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ARIZONA  
AMERICAN WATER

ORIGINAL

February 10, 2009

01

Commissioner Bob Stump  
Arizona Corporation Commission  
1200 West Washington  
Phoenix, AZ 85007-2996

W-01303A-08-0227  
SW-01303A-08-0227

Dear Commissioner Stump:

Thank you for your letter regarding public hearings on the Arizona American Water rate cases in 7 districts. I agree wholeheartedly that an educated and informed group of constituents is best able to understand and process a rate increase proposal.

For that reason, our company has voluntarily conducted our own community meetings. In each case we mailed a letter to customers inviting them to the meeting, we conducted the meeting, presented a PowerPoint presentation, answered audience questions, and in most cases there was press coverage. I have attached samples of the materials (invite letter and presentation) from the Sun City West meeting for your review.

The meetings were held at the following times/locations:

- October 8<sup>th</sup>, 2008, Havasu Water District
- October 9<sup>th</sup>, 2008 Mohave Water District
- October 9<sup>th</sup>, 2008 Mohave Waste Water District
- October 28<sup>th</sup>, 2008 Paradise Valley-Scottsdale Water District
- November 20<sup>th</sup>, 2008 Sun City West Water District
- December 8<sup>th</sup>, 2008 Tubac Water District
- December 16<sup>th</sup>, 2008, Agua Fria Water District (Western Maricopa County, White Tanks, Sun City Grand)
- February 9<sup>th</sup>, 2009 Paradise Valley, Follow-up Meeting
- February 10<sup>th</sup>, 2009 Scottsdale, Follow-up Meeting

Arizona Corporation Commission  
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You will note the last two pages of the PowerPoint presentation alert customers to the timeline of the case and how they can get involved by contacting the Arizona Corporation Commission.

I hope you find this information useful and informative, please don't hesitate to contact me if you have any further questions. I look forward to seeing you soon.

Sincerely,

*Paul G. Townsley*

Paul G. Townsley, President  
Arizona American Water

Enclosures

Cc: ACC Commissioners  
ACC Docket Office  
Tom Broderick, Arizona American Water

AZ CORP COMMISSION  
DOCKET CONTROL

2009 FEB 18 A 11:17

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Arizona American Water P 800.383.0834  
19820 N. 7th Street, Suite 201 F 623.445.2451  
Phoenix, AZ 85024

[www.arizonaamwater.com](http://www.arizonaamwater.com)

October 1, 2008

**Dear Havasu water district customer:**

I am writing to you to explain our recent request to the Arizona Corporation Commission (ACC) to increase the rates we charge for water service in your area. The rate increase request is \$1.05 per day for the typical residential customer, and if approved would take effect late summer 2009.

**Why do we need a rate increase?**

The requested rate increase is necessary to pay for the significant improvements being made to your water system to keep it well maintained and in good condition. In addition, there are increases in some operating costs that have increased since our last request for a rate increase which was filed in November, 2002.

We understand that no one wants to see their bills go up, especially during these challenging economic times, but the proposed rate increase is necessary to ensure that our system is capable of meeting your existing and future water needs.

Approximately, 59% of the requested revenue increase is due to new investment in the local system. Since the previous rate filing, Arizona American Water has invested approximately \$3.4 million in the Havasu water district. These investments primarily include transmission and distribution mains, tank reservoirs, pumps and wells throughout the Havasu water district. These system improvements prevent leaks and main breaks, maintain adequate water supply and improve water pressure and water quality.

The majority of the requested additional revenue will cover increases in electricity costs, labor and labor-related expenses.

**How much will it cost?**

Under the proposed increase, the typical water bill for customers in the Havasu water district with a 5/8-inch or 3/4-inch water meter would increase by about \$1.04 per day from \$36.59 to \$68.07 per month based on monthly water consumption of 9,705 gallons.

This is a large increase, but ultimately the investments funded by the rate increase may save customers money in the long run as a well maintained water system is more efficient and reliable.

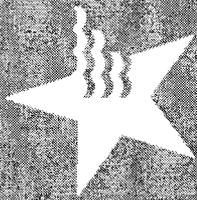
Water rates for each of Arizona American's districts are approved by the Arizona Corporation Commission separately and are determined based on the unique cost to serve each district.

Customers will soon receive a required public notice at their service address, containing important information about the rate filing. This packet will include the date of the hearing at the ACC, opportunities for public comment and deadlines for case participation.

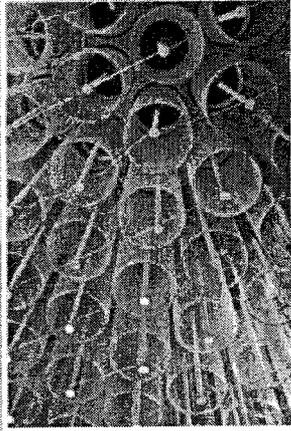
Arizona American Water will hold a community meeting at **5:30 p.m., on Oct. 8, 2008 at the Lake Havasu City Fire Station located at 3983 London Bridge Road, Lake Havasu City, Arizona 86404** to inform customers about the proposed water rate increase. Water professionals will be on hand to answer customer's questions and provide information about water rates, water quality, conservation and customer service. Further details on current Havasu water district rates are available at [www.arizonaamwater.com](http://www.arizonaamwater.com) under the Customer Service tab.

Thank you,

Jeffery Stuck, Director of Operations, Eastern Division



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**Investing in Our Communities**

Havasu Water District  
Rate Proposal

October 8, 2008



## **Introductions**

- **Arizona American Water**
  - **Todd Walker, External Affairs Manager**
  - **Jeffrey Stuck, Director of Operations**
  - **Sheryl Hubbard, Manager of Rates**
  - **Dave Evans, Operations Superintendent**



## **Community Meeting Format**

- 5:30 pm – 7:30 pm
- Arizona American Water Presentation (30 minutes)
- Please hold questions until conclusion of presentation, thank you
- Question & answer session (15 minutes)
- Open house with Arizona American Water personnel with expertise in Rates, Customer Service, Water Quality and Conservation

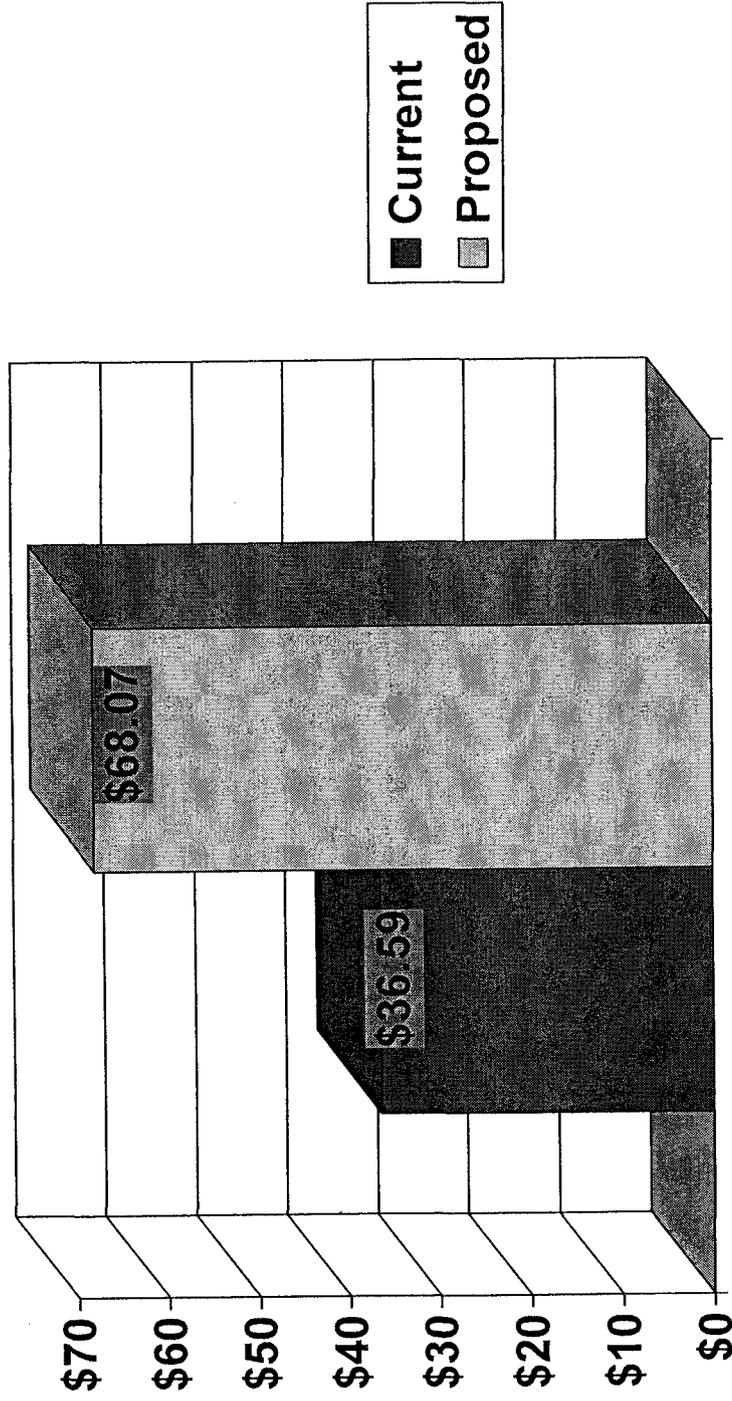


## **Today we will talk about...**

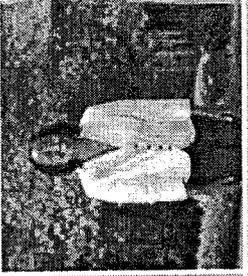
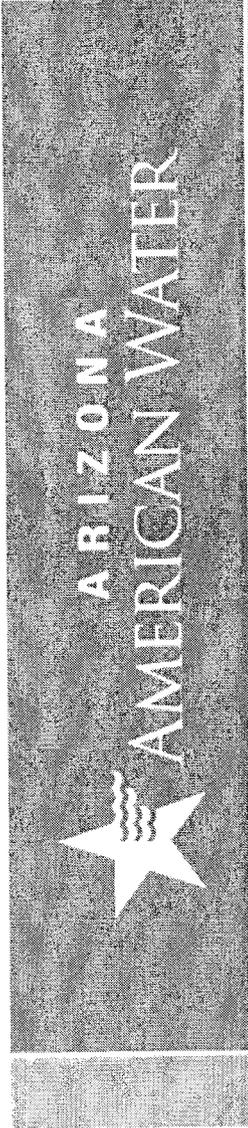
- **Water rates – proposed and comparisons**
- **Rate application timeline**
- **Havasu water district**
- **Capital investment & expenses**
- **Rate case formula**
- **What's next**



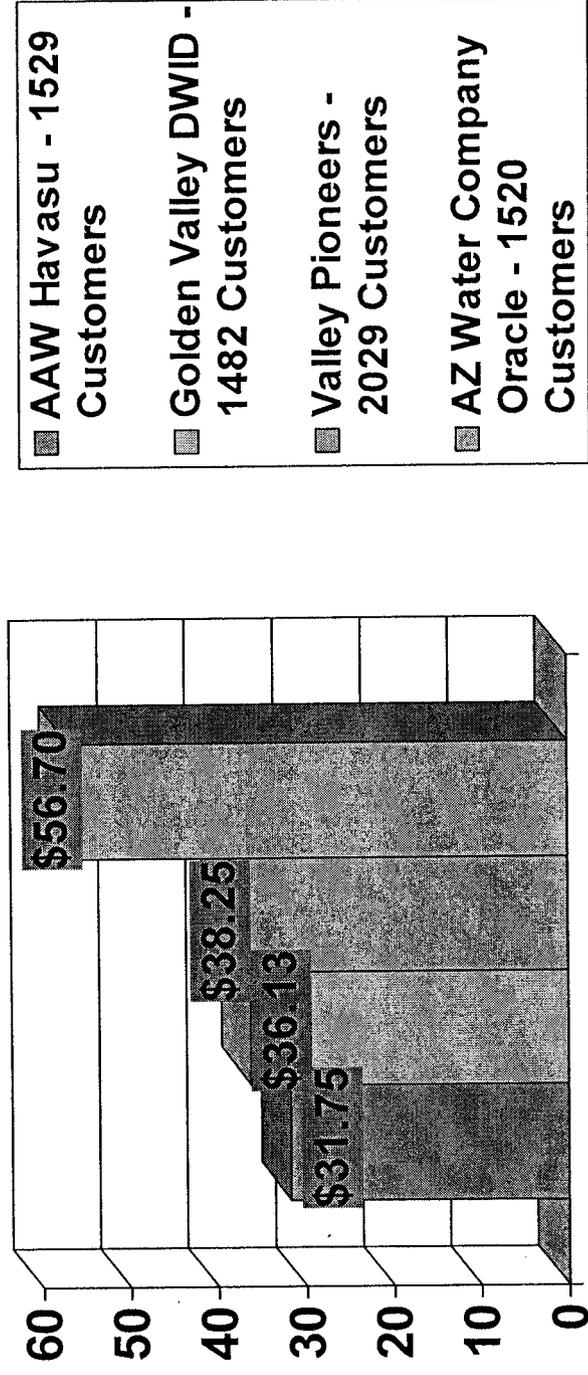
## Proposed Increase = \$1.05 per day



Median residential monthly bill based  
on monthly usage of 9,705 gallons



# Residential Water Rates Comparisons



2007 Water Infrastructure Finance Authority Survey based on 7,500 gallons of usage per month



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## **Rate application timeline allows for an open process**

- **Rate application filed** **May 2, 2008**
- **AAW community meetings** **October 8, 2008**
- **ACC hearings begin** **March 19, 2009**
- **New rates expected** **Jul/Aug 2009**

Additional public comments will be taken on the first day of the hearings. Written comments are accepted via email at [www.azcc.gov](http://www.azcc.gov) or by letter to the Commission. Reference Docket Number W-01303A-08-0227

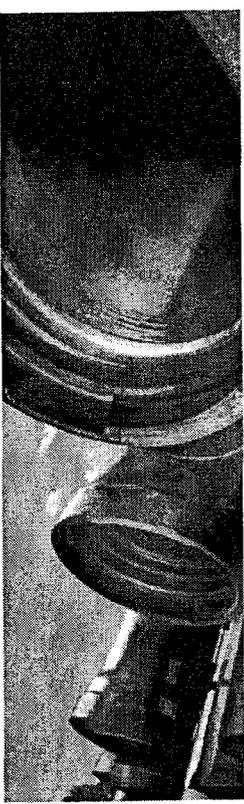


## Havasu Water District Facts

- Arizona American Water's Havasu Water District provides high-quality water services to customers in Desert Hills community
- Currently has 1,529 water customers
- Current Havasu water rates were established initially in June of 2004 and based on investment and operating expense through calendar year 2001. A surcharge for federally-mandated arsenic treatment was added in December 2006
- Current rate application is based on the amount of investment and operating expense through calendar year 2007



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## Havasu Water District Facts

- **Physical facilities in the Havasu District include:**
  - 9 wells with a combined production capacity of 1,700 gallons per minute or 2.5 million gallons per day
  - 3 primarily used – over 1 MGD
  - 6 storage tanks with a combined storage capacity of 2,745,000 gallons
  - 5 booster stations
  - 4 pressure tanks with a combined capacity of 23,200 gallons
  - Over 26 miles of mains
  - 1,651 meters

## Operating Expenses

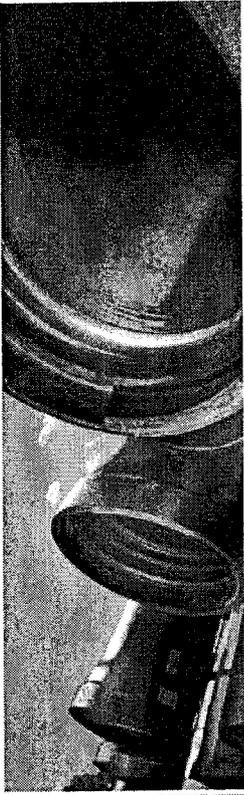
2001 vs. 2007

- Total operating expense up \$790,512
- 215% increase over 2001
- 35.9% average annual increase

Description	\$ Change 2001 vs 2007	% Change 2001 vs 2007	% Change Per Year
Labor & Management	333,233	453.04%	75.51%
Fuel & Power	64,001	135.77%	22.63%
Chemicals	89,296	8125.20%	1354.20%
Insurance	65,824	956.88%	159.48%
Customer Accounting	22,062	100.00%	16.67%
Miscellaneous	3,017	4.85%	0.81%
Maintenance Expense	122,892	162.12%	27.02%
Depreciation & Amortization	252,904	657.80%	109.63%
Taxes	(161,909)	-253.70%	-42.28%



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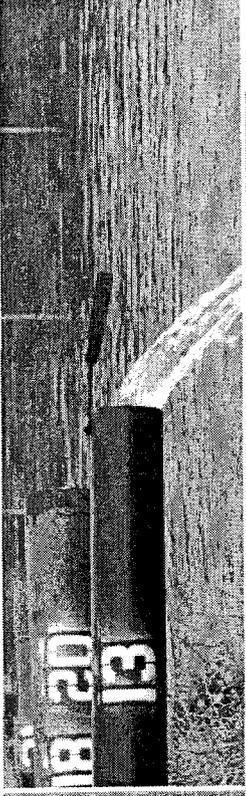
## Capital Investments

### 2001 thru 2007 - Listing of key infrastructure investments

Water Mains & Pipes	\$ 2,163,318	Various – new & replacements
Structures & Improvements	\$ 3,846,996	Arsenic treatment facility
Pump Equipment	\$ 817,690	Various - new & replacements
Wells	\$ 535,947	Desert Hills Well 8
Distribution Reservoirs	\$ 1,177,579	Storage and Security - tank air vents

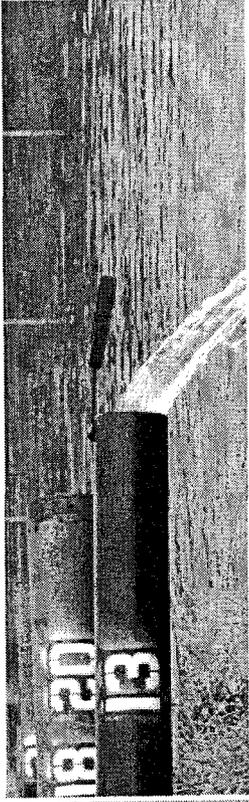
## Basic Rate Formula (\$000)

Invested Capital or "Rate Base"	\$ 4,221
<u>Rate of Return</u>	<u>8.4%</u>
Required Operating Income	\$ 355
<b>2007 Revenues</b>	<b>\$ 1,027</b>
<u>2007 Expenses</u>	<u>\$ 1,158</u>
Actual Adjusted Operating Income	(\$ 131)
<b>Operating Income Deficiency</b>	<b>\$ 486</b>
<u>Tax Gross - Up</u>	<u>\$ 330</u>
Increase in Revenues	\$ 816



## **Your Voice is Important!**

- Today is your opportunity to provide feedback to Arizona American Water about the proposed water rate increase
- October 8, 2008 Arizona American Water community meetings in Lake Havasu City
- March 19, 2009 Public comments accepted during first day of hearings at the Arizona Corporation Commission
- *Written public comments accepted via email at [www.azcc.gov](http://www.azcc.gov) and by mailing a letter to the Commission referencing Docket Number W-01303A-08-0227*



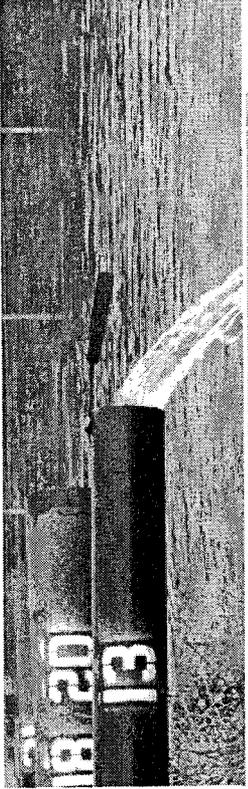
## What's Next?

