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December 28, 2007

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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

**VIA HAND-DELIVERY**

Ms. Vicki Wallace  
Chief, Consumer Services  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007-2927

Arizona Corporation Commission  
**DOCKETED**  
DEC 28 2007

DOCKETED BY

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Re: Queen Creek Water Company's Application for Approval of Sale of Assets and Conditional Cancellation of its Certificate of Convenience and Necessity Docket No. W-01395A-07-0556

- Chicago
- Hong Kong
- Irvine
- Jefferson City
- Kansas City
- Kuwait
- Los Angeles
- New York
- Phoenix
- Shanghai
- St. Louis
- Washington, DC
- And Bryan Cave,  
A Multinational Partnership,  
London

Dear Ms. Wallace:

In our discussion earlier this month, we committed to provide written answers to the questions contained in your December 10, 2007 email. As we have discussed, we believe much of the information requested is not relevant to consideration of the pending Application given the circumstances surrounding this acquisition, particularly in recognition of the fact that water service for the affected consumers will be transferred from a public service corporation governed by the Corporation Commission's rules and regulations to a municipal corporation governed by an entirely different set of constitutional, statutory and legal obligations. Nonetheless, QCWC's responses to the questions posed in your email follows. Each question is set out below (in bold), with QCWC's response immediately following.

**1. How does the Town of Queen Creek ("Town") plan to address QCWC's customer deposits and/or refund obligations set forth in all outstanding main extension agreements?**

As we discussed, the Town will assume, pursuant to Section 2.1.10 of the Asset Purchase Agreement between the parties, all existing customer accounts, including the customer deposits. The Town will continue to provide refunds/credits of such deposits in accordance with existing QCWC practice.

With respect to mainline extension agreements, the Town will assume QCWC's obligations under such agreements in accordance with Sections 2.1.4 and 3.3 of the

Asset Purchase Agreement. QCWC will provide the Town with \$800,000.00 at the close of escrow to fund repayment obligations under existing mainline extension agreements for approximately two years. Following that, the Town will repay mainline extension obligations out of operating income.

**2. The Town provided a future planning area map showing inclusion of certain QCWC CC&N areas that are not currently under the Town's jurisdiction. Please provide details of the master plan of the Town regarding such inclusion of additional areas and estimated timetables for such action.**

The Town does not have an adopted timeframe for bringing areas outside of the current municipal boundaries into the Town. Under Arizona law, there are certain minimum requirements regarding the shape and size of legal annexations, as well as the need to meet minimum thresholds for cumulative property values and a specified percentage of landowner signatures favoring annexation. Since many of the unincorporated CC&N areas are already developed, these annexations typically require a substantial number of landowner signatures to be legally viable. In any event, regardless of the timing of such potential future annexations, the Town understands its obligation to serve water, on a non-discriminatory basis, to all existing customers until such time as their property is annexed into the Town.

**3. What was the total purchase price for QCWC and what part of that price applied to acquisition costs?**

As we discussed, the total purchase price is dependent upon the number of Active Connections (as defined in the parties' agreement) in place as of certain defined dates in the Asset Purchase Agreement. Section 3.1 of that Agreement provides that the Town will pay QCWC an amount equal to \$4,000.00 multiplied by the number of Active Connections on one of the dates established in the agreement. The total purchase price, however, is capped at \$38,500,000.00, regardless of the actual number of Active Connections.

As we further discussed, this negotiated price structure is far less than the fair and equitable value of QCWC's physical plant and property, including its value as a going concern under A.R.S. § 9-518, and thus represents a significant discount from the amount QCWC would have been entitled to recover in a condemnation proceeding. The value of the physical plant and property, on a reconstruction cost new less depreciation basis (excluding any going concern value that QCWC would have been entitled to under Arizona law), alone exceeds the maximum purchase price set in the Asset Purchase Agreement.

**4. What guarantees do QCWC's customers have who are outside the Town's jurisdiction that they will be treated the same as customers of the Town.**

As we discussed, the Town, as a political subdivision of the State of Arizona, is required to provide equal protection to citizens of the State. See Ariz. Const. Art. 1, Sec. 13. In addition, the Town fully

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understands that it is purchasing a company that has customers residing outside the current Town limits. The Town's plan and commitment is to serve all customers with the same high level of service that exists today regardless of jurisdictional boundaries. To that effect, the Town has retained virtually all the current QCWC personnel in order to ensure that its water service will function with the same excellent customer service following the purchase as is currently provided by QCWC. The Town is committed to maintaining and improving customer service for residents and non-residents alike in the community. Town management would be happy to provide further written assurances to this effect if desired by the Commission. Moreover, the comprehensive principles of Arizona law governing the obligations of municipalities to those they serve will become effective upon consummation of the proposed transaction and provide further protection to consumers.

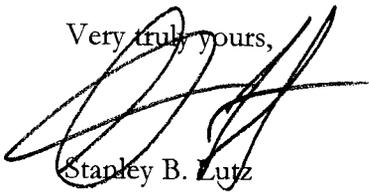
**5. What type of procedures will the Town have in place to resolve customer complaints of former QCWC customers and where will customers be able to pay their bills?**

QCWC currently has policies for addressing customer complaints. The Town is planning no changes to those policies. Again, the Town is retaining most of QCWC's personnel in order to ensure that customers continue to enjoy the high level of customer service they currently receive. The Town is committed to this high level of service in the future – as with all other Town programs.

With respect to bills, the Town is assuming the current lease for QCWC's main offices. The Town anticipates that its new water division will continue to operate at that address until the end of the lease term. Customers will continue to be able to pay their bills at that office, via mail or over the internet. In addition, the Town will also allow customers to pay their bills at the Town hall upon consummation of the parties' transaction.

If you have any questions about these responses, or need further information, please contact the undersigned at 602-364-7003.

Very truly yours,



Stanley B. Lutz

SBL/iaf