN**  
Commissioner  
**WILLIAM A. MUNDELL**  
Commissioner

**IN THE MATTER OF THE  
REORGANIZATION OF MCO  
PROPERTIES INC. BY THE  
DIVESTITURE AND TRANSFER OF  
THE STOCK OF CHAPARRAL CITY  
WATER COMPANY TO AMERICAN  
STATES WATER COMPANY**

**DOCKET NO. W-02113A-00-0233**  
**NOTICE OF REORGANIZATION  
AND/OR REQUEST FOR  
WAIVER**

Pursuant to A.A.C. R14-2-803 ("Rule 803"), MCO Properties Inc., a Delaware corporation ("MCO"), together with its wholly-owned subsidiary Chaparral City Water Company, an Arizona public service corporation ("Chaparral"), hereby give notice to the Arizona Corporation Commission ("Commission") that MCO intends to divest itself of Chaparral. More specifically, American States Water Company, a California corporation ("American States"), has agreed to purchase from MCO all of the issued and outstanding shares of Chaparral's common stock. Pursuant to Rule 803, the Commission may either approve the reorganization or simply permit it to become effective by taking no action within the 120 day notice period. Alternatively, the Commission could waive compliance with Rule 803.

**I. INTRODUCTION**

Chaparral possesses a certificate of convenience and necessity ("CC&N") from this Commission, to provide both potable water and irrigation service to the general public in the Town of Fountain Hills ("Town") and portions of the City of Scottsdale ("City"), Maricopa County, Arizona. See ACC Opinion and Order *In the Matter of the Application*

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of Chaparral City Water Company for a Certificate of Convenience and Necessity, Docket No. U-2113, Decision No. 41243, dated April 20, 1971. On March 10, 2000, American States entered into a contract with MCO to purchase all of the common stock of MCO. After closure of this purchase, Chaparral will remain the same legal entity as before, excepting it will now be a subsidiary of American States rather than MCO. No transfer of Chaparral's CC&N or other property will occur.

**II. RULE 803 NOTICE**

MCO and Chaparral submit the following information in conformance with Rule 803.

**1. Names and business addresses of officers and directors of the proposed holding company.**

*See Exhibit A (attached) listing American States' officers and directors.*

**2. The business purposes for establishing the holding company.**

American States is a holding company, currently operating with two principal subsidiaries: Southern California Water Company, a water supply and electric distribution utility providing water service to approximately 244,000 water connections and 21,000 electric connections; and American States Utility Services Inc., which provides non-regulated operation, maintenance, administrative and management services under contract to various governmental and private water purveyors. Through its subsidiaries, American States provides water services to 75 communities in northern, coastal and southern California, serving a population of approximately one million persons, or 1-in-every 30 Californians. Southern California Water Company commenced business in 1929. American States and American States Utility Services, Inc., were formed in 1998 to enable the company to provide non-regulated utility services separate from its regulated services, and to allow for an expansion of its utility operations geographically. Chaparral

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will be the first Arizona public service corporation owned by American States.

MCO is not in the business of owning and operating public utilities and has chosen for business strategy reasons to divest itself of this public utility. Chaparral provides water service to approximately 10,000 customers in the Town and portions of the City. Chaparral does not have an application to adjust rates pending at the Commission, nor does it have any open customer complaint cases before the Commission.

**3. The proposed method of financing the holding company and the resultant capital structure.**

The acquisition of Chaparral by American States will initially be financed with short-term lines of credit through financial institutions with which American States has had on-going business relationships. American States routinely uses short-term lines of credit to finance capital expenditures needed for its subsidiaries. Borrowing under these lines of credit are normally repaid through the issuance of long-term debt in the public or private debt markets or common equity. New debt or equity is issued depending upon the then current debt-to-equity ratio of American States in a fashion such that the target debt-to-equity ratio remains within parameters that assure favorable debt ratings and efficient debt issuance costs. Exhibit B presents American States' consolidated capitalization structure and ratios as of December 31, 1999, and pro-forma for the acquisition of Chaparral.

**4. The resultant effect on the capital structure of the public utility.**

Exhibit C presents Chaparral's capitalization structure and ratios as of December 31, 1999, and pro-forma for the acquisition by American States.

**5. An organization chart of the holding company that identifies all affiliates and their relationships within the holding company.**

An organization chart identifying American States and its affiliates is attached as Exhibit D.