- Rate Case Hearings-

Thursday, March 19 – 10:00am at Arizona Corporation  
Commission offices – 1200 W. Washington, Phoenix, AZ

- Documents-

[www.azcc.gov](http://www.azcc.gov) Use the e-docket function.  
Reference Docket No. W-01303A-08-0227



**Questions?**

**Thank you for your participation today!**



Arizona American Water P 800.383.0834  
19820 N. 7th Street, Suite 201 F 623.445.2451  
Phoenix, AZ 85024

[www.arizonaamwater.com](http://www.arizonaamwater.com)

October 1, 2008

**Dear Mohave water district customer:**

I am writing to you to explain our recent request to the Arizona Corporation Commission (ACC) to increase the rates we charge for water service in your area. The rate increase request is 24 cents per day for the typical residential customer, and if approved would take effect late summer 2009.

**Why do we need a rate increase?**

The requested rate increase is necessary to pay for the significant improvements being made to your water system to keep it well-maintained and in good condition. In addition, there are increases in some operating costs that have increased since our last request for a rate increase which was filed in January 2006.

We understand that no one wants to see their bills go up, especially during these challenging economic times, but the proposed rate increase is necessary to ensure that our system is capable of meeting your existing and future water needs.

Approximately, one-third of the requested revenue increase is due to new investment in the local system. Since the previous rate filing, Arizona American Water has invested approximately \$3.5 million in the Mohave water district. These investments primarily include transmission and distribution mains, tank reservoirs, pumps and wells throughout the Mohave water district. These system improvements prevent leaks and main breaks, maintain adequate water supply and improve water pressure and water quality.

The majority of the requested additional revenue will cover increases in electricity costs, labor and labor-related expenses and costs to maintain water storage tanks.

**How much will it cost?**

Under the proposed increase, the typical water bill for residential customers in the Mohave water district with a 5/8 or 3/4-inch meter would increase by about 24 cents per day from \$17.44 to \$24.50 per month based on monthly water consumption of 8,074 gallons.

This is a large increase, but ultimately the investments funded by the rate increase may save customers money in the long run as a well maintained water system is more efficient and reliable.

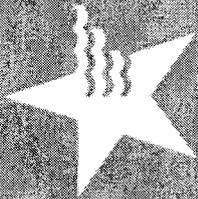
Water rates for each of Arizona American's districts are approved by the Arizona Corporation Commission separately and are determined based on the unique local cost to serve each district.

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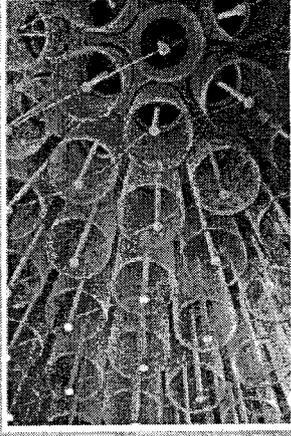
Arizona American Water will hold a community meeting at **5:30 p.m., on Oct. 9, 2008 at the Bullhead City Council Chambers located at 2355 Trane Road, Bullhead City, AZ 86442** to inform customers about the proposed water rate increase. Water professionals will be on hand to answer customer's questions and provide information about water rates, water quality, conservation and customer service. Further details on current Mohave water district rates are available at [www.arizonaamwater.com](http://www.arizonaamwater.com) under the Customer Service tab.

Thank you,

Jeffery Stuck, Director of Operations, Eastern Division



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## Investing in Our Communities

Mohave Water District  
Rate Proposal

October 9, 2008



## **Introductions**

- **Arizona American Water**
  - **Todd Walker, External Affairs Manager**
  - **Jeffrey Stuck, Director of Operations**
  - **Sheryl Hubbard, Manager of Rates**
  - **Dave Evans, Operations Manager**



## **Community Meeting Format**

- 5:30 pm – 7:30 pm
- Arizona American Water Presentation (30 minutes)
- Please hold questions until conclusion of presentation, thank you
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- Open house with Arizona American Water personnel with expertise in Rates, Customer Service, Water Quality and Conservation

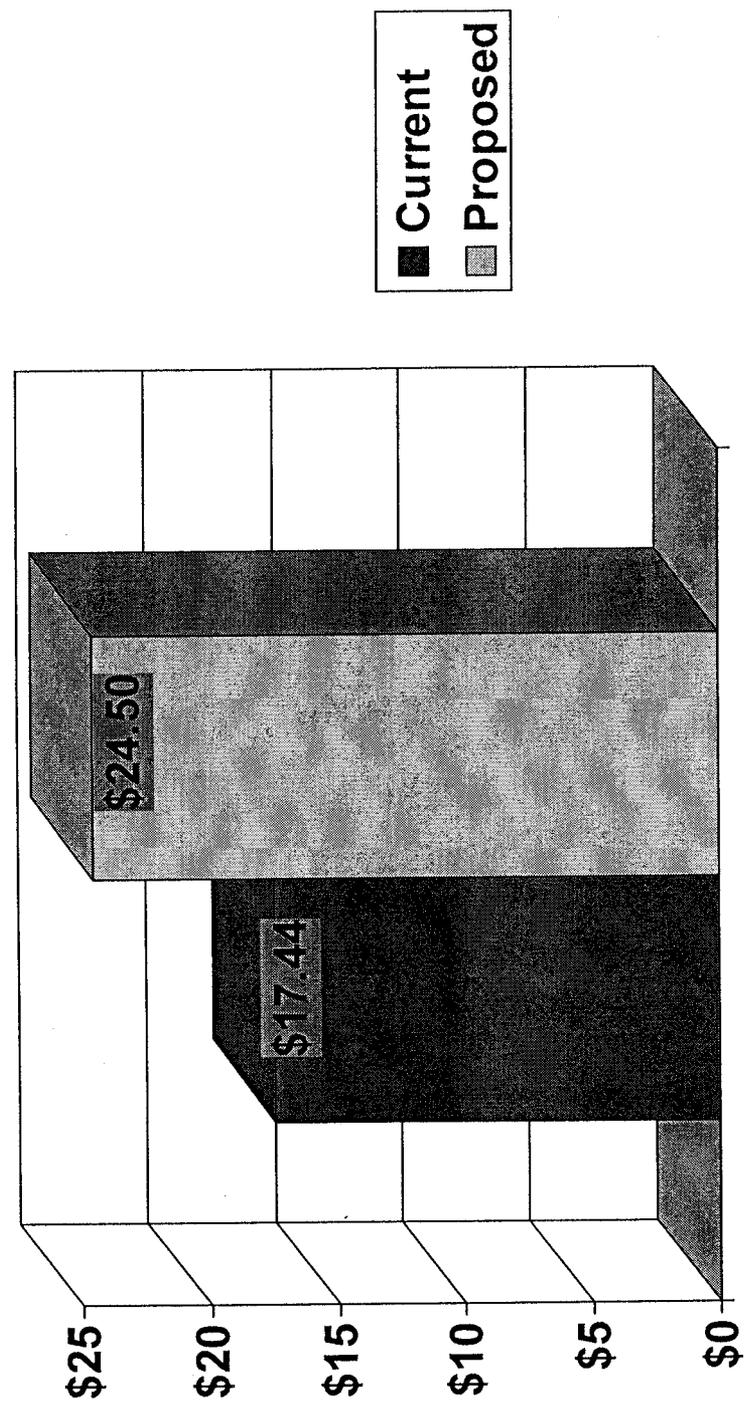


## **Today we will talk about...**

- **Water rates – proposed and comparisons**
- **Rate application timeline**
- **Mohave water district**
- **Capital investment & expenses**
- **Rate case formula**
- **What's next**



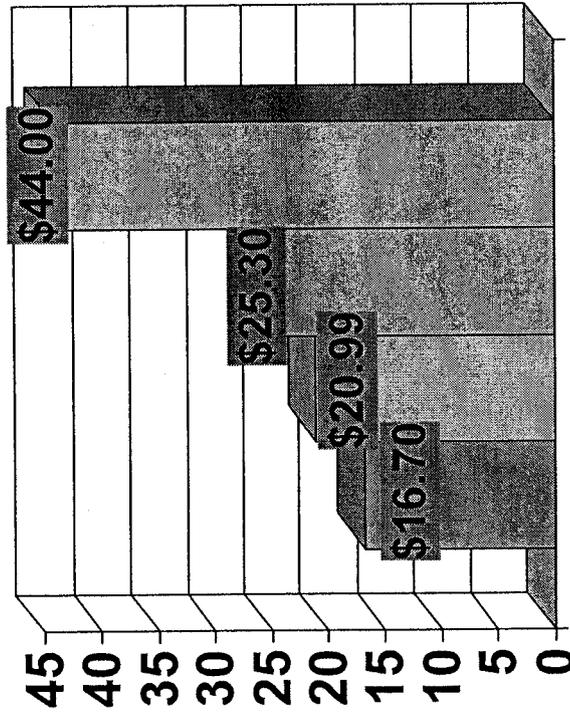
# Proposed Increase = 24 cents per day



Median residential monthly bill based on monthly usage of 8,073 gallons



## Residential Water Rates Comparisons



■ AAW Mohave - 15,701 Customers
■ Bermuda Water - 7,672 Customers
■ North Mohave - 1,883 Customers
■ Johnson Utilities - 16,414 Customers

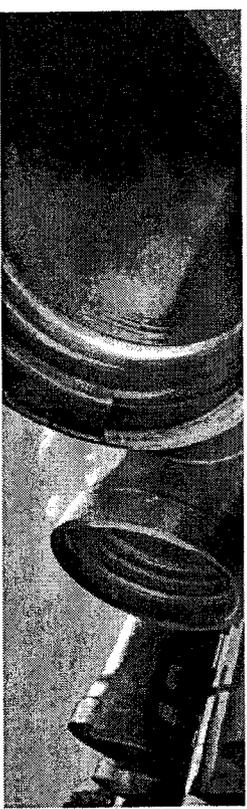
2007 Water Infrastructure  
Finance Authority Survey  
based on 7,500 gallons of  
usage per month



## **Rate application timeline allows for an open process**

- **Rate application filed** **May 2, 2008**
- **AAW community meetings** **October 9, 2008**
- **ACC hearings begin** **March 19, 2009**
- **New rates expected** **Jul/Aug 2009**

Additional public comments will be taken on the first day of the hearings. Written comments are accepted via email at [www.azcc.gov](http://www.azcc.gov) or by letter to the Commission. Reference Docket Number W-01303A-08-0227



## **Mohave water district facts**

- **Arizona American Water's Mohave Water District provides high-quality water services to customers in Bullhead City and portions of Mohave County.**
- **Currently has 15,701 water customers**
- **Current Mohave water rates were established in May of 2007 and based on investment and operating expense through June 2005**
- **Current rate application is based on the amount of investment and operating expense through calendar year 2007 plus investment in several new projects coming on line**



## **Mohave water district facts**

- **Physical facilities in the Mohave Water District include:**
  - **17 wells with a combined production capacity of 9,730 gallons per minute or 14 million gallons per day**
  - **17 storage tanks with a combined storage capacity of 5,700,000 gallons**
  - **29 booster pumps**
  - **14 pressure tanks with a combined capacity of 45,430 gallons**
  - **Over 222 miles of mains**
  - **16,212 water meters**



## Operating Expenses

- 2005 vs. 2007
  - Total operating expense up \$1,432,070
  - 39.3% increase over 2005
  - 15.7% average annual increase

Description	\$ Change 2005 vs 2007	% Change 2005 vs 2007	% Change Per Year
Labor & Management	682,152	53.02%	21.21%
Purchased Water	15,781	55.17%	22.07%
Fuel & Power	168,857	50.70%	20.28%
Chemicals	(1,251)	-14.21%	-5.68%
Insurance	33,298	14.60%	5.84%
Customer Accounting	56,077	73.86%	29.54%
Miscellaneous	131,459	28.49%	11.40%
Maintenance	457,817	363.14%	145.26%
Depreciation & Amortization	136,804	18.33%	7.33%
Taxes	(248,924)	-71.20%	-28.48%

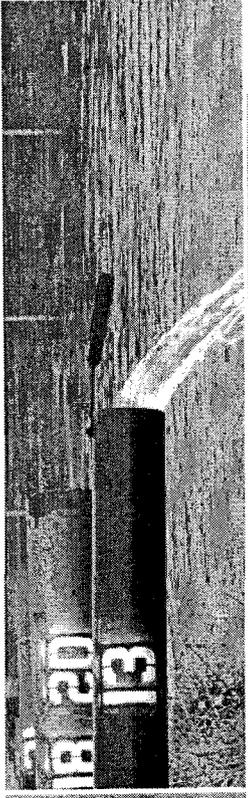


## Capital Investments

### July 2005 thru Dec. 2007 - Listing of key infrastructure investments

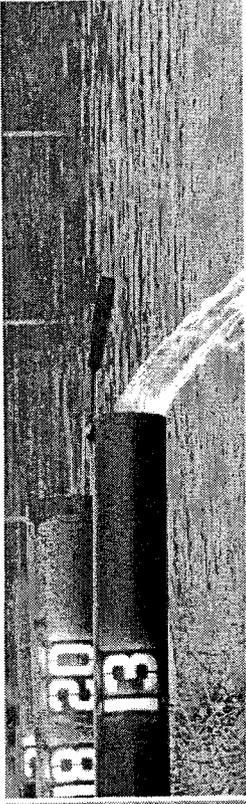
Water Mains & Pipes	\$ 2,051,555	Various – new & replacements
Power Supply Redundancy	\$ 50,586	250 kW generator
Wells	\$ 18,025	Replace column pipe 24-1 well
Pump Equipment	\$ 84,441	Replace well and booster pump motors
Distribution Repair Equipment	\$ 75,343	Backhoe for Main and Service Line Repairs





## **Your Voice is Important!**

- Today is your opportunity to provide feedback to Arizona American Water about the proposed water rate increase
- October 9, 2008 Arizona American Water community meetings in Bullhead City
- March 19, 2009 Public comments accepted during first day of hearings at the Arizona Corporation Commission
- *Written public comments accepted via email at [www.azcc.gov](http://www.azcc.gov) and by mailing a letter to the Commission referencing Docket Number W-01303A-08-0227*



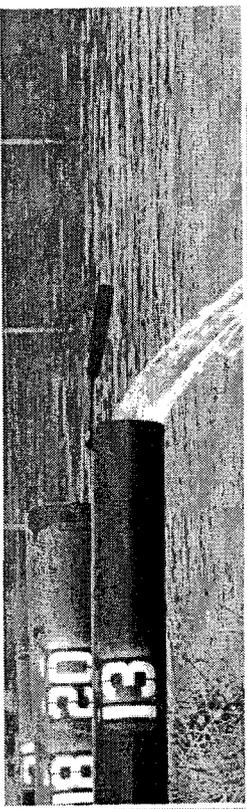
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**Questions?**

**Thank you for your participation!**



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Phoenix, AZ 85024

[www.arizonaamwater.com](http://www.arizonaamwater.com)

October 1, 2008

**Dear Mohave wastewater district customer:**

I am writing to you to explain our recent request to the Arizona Corporation Commission (ACC) to increase the rates we charge for wastewater service in your area. The rate increase request is \$1.24 per day for the typical residential customer, and if approved would take effect late summer 2009.

**Why do we need a rate increase?**

The requested rate increase is necessary to pay for the significant improvements being made to your wastewater system to keep it well maintained and in good condition. In addition, there are increases in some operating costs that have increased since our last request for a rate increase which was filed in January 2006.

We understand that no one wants to see their bills go up, especially during these challenging economic times, but the proposed rate increase is necessary to ensure that our system is capable of meeting your existing and future wastewater needs.

Approximately, 95% of the requested revenue increase is due to new investment in the local system. Since the previous rate filing, Arizona American Water has invested approximately \$4.5 million in the Mohave wastewater district. These investments primarily include expanding the Wishing Well wastewater treatment plant from a 250,000 gallon to a 500,000 gallon facility.

The majority of the requested additional revenue will cover increases in electricity costs, labor and labor-related expenses.

**How much will it cost?**

Under the proposed increase, the typical wastewater bill for residential customers in the Mohave wastewater district would increase by about \$1.24 per day from \$49.65 to \$89.10 per month.

