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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
GARY PIERCE

2007 APR 27 P 4: 00

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF
ARIZONA-AMERICAN WATER COMPANY,
INC., AN ARIZONA CORPORATION, FOR
APPROVALS ASSOCIATED WITH A
PROPOSED TRANSACTION WITH MARICOPA
COUNTY MUNICIPAL WATER
CONSERVATION DISTRICT NUMBER ONE TO
ALLOW THE CONSTRUCTION OF A SURFACE
WATER TREATMENT FACILITY KNOWN AS
THE WHITE TANKS PROJECT

DOCKET NO. W-01303A-05-0718

ARIZONA-AMERICAN WATER
COMPANY

NOTICE OF FILING
REPLY BRIEF

1 Arizona-American Water Company hereby files its reply brief in the above-referenced
2 matter.

3 RESPECTFULLY SUBMITTED on April 27, 2007.
4

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Arizona Corporation Commission
DOCKETED

APR 27 2007

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1 Original and 13 copies **filed**
2 on April 27, 2007, with:
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4 Docket Control
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007
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9 Copies of the foregoing **delivered**
10 on April 27, 2007, to:
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12 Teena Wolfe
13 Administrative Law Judge
14 Arizona Corporation Commission
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18 Copies of the foregoing **mailed and emailed**
19 on April 27, 2007, to
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BEFORE THE ARIZONA CORPORATION COMMISSION

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**REPLY BRIEF
OF
ARIZONA-AMERICAN WATER COMPANY**

1 **I. REPLY TO PULTE HOMES**

2 Among other things Pulte asks that: “the Commission should require that new language
3 be inserted in the tariff to indicate that hook-up fees are to be offset by the cost of off-site
4 facilities (non-distribution facilities) contributed to Arizona-American.” Arizona-American
5 objects to this request.

6 This issue is presently resolved on a case-by-case basis in each developer’s line extension
7 agreement (“LXA”). If off-site facilities are to be constructed by the developer, the amount of
8 hook-up fee credit to be applied, if any, is specified in the LXA. Each LXA is then submitted to
9 the Commission for approval.

10 A blanket requirement of a hook-up fee offset would not be appropriate. Pulte has not
11 submitted any evidence on this matter, or even really raised this issue before including it in its
12 brief. Nor did the notice for this case include this issue. This case is not the appropriate venue to
13 alter Arizona-American’s administration of its hook-up fee offsets, particularly when there is no
14 meaningful evidence on the issue. The issue is simply not ripe for the Commission’s
15 consideration.

16 **II. REPLY TO MARICOPA WATER DISTRICT**

17 MWD’s brief requires little reply.

18 MWD claims that its plant will cost less. As thoroughly discussed in Arizona-
19 Americans’ brief, MWD only has a preliminary design at this point and the plant could cost as
20 much as \$67 million in 2006 dollars. By contrast, Arizona-American’s plant’s design is
21 complete, firm bids have been received, and the expected cost in 2009 will be \$59.4 million.
22 Further, MWD would not be able to bring its plant on line before 2011, and Arizona-American
23 would have to construct expensive additional interconnection facilities.

24 MWD maintains that Arizona-American’s financial strength would be harmed by
25 building the plant with hook-up fee financing. This is also unsupported by the evidence.

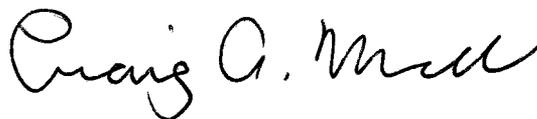
1 Further, in setting Arizona-American's rates, the Commission does not consider the Company's
2 contribution balance. Nor is there any evidence that American Water, Arizona-American's
3 corporate parent, evaluates the Company's contribution balance when determining whether to
4 provide debt or equity funds. MWD is simply engaged in meaningless speculation, with no
5 foundation in reality.

6 MWD argues that Arizona-American's proposal would violate the fair-value requirement
7 of the Arizona Constitution. Yet, as MWD admits, the Commission has previously initiated a
8 hook-up fee outside of a rate case for the Company's Agua Fria Water District. In the present
9 case, Arizona-American merely seeks to increase the amount of this hook-up fee, based on the
10 fair-value finding in Arizona-American's most recent rate order for the Agua Fria District,
11 Decision No. 67093, dated June 30, 2004. There is no Constitutional violation.

12 MWD asserts that the requested accounting orders are unprecedented. This means
13 nothing. There has to be a first time for every request. Staff and RUCO have carefully
14 considered Arizona-American's requests and recommended that they be approved.

15 Finally, MWD claims that Arizona-American is violating its current hook-up fee tariff.
16 This issue was raised for the first time in MWD's brief and there is no evidence whatsoever to
17 support its claim. Nor did the notice for this case include this issue.

18 RESPECTFULLY SUBMITTED on April 27, 2007.
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