

ORIGINAL



**ARIZONA
AMERICAN WATER**

RECEIVED

2009 FEB 18 A 10: 57



0000093807

26

February 12, 2009 AZ CORP COMMISSION
DOCKET CONTROL

W-01303A-08-0007
SW-01303A-08-0007

Arizona Corporation Commission
DOCKETED

FEB 18 2009

Mr. Cliff Cowles
21109 Verde Ridge Dr
Sun City West, AZ 85375

DOCKETED BY	<i>[Signature]</i>
-------------	--------------------

Dear Mr. Cowles,

I received your letter from Maureen Duffy our Director of External Communications and wanted to personally respond to your questions. American Water is a publically traded company and provides water and/or wastewater services through subsidiaries which are regulated by state public utility commissions, similar to the Arizona Corporation Commission, in 18 states. As regulated public utilities, American Water's state subsidiaries have been granted authority by each state's PUC to operate in a particular service area. Within these areas, the utility must provide quality, reliable and non-discriminatory service to all customers in the service area and rates are set by the state public utility commissions.

Because the utilities have the obligation to provide reliable and nondiscriminatory service, the utility is also entitled to the opportunity to earn a reasonable return on prudently invested capital necessary to provide service and to recover operating expenses. It is this basis – the amount of capital the company has invested to assure reliable service and associated operating expenses - that determines the timing and amount requested by each American Water subsidiary. It is also the basis upon which the commission determines what rates are appropriate. So, the need for and timing of rate requests is determined by the state utility, based on the amount of capital it has invested to provide service and changes in operating expenses since the last rate case. The utility is required to file extensive data and testimony supporting the rates it is requesting, including the investments it has made in treatment and distribution facilities, operating expenses and many other issues. The commission staff, ratepayer advocates and other parties have the opportunity to examine this data, and often file testimony offering their views on the appropriate rate levels. The commission conducts extensive hearings at which all of this evidence is considered, and then determines what rates the utility will be allowed to charge. As part of this process, the commission also determines the rate of return the shareholders will have the opportunity to earn on the investments they have made to provide reliable service.

This generally is the same process each of the regulated utilities follows in its own state. Given the large investments each of these utilities is making to provide reliable service, and the substantial increases we have experienced in operating expenses, rate proceedings are usually ongoing in a number of states at the same time. The amounts requested in those proceedings will all be different based on the investments each utility is making in that state and the changes in operating expenses it has experienced.

In Sun City West we are requesting an increase to earn a return on investments we have made from 2004 - 2007 and to recover costs that have increased since 2004. Since the last rate case was approved by the commission in 2006, we have not been able to earn a return on investments made since that period. It is important to note that our request has declined slightly since our previously request, since you are now paying the arsenic removal surcharge. Sun City West's rates are still extremely competitive in the state of Arizona and even if the full proposal is granted, water in Sun City West will still be less than a penny a gallon.

I have included my business card, and one from our External Affairs Manager. Please do not hesitate to contact us with any questions you may have, we are happy to serve you.

Sincerely,

A handwritten signature in black ink, appearing to read "Paul Townsley", written in a cursive style.

Paul Townsley
Arizona American Water, President

Cc: Arizona Corporation Commission Commissioners
Arizona Corporation Commission Docket Control Office
Thomas Broderick, Arizona American Water