This is a large increase, but ultimately the investments funded by the rate increase may save customers money in the long run as a well maintained wastewater system is more efficient and reliable.

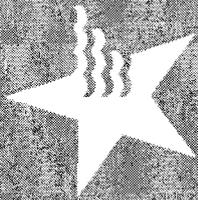
Wastewater rates for each of Arizona American's districts are approved by the Arizona Corporation Commission separately and are determined based on the unique cost to serve each district.

Customers will soon receive a required public notice at their service address, containing important information about the rate filing. This packet will include the date of the hearing at the ACC, opportunities for public comment and deadlines for case participation.

Arizona American Water will hold a community meeting at **Noon on Oct. 9, 2008 at the El Rio Country Club located at One Paseo El Rio Mohave Valley, AZ 86440** to inform customers about the proposed wastewater rate increase. Water professionals will be on hand to answer customer's questions and provide information about wastewater rates, customer service and water conservation. Further details on current Mohave wastewater district rates are available at [www.arizonaamwater.com](http://www.arizonaamwater.com) under the Customer Service tab.

Thank you,

Jeffery Stuck, Director of Operations, Eastern Division



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## Investing in Our Communities

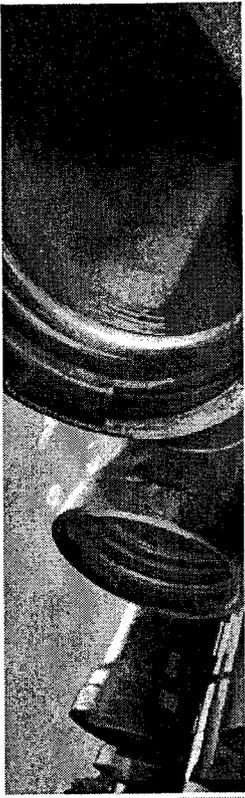
Mohave Wastewater District  
Rate Proposal

October 9, 2008



## **Introductions**

- **Arizona American Water**
  - **Todd Walker, External Affairs Manager**
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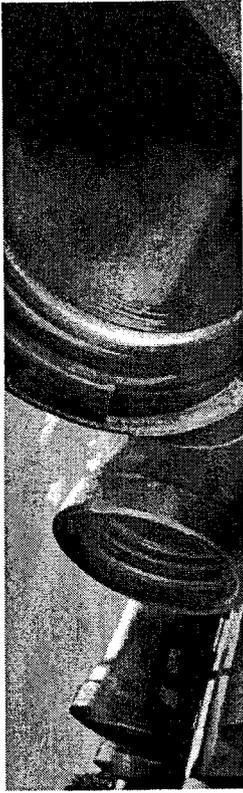
## **Community Meeting Format**

- **12:00 pm – 2:00 pm**
- **Arizona American Water Presentation (30 minutes)**
- **Please hold questions until conclusion of presentation, thank you**
- **Question & answer session (15 minutes)**
- **Open house with Arizona American Water personnel with expertise in Rates, Customer Service, Water Quality and Conservation**

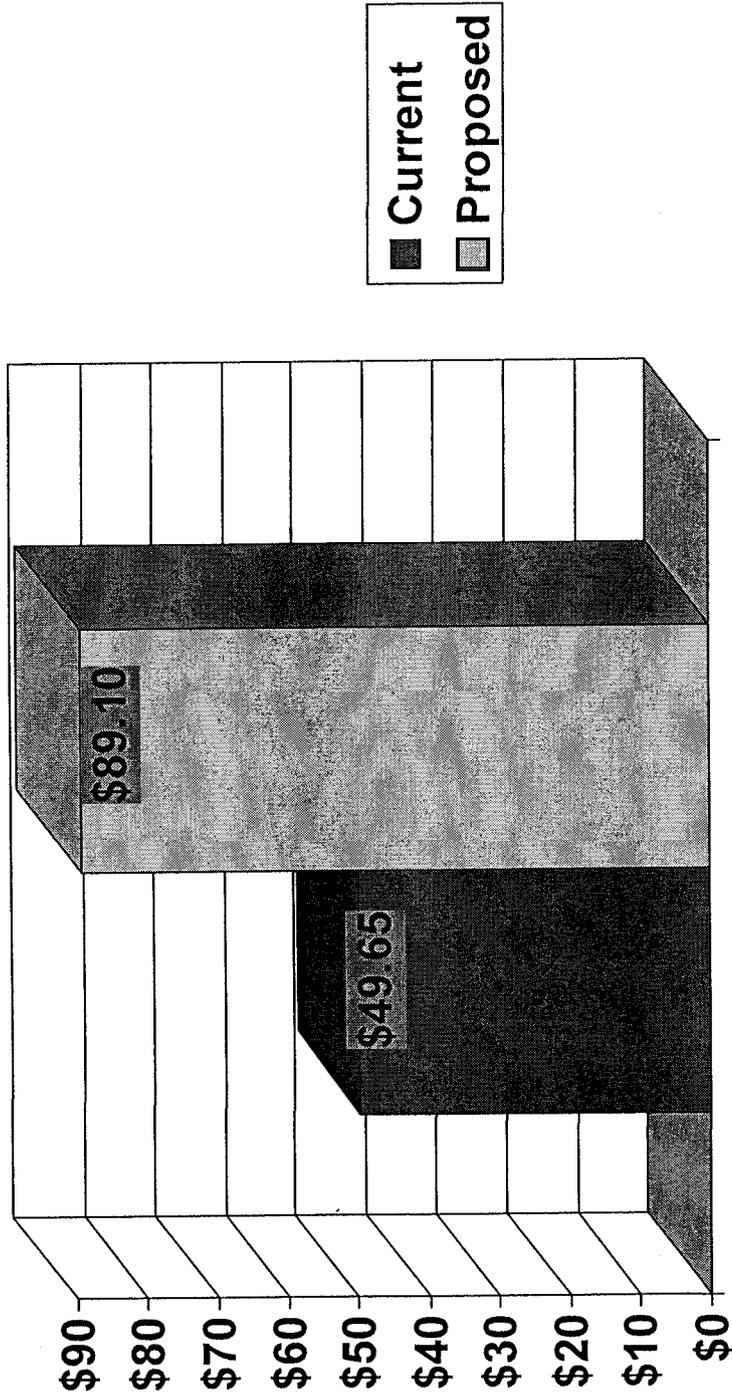


## **Today we will talk about...**

- **Wastewater rates – proposed and comparisons**
- **Rate application timeline**
- **Mohave wastewater district**
- **Capital investment & expenses**
- **Rate case formula**
- **What's next**



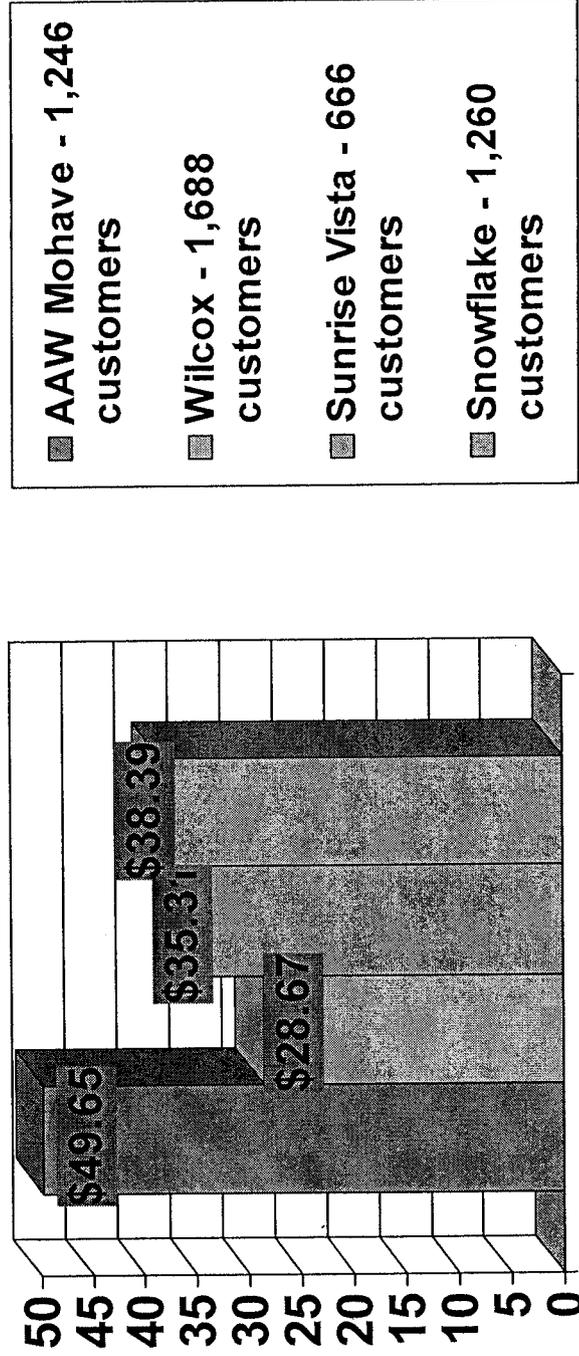
## Proposed Increase = \$1.24 per day



Median residential monthly bill based  
on monthly usage of 8,073 gallons



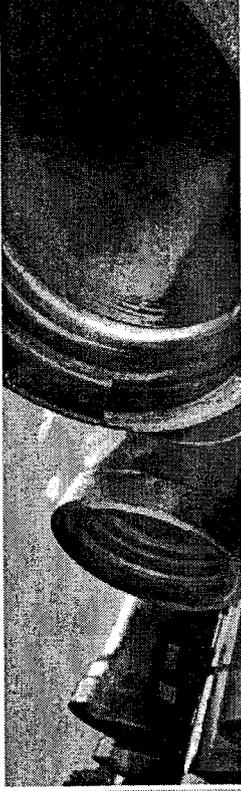
## Residential Wastewater Rates Comparisons



2007 Water Infrastructure  
Finance Authority survey  
based on 7,500 gallons of  
usage per month



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## **Rate application timeline allows for an open process**

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AMERICAN WATER



## **Mohave wastewater district facts**

- **Arizona American Water's Mohave Wastewater District provides high-quality wastewater services to customers in Fort Mohave community**
- **Currently has 1,246 wastewater customers**
- **Current Mohave wastewater rates were established in May of 2007 and based on investment and operating expense through June 2005**
- **Current rate application is based on the amount of investment and operating expense through calendar year 2007 plus investment in several new projects coming on line**



## **Mohave wastewater district facts**

- **Physical facilities include:**
  - **6,701 feet of collection mains**
  - **3,000 feet of force mains**
  - **462 manholes**
  - **3 lift stations**

## Operating Expenses

2005 vs. 2007

- Total operating expense up \$275,205
- 54.5% increase over 2005
- 21.8% average annual increase

Description	\$ Change 2005 vs 2007	% Change 2005 vs 2007	% Change Per Year
Labor & Management	56,747	50.29%	20.12%
Chemicals & Waste Disposal	49,507	57.61%	23.04%
Fuel & Power	9,596	14.98%	5.99%
Insurance	(5,065)	-13.91%	-5.57%
Customer Accounting	4,384	36.19%	14.48%
Miscellaneous	(14,471)	-24.07%	-9.63%
Maintenance Expense	(8,523)	-63.27%	-25.31%
Depreciation & Amortization	219,185	750.30%	300.12%
Taxes	(36,154)	-519.45%	-207.78%



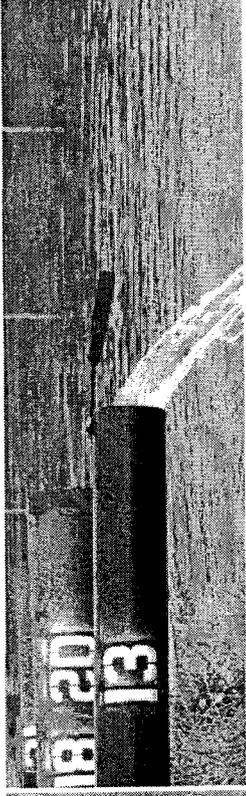
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## Capital Investments - Key Infrastructure Investments

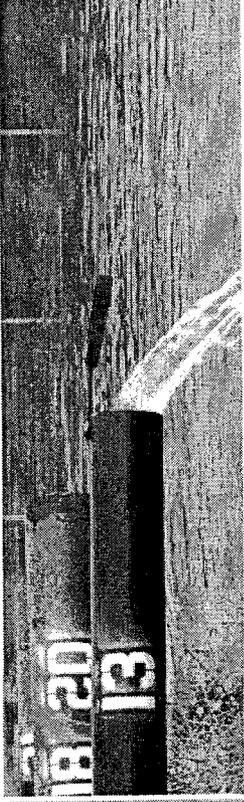
T&D Equipment	\$ 3,932,080	Expansion of WWTP
Collection Mains & Pipes	\$ 393,280	Various – new & replacements
Pumps and Motors	\$ 23,117	Process effluent pumps - WWTP
Measuring Devices	\$ 41,334	Flow meters and SCADA improvements and controls
Treatment Process Tanks	\$ 45,976	Sedimentation Tanks

<b>Basic Rate Formula</b>	
<b>Invested Capital or "Rate Base"</b>	<b>\$ 4.740 M</b>
<b><u>Rate of Return</u></b>	<b><u>8.40%</u></b>
Required Operating Income	\$ .398 M
<b>2007 Revenues</b>	<b>\$ .796 M</b>
<b><u>2007 Expenses</u></b>	<b><u>\$ .781 M</u></b>
Actual Adjusted Operating Income	\$ .015 M
<b>Operating Income Deficiency</b>	<b>\$ .383 M</b>
<b><u>Tax Gross – Up</u></b>	<b><u>\$ .642 M</u></b>
Increase in Revenues	\$1.025 M



## Your Voice is Important!

- Today is your opportunity to provide feedback to Arizona American Water about the proposed wastewater rate increase
- October 9, 2008 Arizona American Water community meetings in Fort Mohave
- March 19, 2009 Public comments accepted during first day of hearings at the Arizona Corporation Commission
- *Written public comments accepted via email at [www.azcc.gov](http://www.azcc.gov) and by mailing a letter to the Commission referencing Docket Number SW-01303A-08-0227*



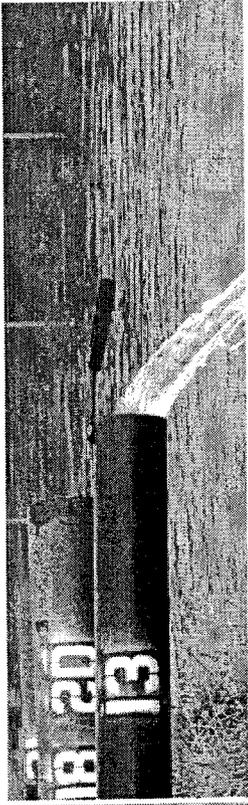
## What's Next?

- Rate Case Hearings-

Thursday, March 19 – 10:00 am at Arizona Corporation  
Commission offices – 1200 W. Washington, Phoenix, AZ

- Documents-

[www.azcc.gov](http://www.azcc.gov) Use the e-docket function. Reference Docket No.  
SW-01303A-08-0227



**Questions?**

**Thank you for your participation today!**



Arizona American Water  
19820 N. 7th Street, Suite 201  
Phoenix, AZ 85024

P 800.383.0834  
F 623.445.2451

[www.arizonaamwater.com](http://www.arizonaamwater.com)

October 24, 2008

**Dear Paradise Valley-Scottsdale water customer:**

I am writing to you to explain our recent request to the Arizona Corporation Commission (ACC) to increase the rates we charge for water service in your area. The rate increase request is 70 cents per day for the average residential customer with a 5/8 inch water meter and if approved would take effect late summer 2009.

**Why do we need a rate increase?**

The requested rate increase is necessary to pay for the significant improvements being made to your water system to keep it well-maintained and in good condition. In addition, some operating costs have increased since our last request for a rate adjustment which was filed in 2005.

We understand that no one wants to see their bills go up, especially during these challenging economic times, but the proposed rate increase is necessary to ensure that our system is capable of meeting your existing and future water needs.

The majority of the requested revenue increase is due to new investment in the local system. Since the previous rate filing, Arizona American Water has invested approximately \$26 million in the Paradise Valley water district. The primary investment was in a new arsenic removal facility constructed to comply with federally mandated arsenic standards. Other investments include transmission and distribution mains, tank reservoirs, pumps and wells throughout Paradise Valley and Scottsdale. These system improvements prevent leaks and main breaks, and maintain adequate water supply and water quality. Fire flow improvements were funded separately through revenues collected from high-block surcharges and public-safety surcharges.

The remainder of the additional revenue requested will cover increases in electricity costs, labor and labor-related expenses and other operating expenses.

**How much will it cost?**

Under the proposed increase, the average water bill for residential customers in the Paradise Valley water district with a 5/8 inch meter would increase by 70 cents per day from \$49.21 to \$70.26 per month based on monthly water consumption of 20,493 gallons, an increase of 42.79%. The average water bill for residential customers with a 1-inch meter would increase by \$1.75 per day from \$137.35 to \$189.86 per month based on monthly water consumption of 56,575 gallons, an increase of 38.23%.

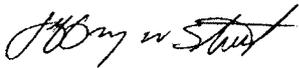
This is a significant increase, but ultimately the investments funded by the rate increase may save customers money in the long run as a well maintained water system is more efficient and reliable.

Water rates for each of Arizona American's districts are approved by the Arizona Corporation Commission and are determined based on the unique local cost to serve each district separately.

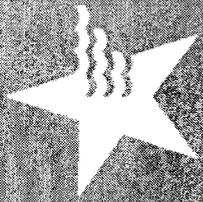
Customers will soon receive a required public notice containing important information about the rate filing. This packet will include the date of the hearing at the ACC, opportunities for public comment and deadlines for case participation.

Arizona American Water will hold a community meeting at **6:30 p.m., on Oct. 28, 2008 at the Kiva Elementary School located at 6911 E. McDonald Dr., Paradise Valley, AZ**, to inform customers about the proposed water rate increase. Water professionals will be on hand to answer customer's questions and provide information about water rates, water quality, conservation and customer service. Further details on current Paradise Valley water district rates are available at [www.arizonaamwater.com](http://www.arizonaamwater.com) under the Customer Service tab.

