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ARIZONA CORPORATION COMMISSION
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January 24, 2008

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Commissioner Mike Gleason, Chairman
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Kristin K. Mayes
Commissioner Gary Pierce
ARIZONA CORPORATION COMMISSION
1200 West Washington Street
Phoenix, Arizona 85007-2996

Arizona Corporation Commission
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JAN 24 2008

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Re: Docket Nos. W-01303A-05-0405
W-01303A-05-0910

Dear Commissioners:

As you may recall, the general managers of the Sanctuary on Camelback Mountain, the Camelback Inn and the Scottsdale Renaissance (collectively, the "Resorts"), expressed serious concerns at the Open Meeting held March 14, 2007, related to the rate shock caused by Decision No. 68858 and the deleterious financial impact of the doubling of water rates on the Resorts. In Decision No. 68858, the Arizona Corporation Commission ("Commission") authorized the implementation of various surcharges for Arizona American Water Company ("AAWC").

The general managers at the Open Meeting indicated that the Resorts did not oppose the concept of an equitably applied Public Safety Surcharge ("PSS") to pay for increased fire flow, an Arsenic Cost Recovery Mechanism ("ACRM") surcharge to pay for infrastructure to achieve compliance with the new federal arsenic standard or tiered rates to promote water conservation. However, they took issue with the way the HUS and PSS are being applied to the Resorts because the second tier, which was set at 400,000 gallons, arbitrarily penalizes and unfairly impacts resorts by establishing a "conservation" surcharge at a threshold limit that does not take into consideration the unique water use characteristics of a large resort and applies standards that are more appropriate for conventional commercial customers, thereby failing to achieve the intended conservation goals. The surcharges resulted in the unintended and inequitable increase to water rates for the Sanctuary of 234%, or an additional \$154,905 per year; for the Camelback Inn of 221%, or an additional \$221,173 per year; and for the Scottsdale Renaissance of 191%, or an additional \$106,601 per year.

On March 29, 2007, the general managers docketed a letter that further described the rate impact of Decision 68858 and identified the conservation efforts made by each Resort including

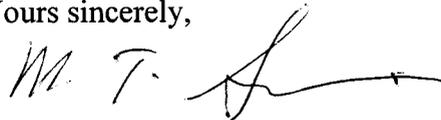
the replacement of high water use plants and grass with desert landscaping; upgrading and improving irrigation management systems and infrastructure; minimizing water use through efficient delivery systems; seasonal and climactic adjustments; laundry control systems; and low flow shower heads.

On January 15, 2008, the Town of Paradise Valley ("Town") submitted to the Arizona Corporation Commission ("Commission"), a letter requesting that the Commission utilize its powers under A.R.S. §40-252 to reopen the Decision and modify the rate design in such a way that the beneficial goals of providing needed fire flow improvements, as well as encouraging water conservation, and to fairly distribute the costs of such improvements among current and future customers of the Paradise Valley Water District of AAWC.

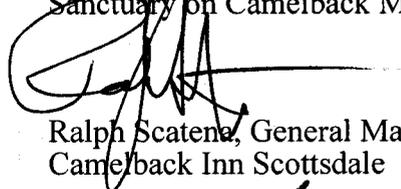
The Resorts have participated in many meetings with the Town, AAWC and representatives of groups of Town residents (including some of the larger homeowners' associations) to negotiate the rate design agreement attached to the January 15, 2008 letter. It is our understanding that although AAWC is prepared to sign the rate design agreement, due to the possibility of RUCO's opposition; AAWC will not sign at this time.

The Resorts continue to encourage the Commission to utilize its powers under A.R.S. §40-252 to reopen Decision 68858 and modify the rate design consistent with the terms of the rate design agreement.

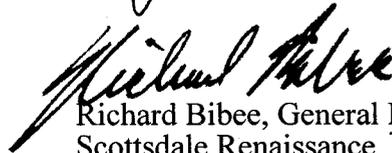
Yours sincerely,



Mike Sarguine, General Manager
Sanctuary on Camelback Mountain



Ralph Scatena, General Manager
Camelback Inn Scottsdale



Richard Bibee, General Manager
Scottsdale Renaissance