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**6. The proposed method for allocating federal and state income taxes to the subsidiaries of the holding company.**

American States proposes that a "stand-alone" federal income tax liability for each subsidiary will be computed as if each subsidiary had filed a separate federal income tax return. If the "stand-alone" computation results in a federal income tax liability for a subsidiary, that particular subsidiary would be required to pay the computed liability to American States. If the "stand-alone" computation results in a net operating loss that can be carried back to a prior taxable period or periods for which American States had previously made a tax payment, American States would pay an amount to the particular subsidiary equal to the amount of the tax refund. If the "stand-alone" computation results in a net operating loss that cannot be carried back to a prior taxable period or periods for which American States had previously made a tax payment, the amount will be carried forward as a net operating loss carryover to be used by the particular subsidiary in calculating its future "stand-alone" federal income tax liability. American States will file a consolidated federal income tax return and, as the common parent and agent for its subsidiary companies, will be responsible for payment of any consolidated federal income tax liability. The foregoing general principles will apply in a similar fashion to any consolidated or combined Arizona state income tax return required or permitted to be filed.

**7. The anticipated changes in the utility's cost of service and the cost of capital attributable to the reorganization.**

American States and MCO anticipate no increase in Chaparral's cost of service or cost of capital as a result of the acquisition and that no application to increase rates would be necessary at this time. It is expected that American States will operate Chaparral for some significant period of time in order to become better-versed with its operations and future capital requirements before considering any adjustment in rates. American States, of course, will comply with any then-existing Commission regulations for purposes of



1 regards capital expenditures for American States Utility Services, Inc., these are normally  
 2 made pursuant to the terms of individual contracts with municipal and private water  
 3 providers and allow for appropriate adjustments to contract price levels to assure a return  
 4 on and recovery of all capital costs of this unit.  
 5

6 **Estimated Expenditures for New Capital Additions**  
 7 **To be Financed by the Company**

Year	Southern California Water Company	American States Utility Services, Inc.	Chaparral City Water Company	Total
(\$ in millions)				
2000	\$55.4	-	\$1.0	\$56.4
2001	\$57.4	\$33.0	\$1.0	\$91.4
2002	\$55.0	\$31.5	\$1.0	\$87.5
2003	\$50.0	\$10.0	\$1.0	\$61.0
2004	\$50.0	\$10.0	\$1.0	\$61.0
<b>Total</b>	<b>\$267.8</b>	<b>\$84.5</b>	<b>\$5.0</b>	<b>\$357.3</b>

11. **An explanation of the manner in which the utility can assure that adequate capital will be available for the construction of necessary new utility plant and for improvements in existing utility plant at no greater cost than if the utility or its affiliate did not organize or reorganize a public utility holding company.**

American States routinely finances \$35 to \$50 million annually in capital additions for existing water systems in California in order to provide for service improvements. American States maintains public ratings of A/A2 with Standard & Poor's Corporation and Moody's Ratings Service, respectively. The high debt ratings allow for ample access to the capital markets at rates for unsecured debt that are lower than or at least competitive with the rates for secured first-mortgage debt, which is generally the only kind of non-equity financing available to smaller utilities. In addition, through its Southern California Water Company subsidiary, American States has placed almost ten percent of its consolidated debt in tax-exempt securities at highly competitive rates, and thus American

1 States is very familiar with this manner of financing. American States has on staff finance  
2 professionals with significant expertise and contacts with various financial entities to  
3 ensure that capital requirements are financed at the lowest possible cost and in a timely  
4 manner. Both MCO and American States submit that this reorganization will not impair  
5 the financial status of Chaparral or otherwise prevent it from attracting capital at fair and  
6 reasonable terms. Additionally, this reorganization will not impair the ability of Chaparral  
7 to provide safe, reasonable and adequate service.

### 8 III. WAIVER OF RULE 803

9 MCO and American States are aware that the Commission has historically  
10 preferred to grant parties a waiver of certain provisions of the Commission's affiliate rules  
11 (including Rule 803) rather than formal approval. During preliminary discussions with  
12 Commission Staff, it was suggested that the instant Notice of Reorganization include an  
13 alternative request for relief in the form of a waiver. Both MCO and American States are  
14 indifferent as to whether such a waiver is granted or whether the transaction is approved  
15 (either expressly or by operation of law), so long as the transaction can be consummated  
16 on a timely basis. Therefore, MCO and American States agree that the thirty day period  
17 for the Commission's consideration of a waiver request set forth in A.A.C. R14-2-806  
18 should be extended to run concurrently with the 120 day notice period required by Rule  
19 803.  
20

### 21 IV. CONCLUSION

22 MCO and American States believe that American States' acquisition of Chaparral  
23 is in the public interest. It will provide Chaparral with professional water utility  
24 management from a company with over seven decades of experience. It will provide  
25 Chaparral with access to public capital markets on favorable terms. It will not result in  
26 any change in rates currently authorized for Chaparral by the Commission. MCO and

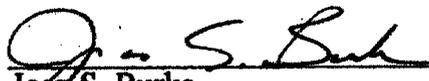
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American States ask the Commission to act favorably and expeditiously on this Notice of Reorganization.