Thank you,



Jeffrey Stuck  
Director of Operations, Eastern Division

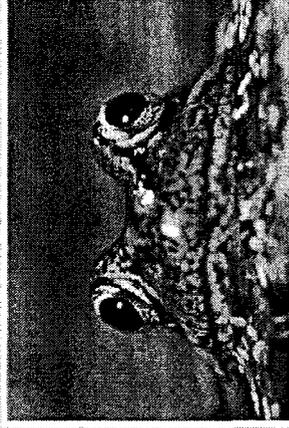


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## Investing in Our Communities

Paradise Valley-Scottsdale Water District  
Rate Proposal

October 28, 2008

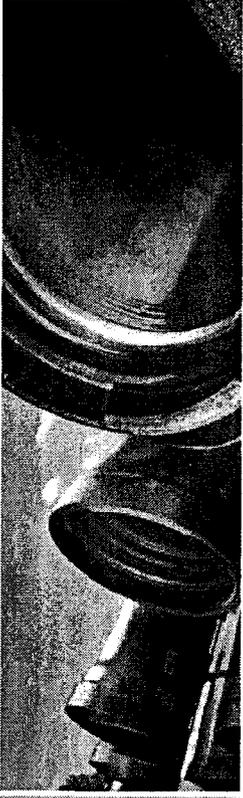




## **Introductions**

- **Arizona American Water**
  - **Todd Walker, External Affairs Manager**
  - **Thomas Broderick, Director of Rates & Regulation**
  - **Jeffrey Stuck, Director of Operations**
  - **Paul Townsley, President**





## **Community meeting format**

- 6:30 pm – 8:00 pm
- Arizona American Water Presentation
- Please hold questions until conclusion of presentation, thank you
- Question & answer session
- Open house with Arizona American Water personnel with expertise in Rates, Customer Service, Water Quality and Conservation





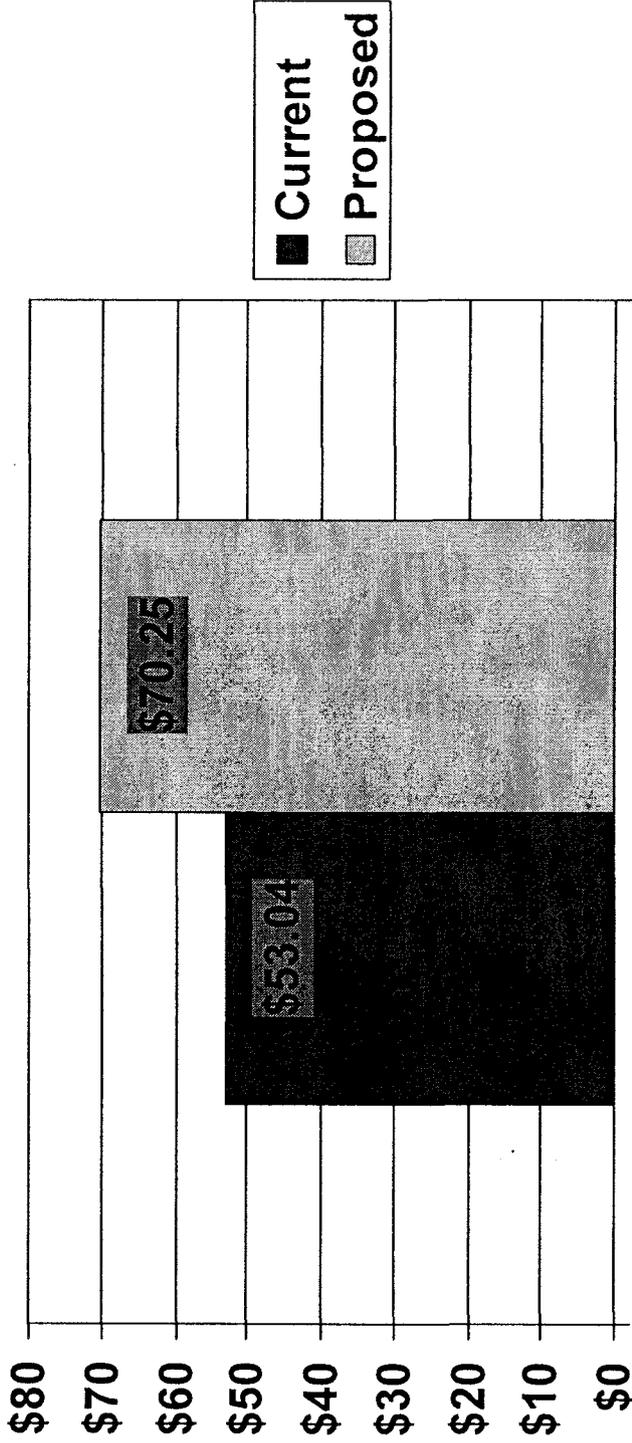
## Today we will talk about...

- Paradise Valley-Scottsdale water district
- Water rates – proposed and comparisons
- Rate case formula
- Capital investment & expenses
- Rate application timeline
- What's next

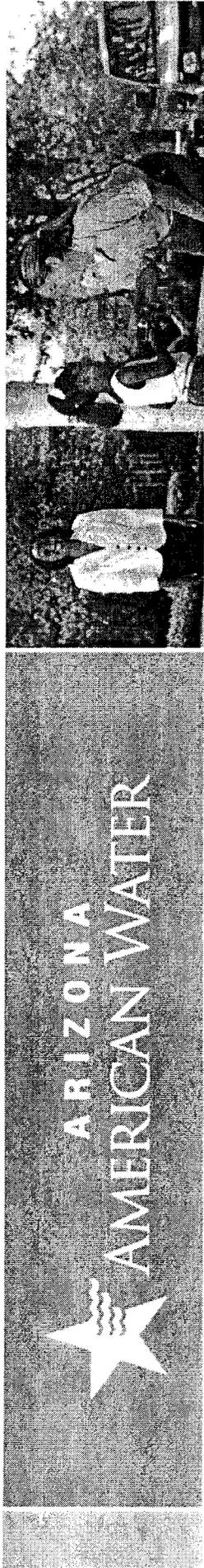




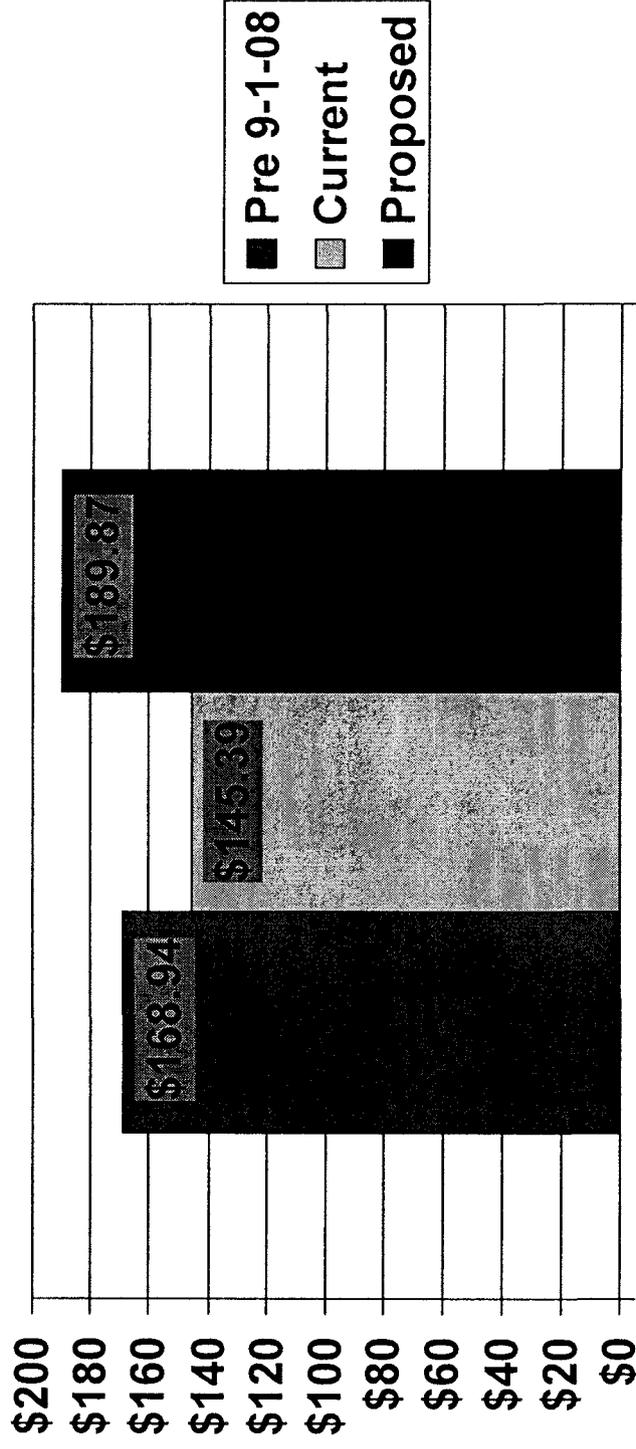
**Proposed increase = 57 cents per day**  
**\* Average customer on 5/8" meter**



\* Average residential monthly bill based on monthly usage of 20,493 gallons in 2007 by 2,258 customers on a 5/8 inch meter



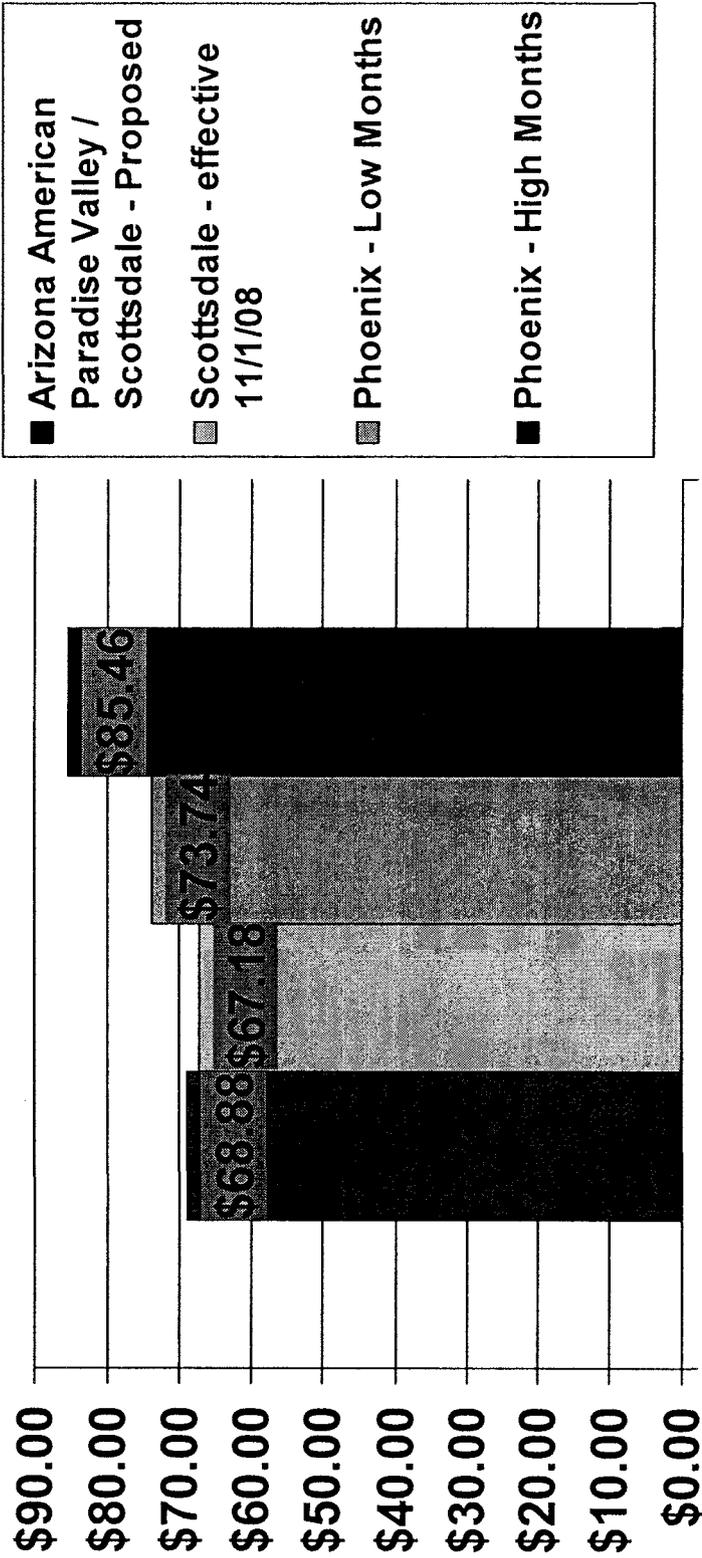
**Proposed increase = \$1.47 per day**  
**\* Average customer on 1" meter**



\* Average residential monthly bill based on monthly usage of 56,575 gallons in 2007 by 1,926 customers on a 1 inch meter



## Residential water rates comparisons



2008 Water Rates Schedule based on  
20,000 gallons per month usage



## Basic rate formula

**Total Invested Capital or "Rate Base"**      \$ 40.9 M

**Rate of Return**      8.4 %

Required Operating Income      \$ 3.4 M

**2007 Revenues**      \$ 7.8 M

**2007 Expenses**      \$ 6.3 M

Actual Adjusted Operating Income      \$ 1.5 M

**Operating Income Deficiency**      \$ 1.9 M

**Tax Gross – Up**      \$ 1.2 M

Increase in Revenues      \$ 3.1 M



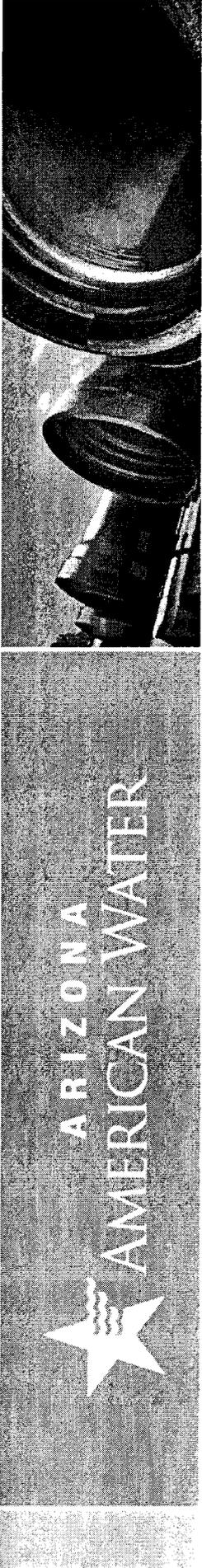
## History of Paradise Valley – Scottsdale rates since 2006

- Base rate increase plus \$2.15/1,000 gal High Block surcharge effective 8-1-06
- Arsenic Step 1 surcharge effective 4-1-07
- Public Safety \$1.00 surcharge effective 10-1-07
- High Block surcharge reduced from \$2.15 to \$1.00 and Public Safety surcharge re-set to zero 9-1-08
- Arsenic Step 2 surcharge effective 10-17-08
- Proposed rates: a) Arsenic expenses placed in base rate and surcharge eliminated; b) “Contributions” High Block surcharge eliminated and replaced with much lower “Revenue” Public Safety surcharge applicable to all residential and commercial water usage, amount TBD; c) Systems benefit surcharge applicable to highest residential rate block, amount TBD



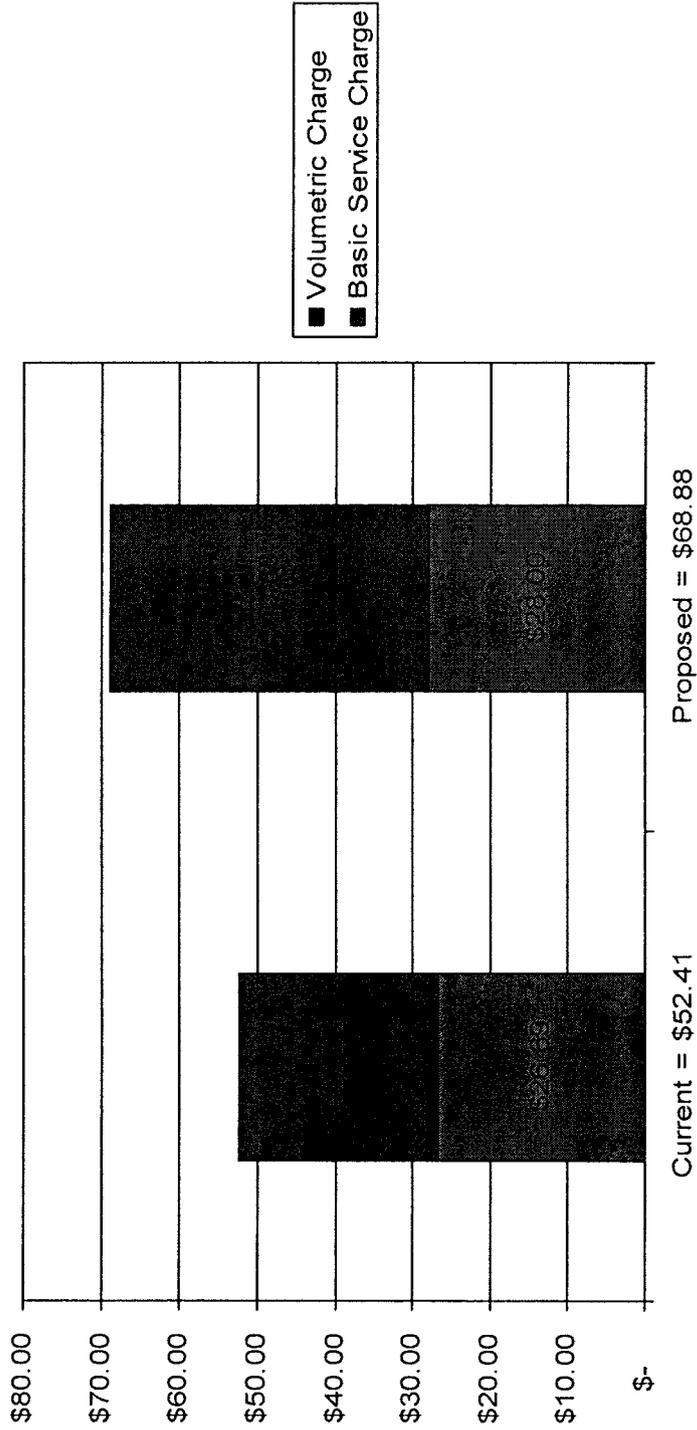
## Water consumption charges

Current at 10-1-08	Proposed
Charge per 1,000 gallons	Charge per 1,000 gallons
• 0 – 25,000	• 0 – 4,000
\$1.29	\$1.29
• 25,001 – 80,000	• 4,001 – 20,000
\$2.18	\$2.23
• 80,001 +	• 20,001 – 65,000
\$3.71	\$2.80
(includes \$1.00 High Block surcharge and \$0.52 per 1,000 gal arsenic surcharge)	• 65,001 – 125,000
	\$3.36
	• 125,001 +
	\$3.88



# Rate components - fixed and variable

5/8 inch meter based on 20,000 gal consumption





## **Paradise Valley – Scottsdale water district facts**

- **Arizona American Water’s Paradise Valley-Scottsdale water district provides high-quality water utility services to customers in portions of the town of Paradise Valley and portions of the city of Scottsdale**
- **4,737 water customers**
- **Current Paradise Valley-Scottsdale base water rates were effective August 2006 based on investment and operating expense through calendar year 2004**
- **Current rate case application is based on the amount of investment and operating expense through calendar year 2007 plus certain projects completed in 2008**



## New capital investments since previous rate case

### 2005 thru 2007 - Listing of key infrastructure investments

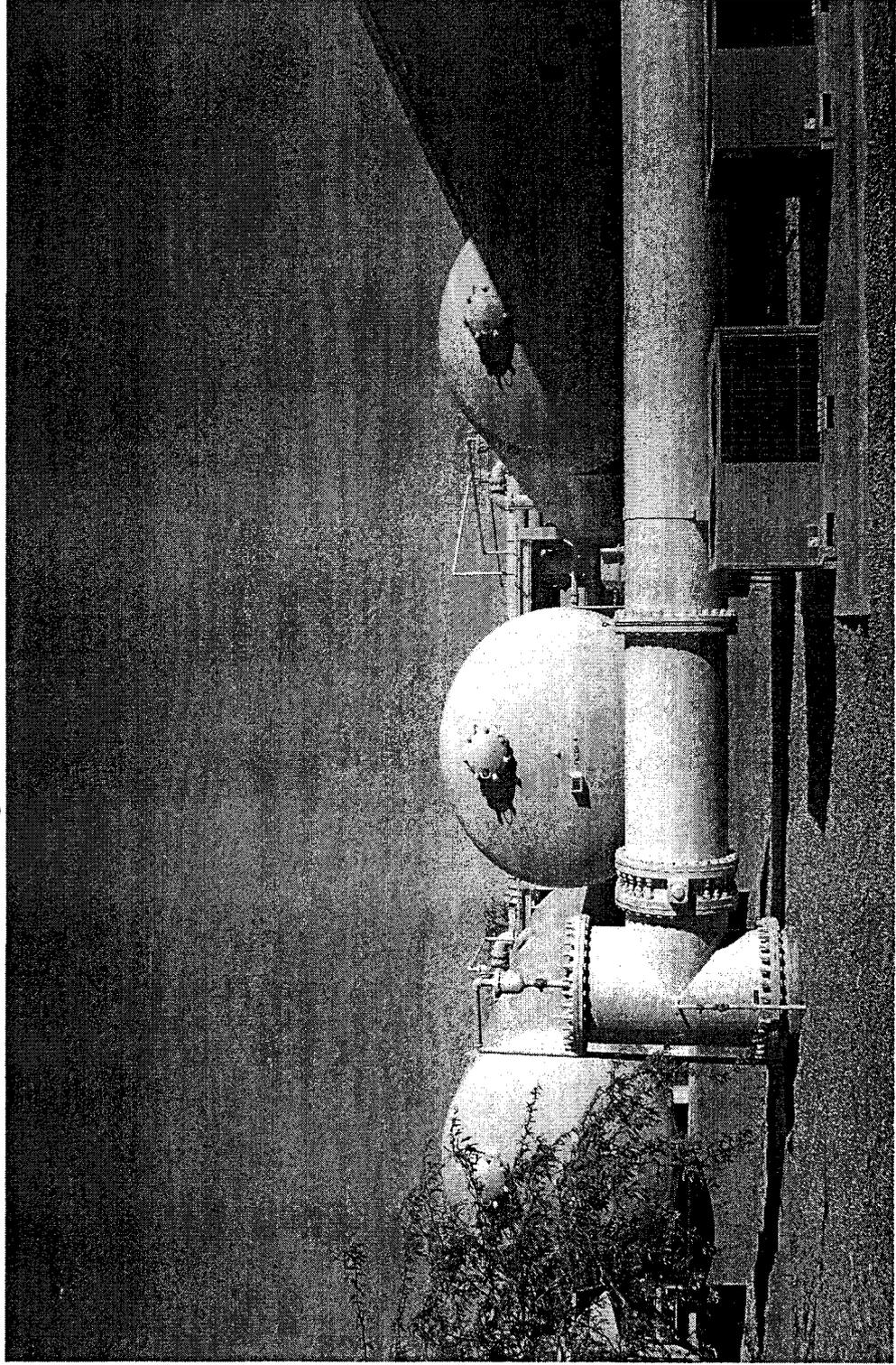
Water Mains & Pipes	\$ 3,939,811	New & replacements mains throughout
Wells	\$ 152,882	Rehabilitate well PV 15, Modifications to PV well 17
Pump Equipment	\$ 282,871	Replace pumps and motors at wells
Service installations & Upgrades	\$ 442,571	Install new service lines and upgrade existing service lines

**Note:** Rate increase does not include arsenic removal and fire flow investments, those are in present rates and recovered through surcharges.

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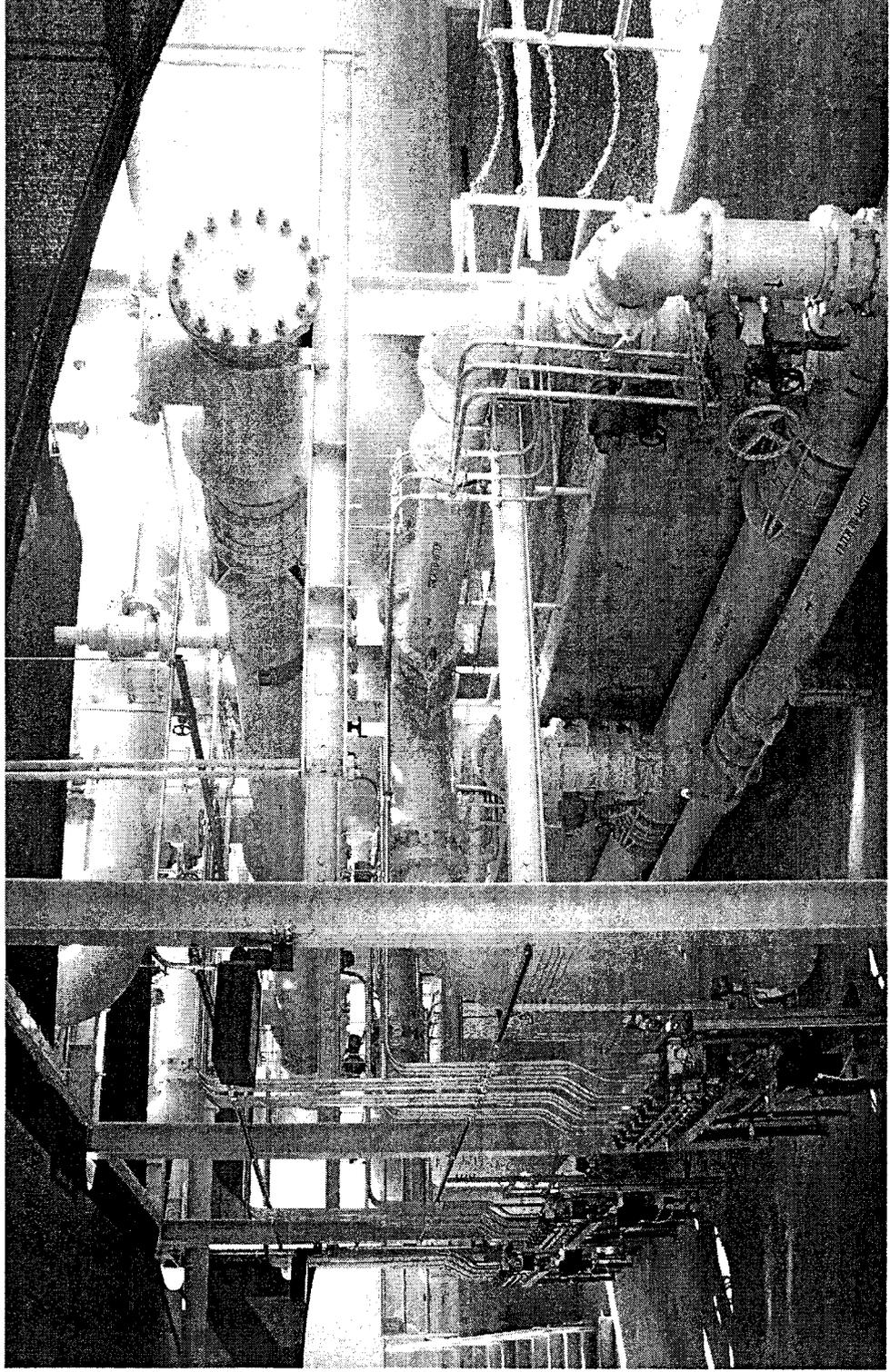
## Arsenic removal facility



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## Arsenic removal facility

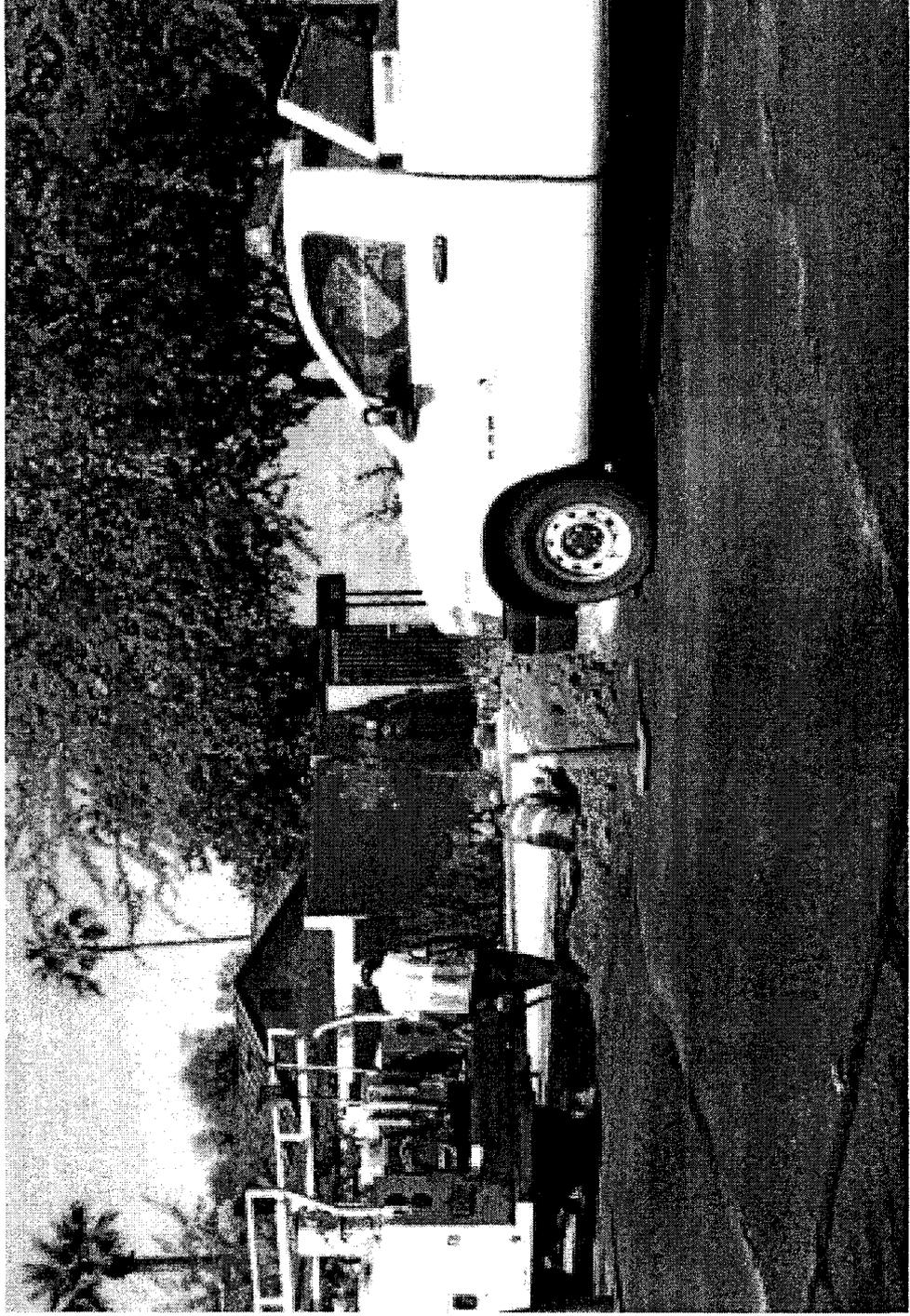


[www.arizonaamwater.com](http://www.arizonaamwater.com)