**RESPECTFULLY SUBMITTED** this 10<sup>th</sup> day of April, 2000.

OSBORN MALEDON, P.A.

By   
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Attorneys for MCO PROPERTIES, INC.

SNELL & WILMER LLP

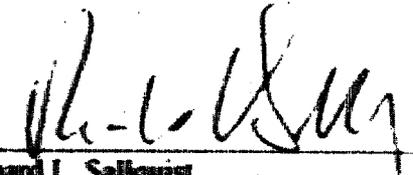
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**SALLQUIST & DRUMMOND, P.C.**

By: 

**Richard L. Sallquist**  
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Phoenix, AZ 85016  
(602) 224-9222

**Attorneys for CHAPARRAL CITY WATER  
COMPANY**

**EXHIBIT A**

Board of Directors	Position	Company	Address
Lloyd E. Ross	Chair	American States Water Company	17595 Harvard St. Irvine, CA
James L. Anderson	Director	American States Water Company	3600 Ebony Hollow Pass Austin, TX 78704
Jean E. Auer	Director	American States Water Company	1325 Avondale Road Hillsborough, CA 94010
N.P. Dodge, Jr.	Director	American States Water Company	8701 W Dodge Rd. Suite 300 Omaha, NE 68114
Anne M. Holloway	Director	American States Water Company	374 Walsh Road Atherton, CA 94027
Robert F. Kathol	Director	American States Water Company	10250 Regency Circle Omaha, NE 68114
Floyd E. Wicks	Director	American States Water Company	630 E. Foothill Blvd. San Dimas, CA 91773

Officers	Position	Company	Address
Floyd E. Wicks	President & CEO	American States Water Company	630 E. Foothill Blvd. San Dimas, CA 91773
McClellan Harris III	Chief Financial Officer, VP - Finance, Treasurer and Corporate Secretary.	American States Water Company	630 E. Foothill Blvd. San Dimas, CA 91773
Joel A. Dickson	VP - Business Development	American States Water Company	630 E. Foothill Blvd. San Dimas, CA 91773

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**EXHIBIT B**

**American States Water Company Consolidated Capitalization Amount and Ratios as of December 31, 1999**  
(in \$ thousands)

Capital Type	Amount Excluding Bank Loans	Ratio	Amount Including Bank Loans	Ratio
Long-Term Debt	\$167,563	51.04%	\$167,663	47.97%
Short-Term Debt	-	-	\$21,000	6.01%
Preferred Shares	\$2,000	0.61%	\$2,000	0.57%
Common Equity	\$158,846	48.35%	\$158,846	45.45%
<b>Total</b>	<b>\$328,509</b>	<b>100.00%</b>	<b>\$349,509</b>	<b>100.0%</b>

**American States Water Company Consolidated Capitalization Amount and Ratios adjusted for the purchase of Chaparral City Water Company**  
**Based on December 31, 1999 Balance Sheet**  
(in \$ thousands)

Capital Type	Amount Excluding Bank Loans	Ratio	Amount Including Bank Loans	Ratio
Long-Term Debt	\$177,949	52.52%	\$177,949	46.92%
Short-Term Debt	-	-	\$40,500	10.68%
Preferred Shares	\$2,000	0.59%	\$2,000	0.53%
Common Equity	\$158,846	46.89%	\$158,846	41.88%
<b>Total</b>	<b>\$338,795</b>	<b>100.0%</b>	<b>\$379,295</b>	<b>100.0%</b>

EXHIBIT C

**Chaparral City Water Company Capitalization Amount and Ratios as of  
December 31, 1999**  
(in \$ thousands)

Capital Type	Amount Excluding Bank Loans	Ratio	Amount Including Bank Loans	Ratio
Long-Term Debt	\$10,286	53.08%	\$10,286	53.08%
Short-Term Debt	-	-	-	-
Preferred Shares	-	-	-	-
Common Equity	\$9,094	46.92%	\$9,094	46.92%
<b>Total</b>	<b>\$19,380</b>	<b>100.0%</b>	<b>\$19,380</b>	<b>100.0%</b>