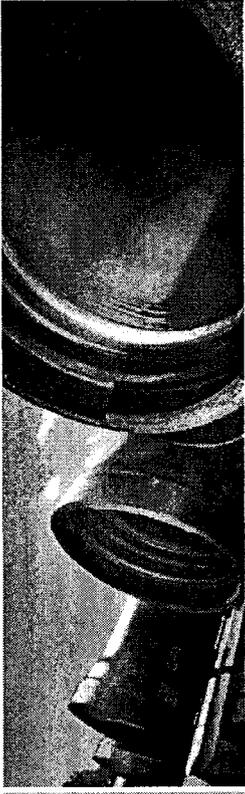




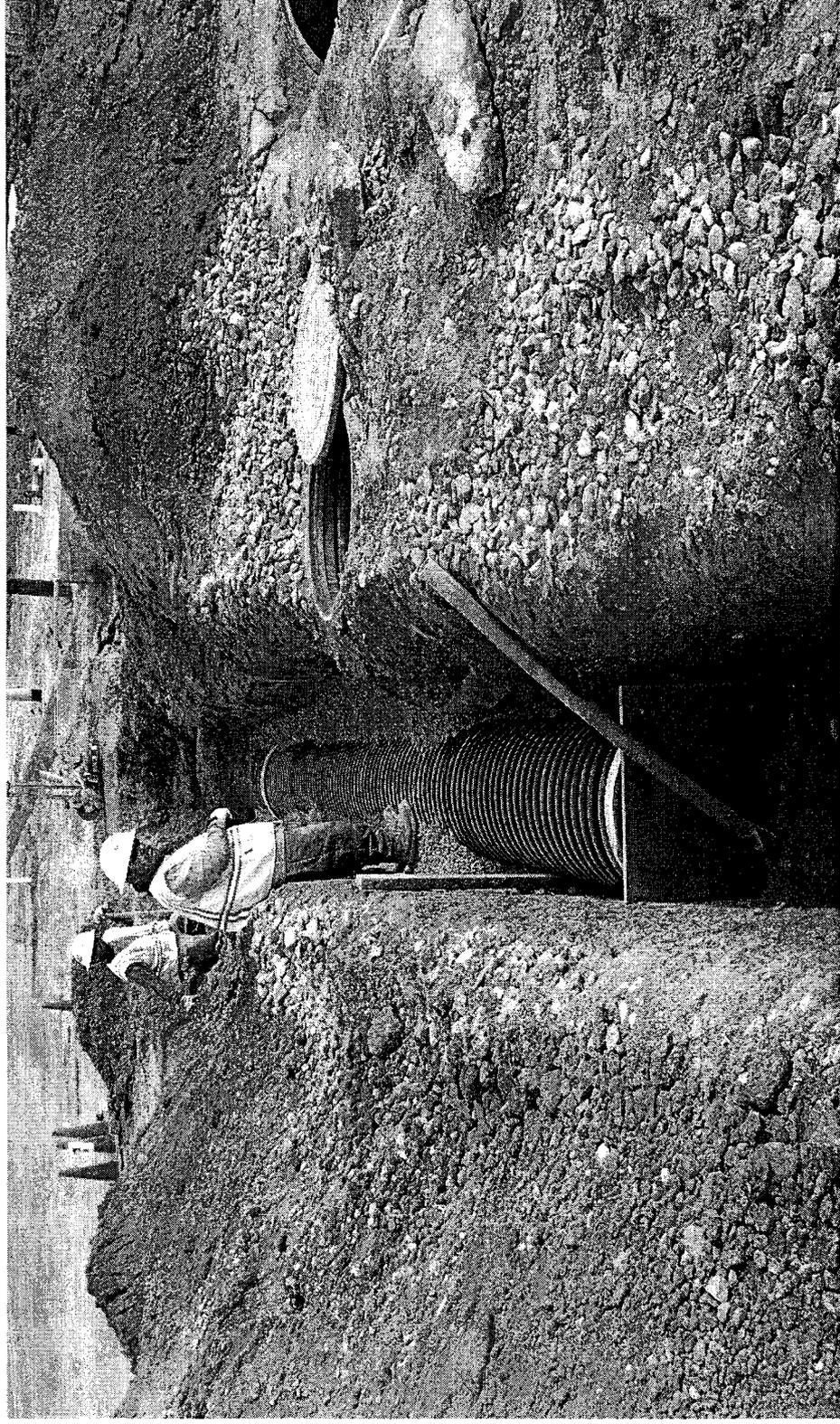
## Main repair and replacement



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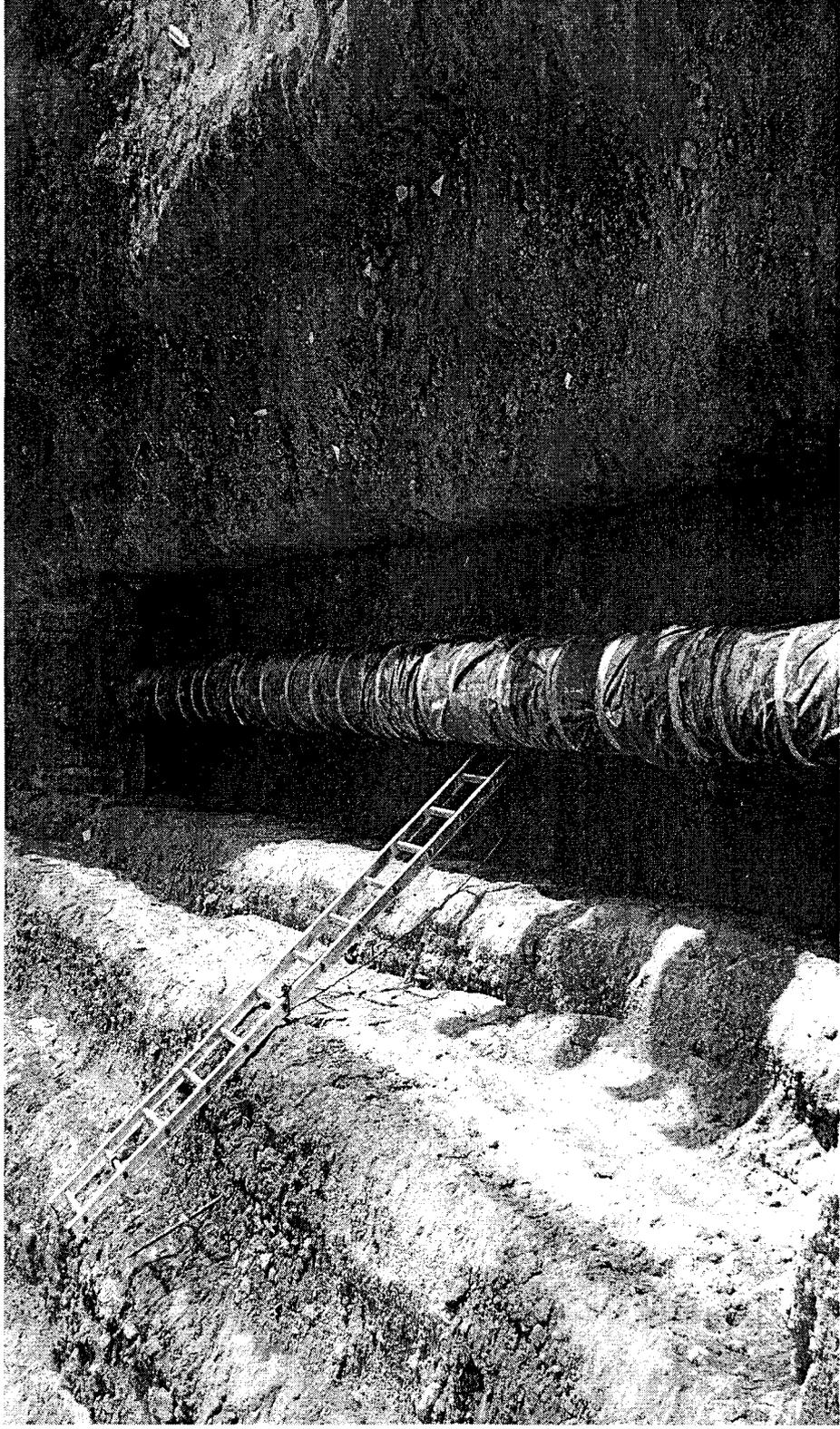
## Main repair and replacement



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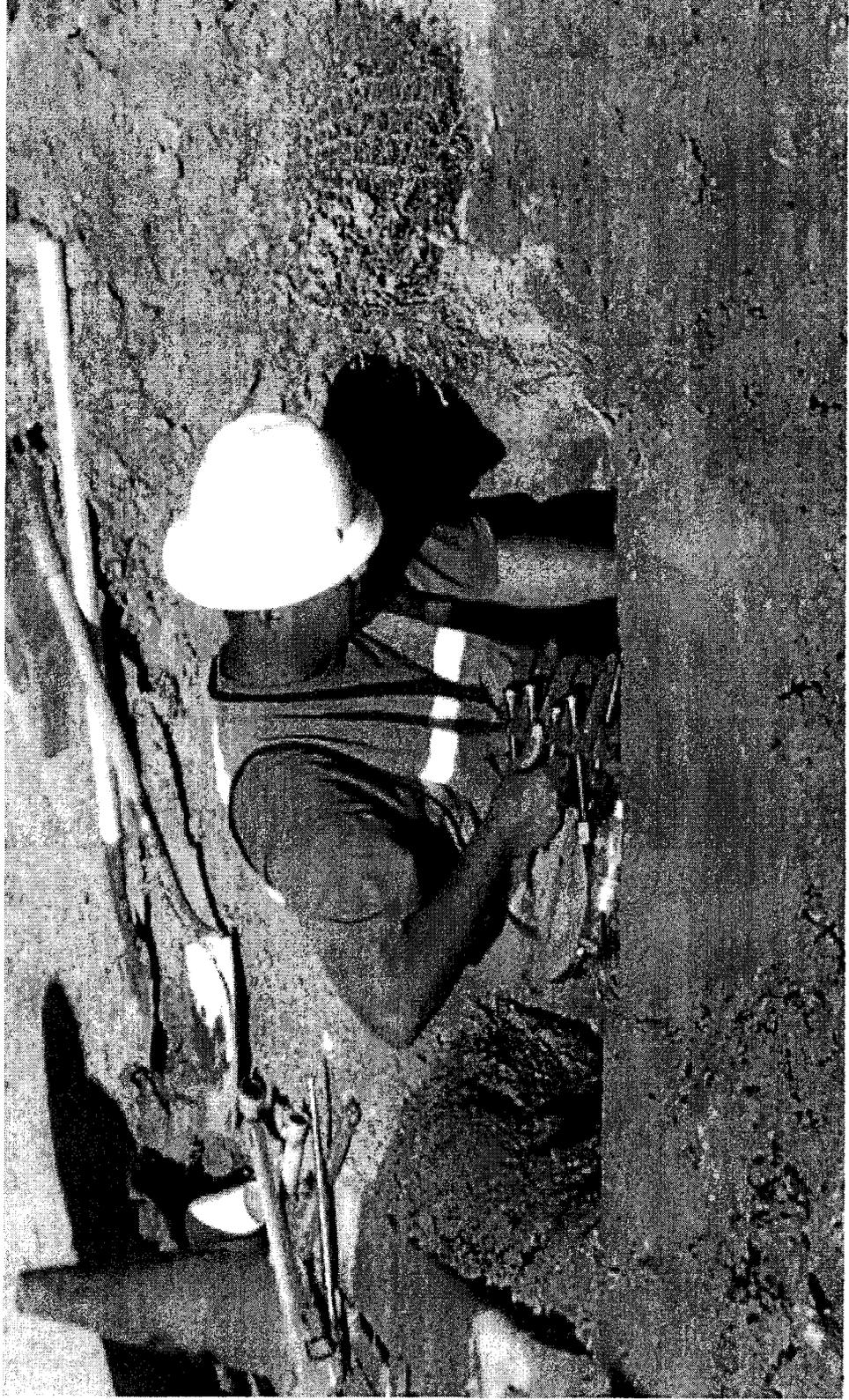
## Main repair and replacement



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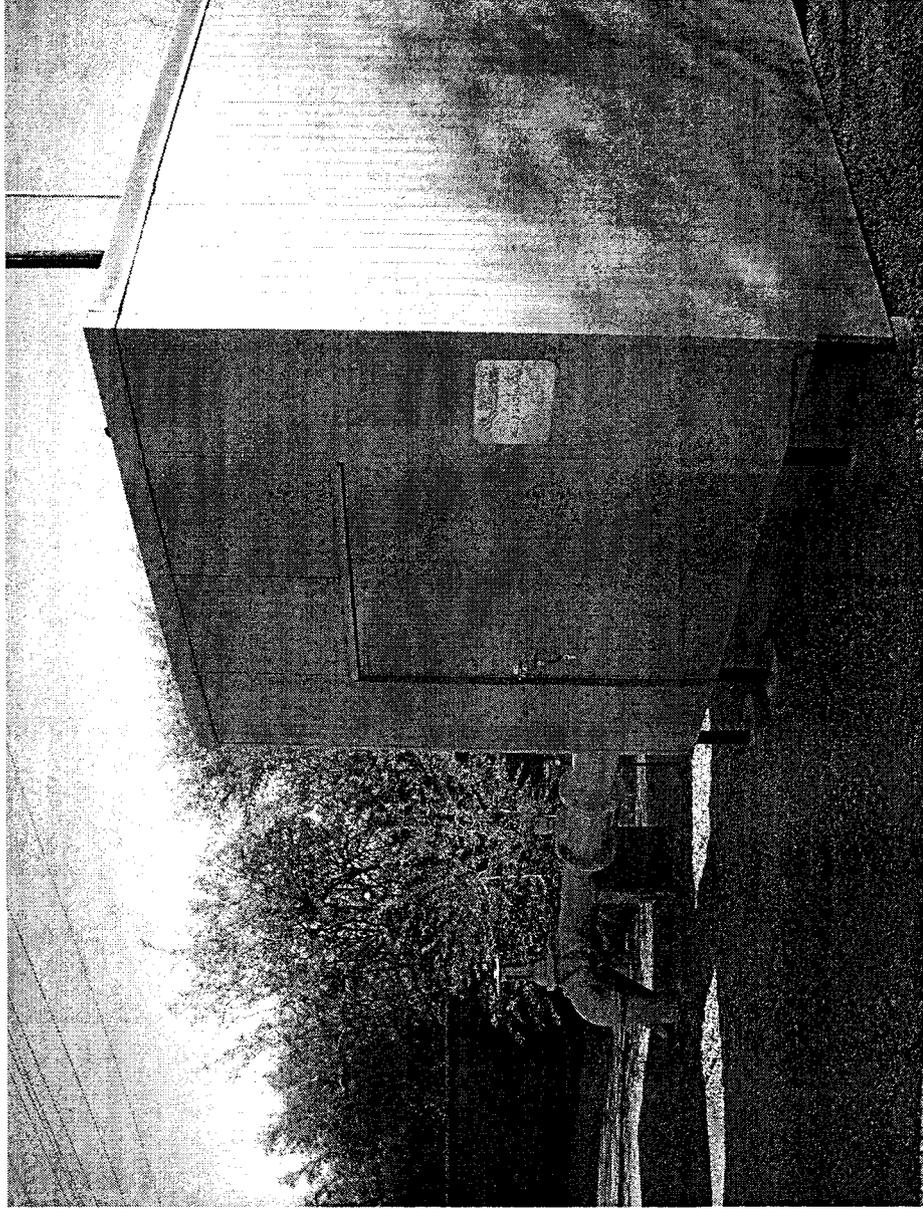
## Main repair and replacement



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## **New sound barriers on wells**

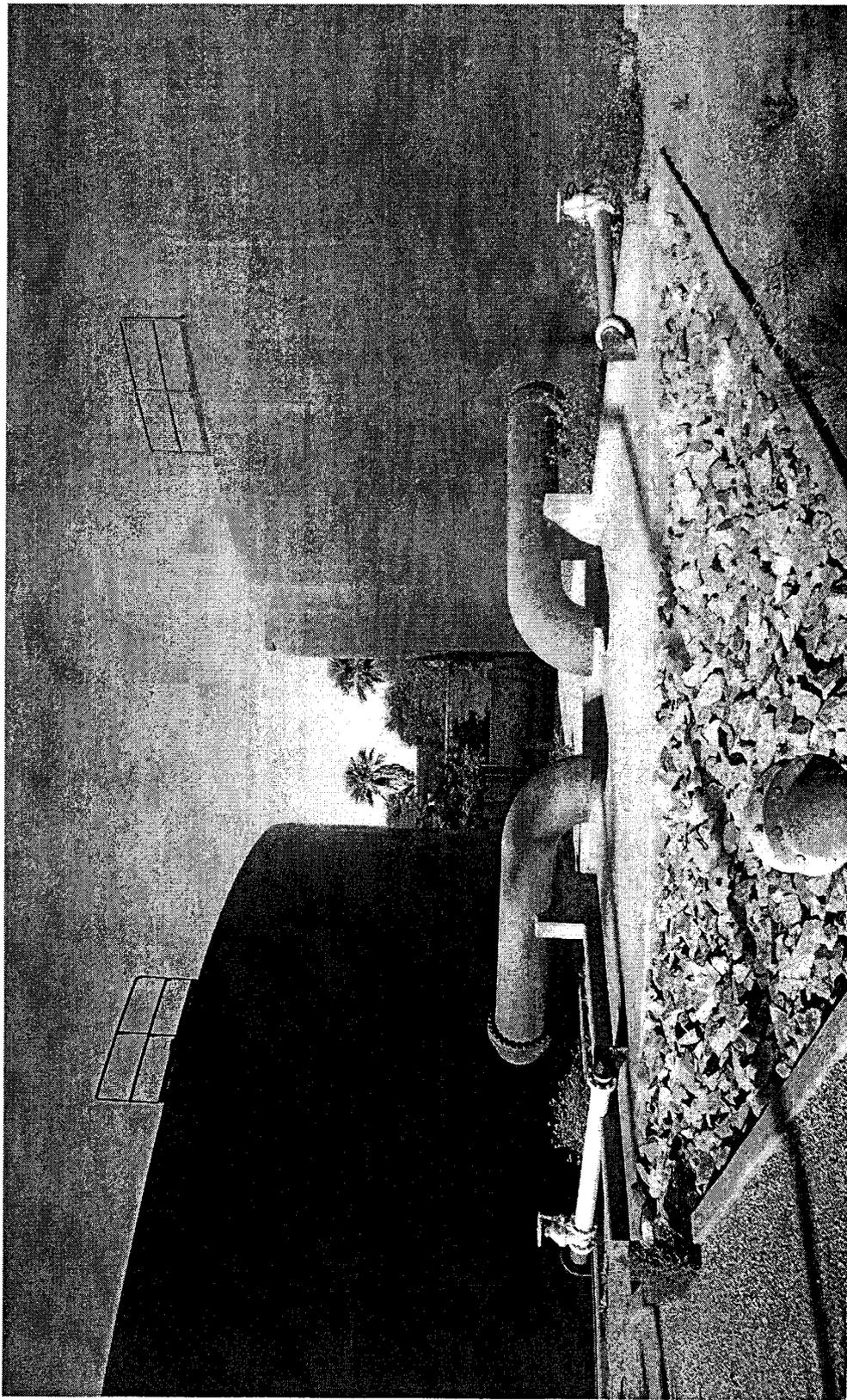


[www.arizonaamwater.com](http://www.arizonaamwater.com)



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## **New water storage tanks**



[www.arizonaamwater.com](http://www.arizonaamwater.com)



## Operating & maintenance expenses

- 2004 versus 2007
  - Total operating and maintenance expense increased \$ 1,255,481
  
- Primary reasons for rate increase are:
  - Increase in power costs
  - Increase in chemical costs
  - Labor
  - Health insurance
  - 10 year tank maintenance program



## **Rate application timeline - an open and transparent process**

- **Rate application filed** **May 2, 2008**
- **Community meeting** **October 28, 2008**
- **Arizona Corporation Commission hearings** **March 19, 2009**
- **New rates effective** **Summer/Fall 2009**
- Public comments will be taken on the first day of the hearing. The Arizona Corporation Commission accepts written comments via email at [www.cc.state.az.us](http://www.cc.state.az.us) or by letter to the Commission. Reference Docket Number W-01303A-08-0227



## **What's next?**

- **Rate case hearing-**

**Thursday, March 19, 10:00am at Arizona Corporation  
Commission offices - 1200 W. Washington, Phoenix, AZ**

- **Documents available -**

**[www.cc.state.az.us](http://www.cc.state.az.us) Use the e-docket function. Reference  
Docket No. W-01303A-08-0227**





Arizona American Water  
19820 N. 7th Street, Suite 201  
Phoenix, AZ 85024

P 800.383.0834  
F 623.445.2451

[www.arizonaamwater.com](http://www.arizonaamwater.com)

November 21, 2008

**Dear Tubac water customer:**

I am writing to you to explain our recent request to the Arizona Corporation Commission (ACC) to increase the rates we charge for water service in your area. The rate increase request is \$1.20 per day for the typical residential customer, and if approved would take effect late summer or fall of 2009.

**Why do we need a rate increase?**

The requested rate increase is necessary to pay for the significant improvements being made to your water system to keep it well maintained and in good condition. In addition, there are operating cost increases that have occurred since our last request for a rate adjustment which was filed in 2002.

We understand that no one wants to see their bills go up, especially during these challenging economic times, but the proposed rate increase is necessary to ensure that our system is capable of meeting your existing and future water needs.

Approximately 20% of the requested revenue increase is due to new investment in the local system. Since the previous rate filing, Arizona American Water has invested approximately \$400,000 in the Tubac water district. These investments primarily include transmission and distribution mains, tank reservoirs, pumps and wells throughout the Tubac water district. These system improvements prevent leaks and main breaks, maintain adequate water supply and improve water pressure and water quality. The rate filing also includes a request for a mechanism to allow recovery in the future of costs associated with arsenic removal facilities required to comply with arsenic standards adopted by the EPA.

The remainder of the requested additional revenue will cover increases in electricity costs, labor and labor-related expenses and costs to maintain water storage tanks.

**How much will it cost?**

Under the proposed increase, the typical water bill for residential customers in the Tubac water district with a 5/8 or 3/4-inch meter would increase by about \$1.20 per day from \$49.38 to \$85.29, an increase of 72.7% per month based on monthly water consumption of 11,767 gallons.

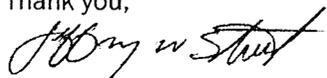
This is a large increase, but ultimately the investments funded by the rate increase may save customers money in the long run as a well maintained water system is more efficient and reliable.

Water rates for each of Arizona American's districts are approved by the Arizona Corporation Commission separately and are determined based on the unique local costs to serve each district.

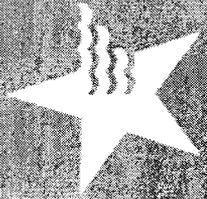
Recently you received a required public notice at your service address, containing important information about the rate filing. This packet included information about the date of the hearing (2:00 p.m. March 19, 2009) at the Arizona Corporation Commission, opportunities for public comment and deadlines for case participation.

Arizona American Water will hold a community meeting at **5:30 p.m. on Monday, Dec. 8, 2008 at the Tubac Community Center located at 50 Bridge Road, Tubac, AZ 85646** to inform customers about the proposed water rate increase. Water professionals will be on hand to answer customer's questions and provide information about water rates, water quality, conservation and customer service. Further details on current Tubac water district rates are available at [www.arizonaamwater.com](http://www.arizonaamwater.com) under the Customer Service tab.

Thank you,

A handwritten signature in black ink, appearing to read "Jeffrey Stuck". The signature is written in a cursive, flowing style.

Jeffrey Stuck, Director of Operations



# ARIZONA AMERICAN WATER

## Investing in Our Communities

Investing in Tubac

Information about Proposed Water Rate Increase

December 8, 2008

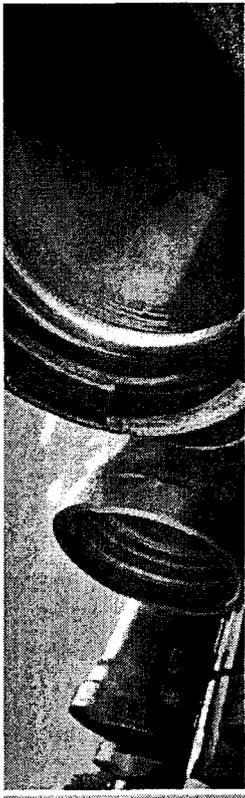




## Introductions

- **Arizona American Water**
  - Paul Townsley, President, Arizona American Water
  - Tom Broderick, Director, Rates & Regulation
  - Jeffrey Stuck, Director of Operations

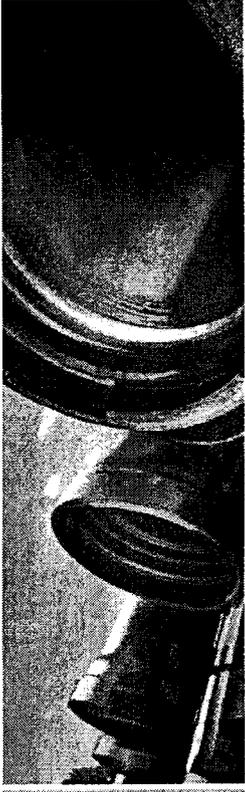




## Community Meeting Format

- 5:30p.m. -Arizona American Water Presentation
- Please hold all questions until presentation concludes,  
Thank You!
- Open house: Arizona American Water experts continue to answer questions on Rates, Engineering, Operations, Customer Service, Water Quality and Conservation.





## **Today, we will talk about...**

- **Tubac Water System**
- **Water Rates – Current & Proposed Rate Components**
- **How rate increase proposals are formulated**
- **Investment in local infrastructure**
- **Arsenic Treatment Issues**
- **Rate Increase Application Timeline**
- **What's Next?**

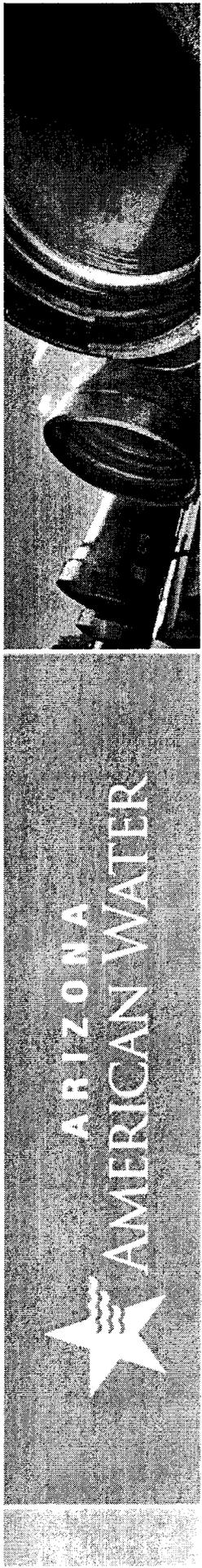




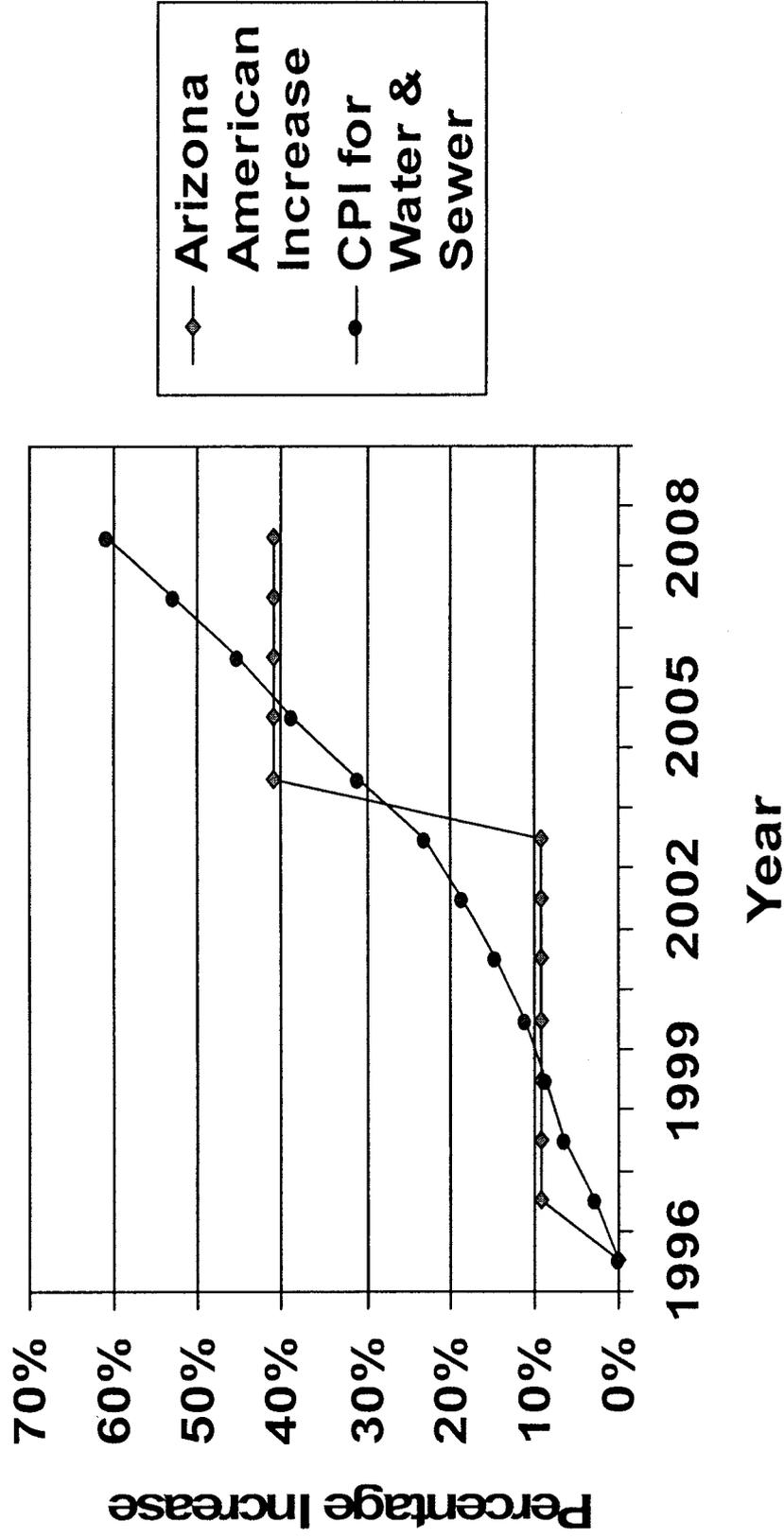
## **Tubac Water Facts**

- **In Tubac, Arizona American Water provides high-quality water utility services to 532 water customers**
- **Current water rates were effective July 2004 and are based on investment and operating expense at calendar year 2001**
- **Current rate case application is based on the amount of investment and operating expense at calendar year 2007**
- **New rates likely effective September 1, 2009**

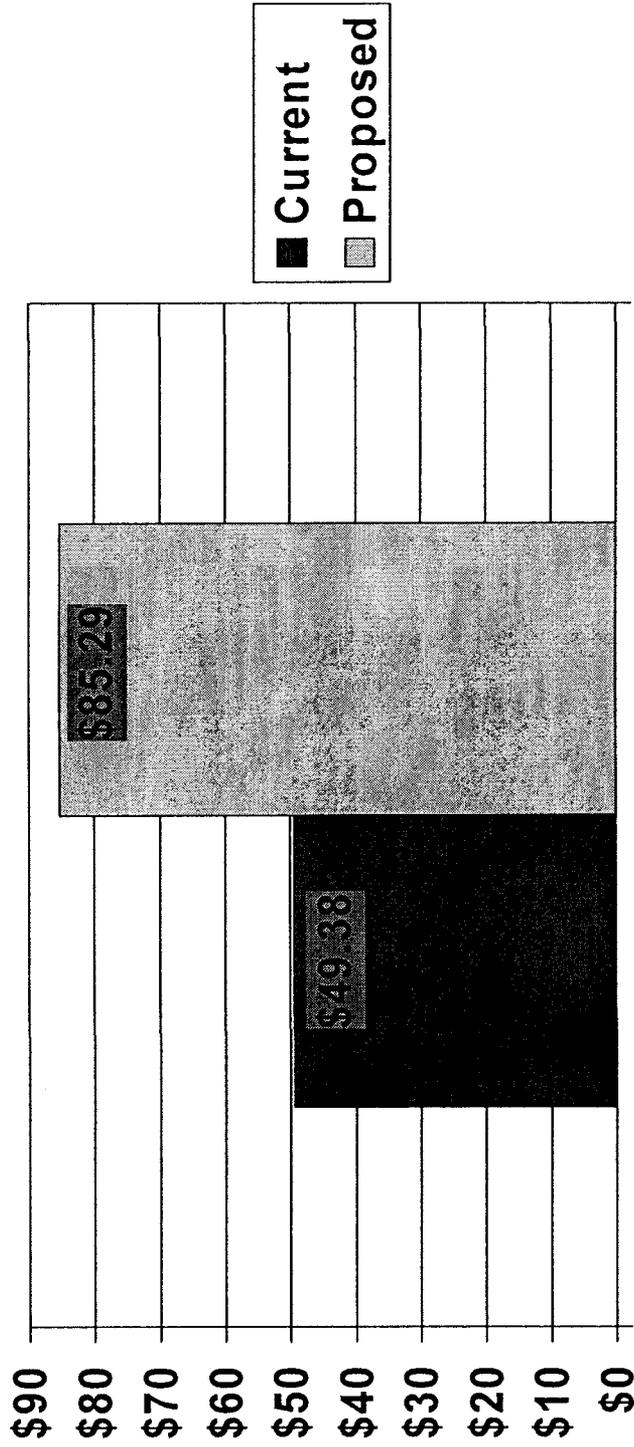




## History of Tubac Rates



**Proposed Increase = \$1.20 per day**

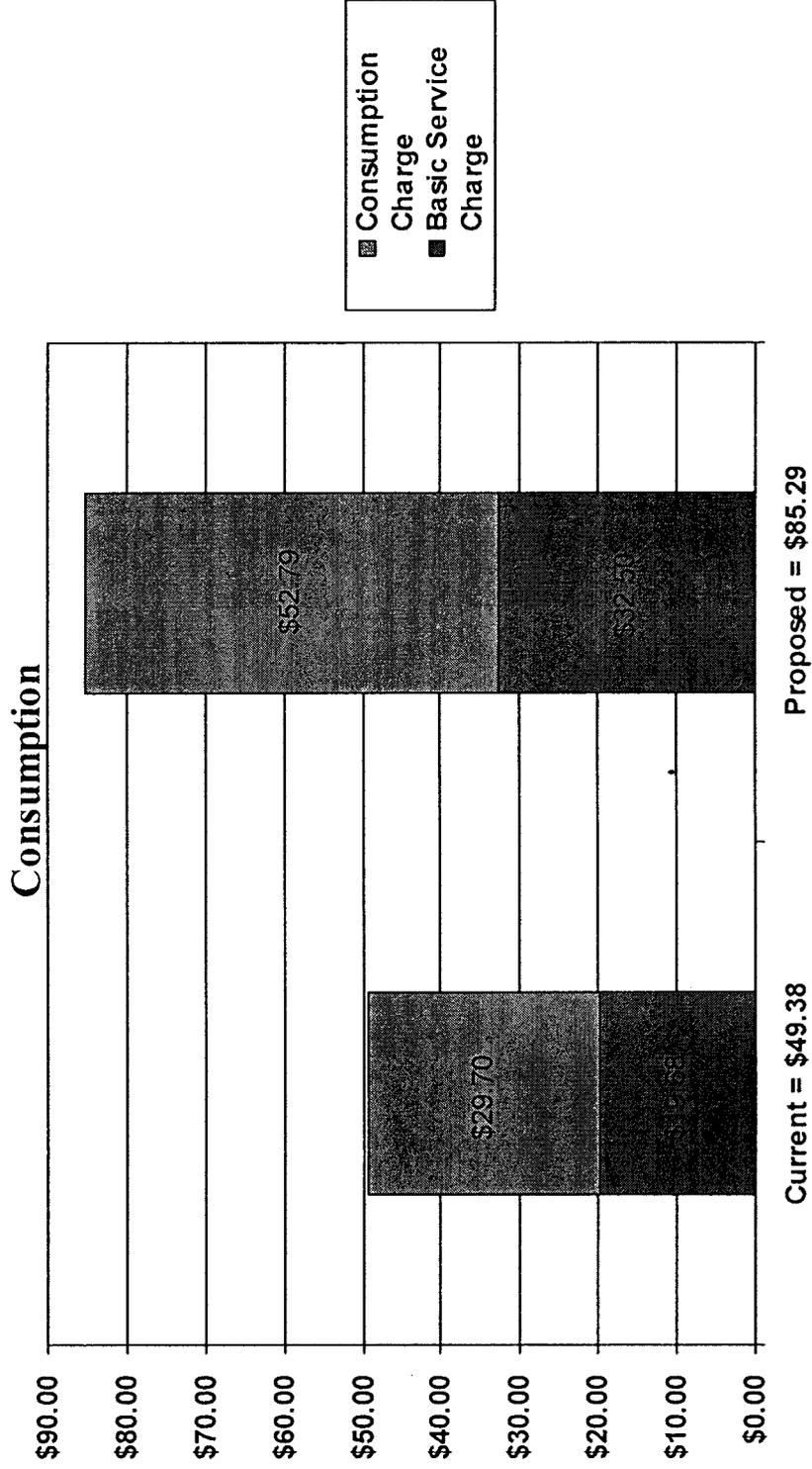


Average residential monthly bill based on monthly water usage of 11,767 gallons for 5/8" and 3/4" meters - 461 customers in Tubac



# Rate Components – Basic and Consumption Charges

5/8 & 3/4 Inch Meter Based on 11,767 Gallons/Per Month





## Residential Water Consumption Charges

### Charge per 1,000 gallons for 5/8 & 3/4 inch meters

Gallons of Water (per month)	Current	Proposed
0- 4,000 gallons	\$1.89	\$3.78
4,001-20,000 gallons	\$2.85	\$4.85
20,001 + gallons	\$3.41	\$4.95



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# ACTUAL TUBAC BILL - Exact Proposed Changes

## Customer Account Information

For Service To:

Account Number  
Premise Number:

### Billing Period & Meter Information

Billing Date: Nov 10, 2008  
Billing Period: Oct 02 to Nov 05 (34 days)

Next reading on/about: Dec 04, 2008  
Rate Type: Residential

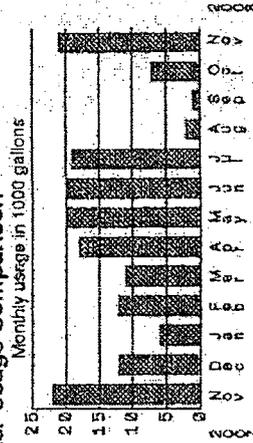
### Meter readings in current billing period:

Meter Number S46786 is a 5/8-inch meter.  
Present-actual 2143  
Last-actual 2122  
T-gal used 21

## Billing Summary

Prior Balance	\$61.75
Balance from last bill	-61.75
Payments as of Nov 10, 2008. Thanks!	.00
Total prior balance, Nov 10, 2008	
<b>Current Water Charges</b>	
Basic Service	19.68
Water Volume (\$ 1.890 x 4.00)	7.56
(\$ 2.850 x 16.00)	45.60
(\$ 3.410 x 1.00)	3.41
Groundwater Withdrawal Fee	.21
Total Use Billed	76.46
<b>Other Current Charges</b>	
ACC Resid Reg Assmt Fee	.15
Total other charges, Nov 10, 2008	.15
<b>Taxes</b>	
County Tax - TUBAC	.76
State Tax	4.28
Water Use Tax	.14
Total taxes, Nov 10, 2008	5.18
<b>TOTAL AMOUNT DUE</b>	<b>\$81.79</b>