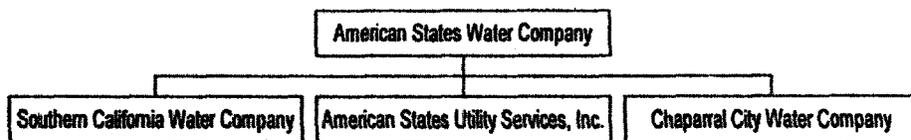
**Chaparral City Water Company Capitalization Amount and Ratios adjusted for  
the purchase by American States City Water Company**  
**Based on December 31, 1999 Balance Sheet**  
(in \$ thousands)

Capital Type	Amount Excluding Bank Loans	Ratio	Amount Including Bank Loans	Ratio
Long-Term Debt	\$10,286	34.53%	\$10,286	34.53%
Short-Term Debt	-	-	-	-
Preferred Shares	-	-	-	-
Common Equity	\$19,500	65.47%	\$19,500	65.47%
<b>Total</b>	<b>\$29,786</b>	<b>100.0%</b>	<b>\$29,786</b>	<b>100.0%</b>

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EXHIBIT D

Organization Chart  
American States Water Holding Company



**American States Water Company (ticker symbol, AWR)** - a holding company engaged in regulated and non-regulated utility services. Primary services offered are water services, wastewater services, and electric service. American States, as the parent company, provides a number of services to its subsidiaries including accounting services and financing.

**Southern California Water Company (SCW)** - a water and electric utility regulated by the California Public Utilities Commission. Established in 1929, Southern California Water Company provides water service to approximately 244,000 connections in ten counties and seventy-five communities in the state of California. SCW also provides electric service to approximately 21,000 connections in the community of Big Bear California and surrounding areas. American States owns one hundred percent of the issued and outstanding common stock of SCW.

**American States Utility Services, Inc. (ASUS)** - a utility services company offering non-regulated services to water, wastewater and electric service providers. ASUS provides billing, customer service, meter reading, full operations and maintenance, leasing and a variety of services to 90,000 customers of municipal, water district, and private water, wastewater and electric utility systems. AWR owns one hundred percent of the issued and outstanding common stock of ASUS.

**Chaparral City Water Company (Chaparral)** - a water company regulated by the Arizona Corporation Commission providing water service to approximately 10,000 connections in the Town of Fountain Hills Arizona and a portion of the city of Scottsdale. American States currently has a purchase agreement with MCO Properties to purchase one hundred percent of the issued and outstanding common stock of Chaparral, subject to satisfaction of certain conditions, including compliance with the rules and regulations of the Arizona Corporation Commission. Upon completion of the acquisition, American States will own one hundred percent of the issued and outstanding common stock of Chaparral .

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**EXHIBIT E**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended December 31, 1999**

<b>Commission File No.</b>	<b>Registrant and State of Incorporation Address and Telephone Number</b>	<b>IRS Employer Identification No.</b>
333-47647	American States Water Company (A California Corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-4676679
000-01121	Southern California Water Company (A California Corporation) 630 East Foothill Boulevard San Dimas, California 91773-9016 909-394-3600	95-1243678

Securities registered pursuant to Section 12(b) of the Act:

<b>American States Water Company Common Shares, \$2.50 Stated Value</b>	<b>New York Stock Exchange</b>
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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether Registrant has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and has been subject to such filing requirements for the past 90 days.

American States Water Company Yes  No   
Southern California Water Company Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K

The aggregate market value of the total voting stock held by non-affiliates of American States Water Company was approximately \$263,068,000 on March 20, 2000. The closing price per Common Share on that date, as quoted in the Western Edition of *The Wall Street Journal*, was \$29-3/8. Voting Preferred Shares of American States Water Company, for which there is no established market, were valued on March 20, 2000 at \$1,793,000 based on a yield of 4.80%. As of March 20, 2000, the number of Common Shares of American States Water Company, \$2.50 Stated Value, outstanding was 8,957,671. As of that same date, all 100 outstanding Common Shares of Southern California Water Company were owned by American States Water Company.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement will be subsequently filed with the Securities and Exchange Commission as to Part III, Item Nos. 10, 11, 12 and 13, in each case as specifically referenced herein.