## Water Usage Comparison



## Basic Formula For Water Rates

<b>2007 Total Invested Capital or "Rate Base"</b>	\$1,527,454
<b><u>Requested Cost of Capital</u></b>	<u>\$ 8.4 %</u>
Required Annual Operating Income/(Loss)	\$ 128,306
<b>2007 Revenues</b>	\$ 426,900
<b><u>2007 Expenses</u></b>	<u>\$ 465,453</u>
Actual Adjusted Operating Income/(Loss)	\$ (38,553)
<b>After Tax Operating Income Deficiency</b>	\$ 166,859
<b><u>Additional Taxes</u></b>	<u>\$ 111,355</u>
Proposed Increase in Revenues	\$ 278,214



## **New Infrastructure Investments**

### **Key Infrastructure Investments = \$1.4 million**

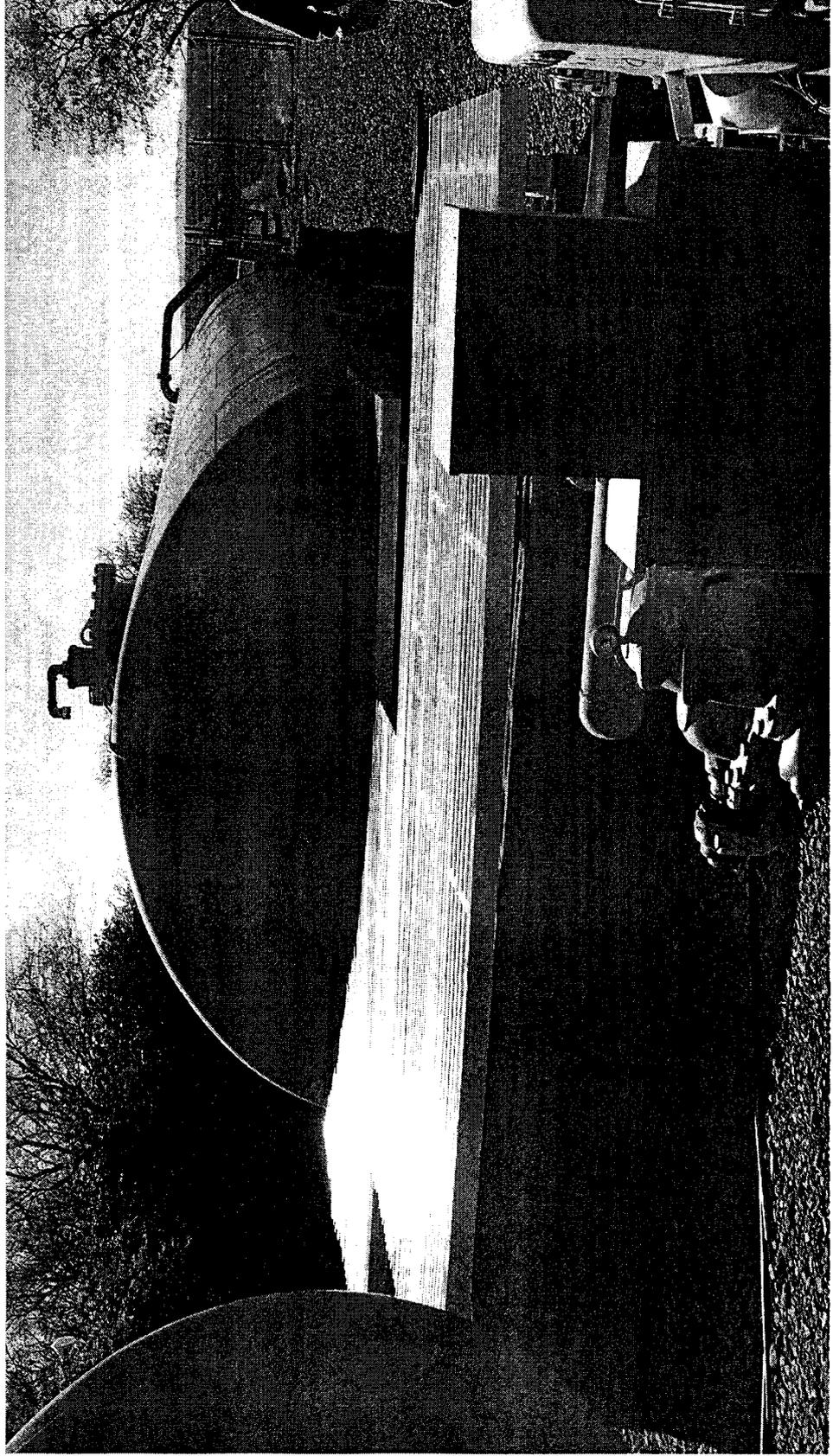
- 1.) **Water Mains & Pipes** – New/replacement mains throughout Tubac
- 2.) **Wells** - Well 5 pump, motor replacement
- 3.) **Storage & Booster Tank** - Replace pumps & motors to maintain well sites
- 4.) **Back up Power/Tools** - Generator at Well

**These investments benefit you by improving your water quality, water pressure and reliability.**

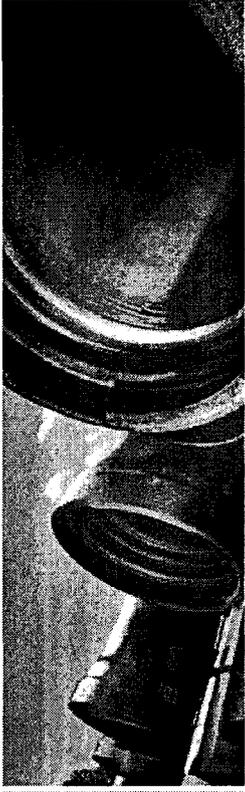


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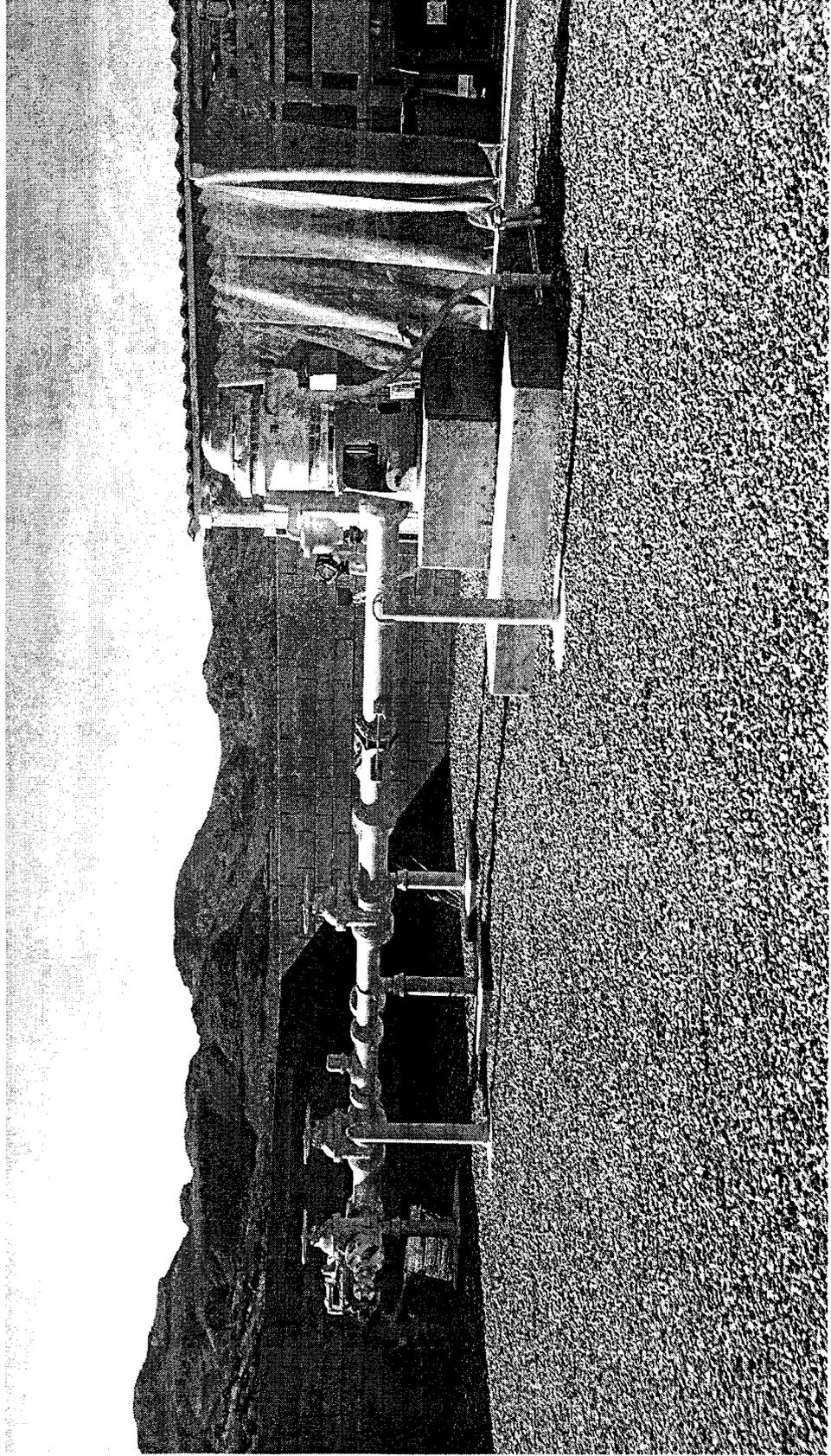
## Palo Prado Storage Tank



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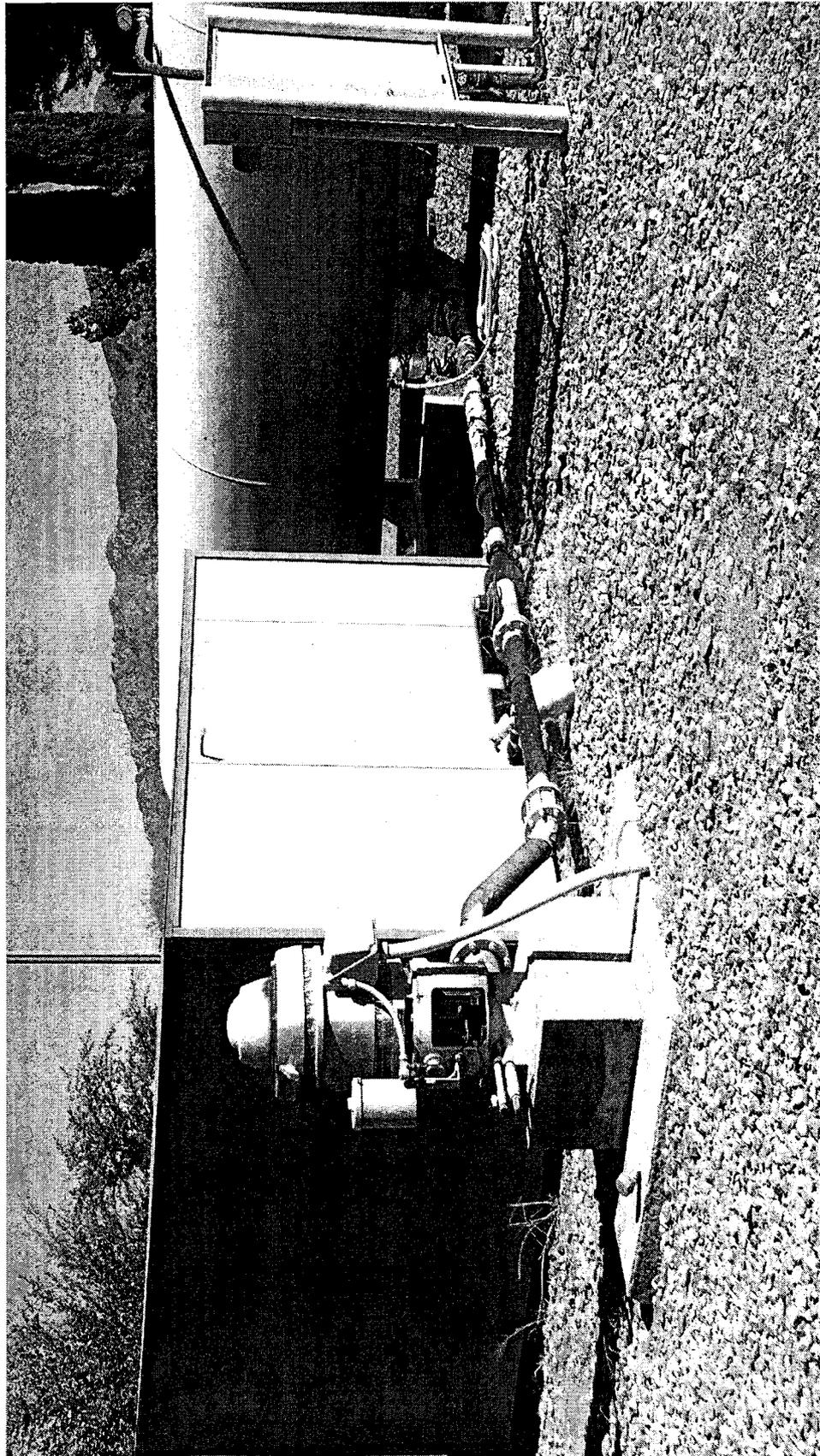
## Tubac Well



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## Tubac Well





## Tubac Water Expenses

- **2001 versus 2007**
  - **Total Operating and Maintenance Expense Allowed in Rates Increased \$231,000**
  
- **Primary Reasons for Expense Increases are:**
  - **Shared corporate and support services, National call center and National laboratories and Reporting & compliance \$74,000**
  - **Locally based labor, health insurance and pensions \$53,000**
  - **Depreciation \$46,000**
  - **Electricity & chemicals \$7,000**

## **Arsenic Treatment Facility**

### **Recovered Through Arsenic Surcharge on Future Bills**

- Exemption from Federal Arsenic Standard denied by US EPA.
- Design of arsenic treatment facility commenced in Summer 2008.
- The construction starts in the summer of 2009.  
The estimated completion date is the summer of 2010.
- Arsenic facility costs not included in pending base rate proposal
- Requesting approval of an Arsenic Cost Recovery Surcharge Mechanism (ACRM) from the Arizona Corporation Commission
- Estimated cost of arsenic remediation facility: \$2.3 million
- Estimated arsenic step 1 surcharge for 5/8" meter: \$25.98 per month
- Estimated arsenic step 1 commodity surcharge: \$3.14 per 1,000 gal





## Contact Arizona American Water

Please contact Arizona American Water with any questions or concerns you have!

**24- hour Call Center: 1-800-383-0834**

**We are located at:** Arizona American Water: Tubac  
15 Burruel St.  
Tubac, AZ 85646

Arizona American Water: Phoenix  
19820 N. 7<sup>th</sup> Street, Suite 201  
Phoenix, AZ 85024

Or email us at [azrates@amwater.com](mailto:azrates@amwater.com) for a calculation of the impact of the rate proposal on your account.



Arizona American Water  
19820 N. 7th Street, Suite 201  
Phoenix, AZ 85024

P 800.383.0834  
F 623.445.2451

[www.arizonaamwater.com](http://www.arizonaamwater.com)

November 11, 2008

**Dear Sun City West water customer:**

I am writing to you to explain our recent request to the Arizona Corporation Commission (ACC) to increase the rates we charge for water service in your area. The rate increase request is 52 cents per day for the average residential customer with a 5/8-inch water meter and, if approved, would take effect late summer or fall 2009.

**Why do we need a rate increase?**

The requested rate increase is necessary to pay for the significant capital improvements made to the water system over the past six years. In addition to those important investments many of the day-to-day operating costs have increased since our last request for a rate adjustment which was based on operating expenses in 2001.

We understand that no one wants to see their bills go up, especially during these challenging economic times, but the proposed rate increase is necessary to ensure that our system is capable of meeting your existing and future water needs.

Approximately, 84% of the requested revenue increase is due to new investment in the local system. Since the previous rate filing, Arizona American Water has invested approximately \$26 million in the Sun City West water district. These investments include two arsenic removal facilities (already being recovered through a rate surcharge), a well replacement with significant security, and electrical and pumping equipment replacements throughout the Sun City West service area. These system improvements prevent leaks and main breaks, maintain adequate water supply and improve water pressure and water quality.

The remainder of the requested increase in revenue will cover the \$2,292,688 in increased operating expenses for electricity, labor, chemicals, health insurance and maintenance costs.

**How much will it cost?**

Under the proposed increase, the typical water bill for a residential customer with 6,704 gallons of consumption and a 5/8 or 3/4-inch water meter would see an increase of only 52 cents per day. On a monthly basis, the requested rate increase would raise the typical bill from \$19.52 to \$35.10 per month, an average increase of 79.8%.

This is a significant increase, but ultimately the investments funded by the rate increase may save customers money in the long run as a well maintained water system is more efficient and reliable.

Water rates for each of Arizona American's districts are approved by the Arizona Corporation Commission separately and are determined based on the unique local costs to serve each district.

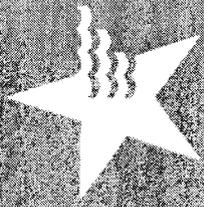
Recently you received a required public notice at your service address containing important information about the rate filing. This packet included the date of the hearing (2 p.m., March 19, 2009) at the ACC, opportunities for public comment and deadlines for case participation.

Arizona American Water will hold an open house at **2 p.m. on Thursday, November 20, 2008 at the Palm Ridge Recreation Center, Summit Hall B, 13800 Deer Valley Drive, in Sun City West**, to inform customers about the proposed water rate increase. **The open house will begin at 2 p.m. followed by a presentation at 2:30 p.m.** Water professionals will be on hand to answer customer's questions and provide information about water rates, water quality, conservation and customer service. Further details on current Sun City West water district rates are available at [www.arizonaamwater.com](http://www.arizonaamwater.com) under the Customer Service tab.

Thank you,

A handwritten signature in black ink, appearing to read "Bradley Cole", written over a horizontal line.

Bradley Cole, Director of Operations



AMERICAN WATER



## Investing in Our Communities

Sun City West Water District  
Rate Proposal

November 20, 2008



## **Introductions**

- **Arizona American Water**
  - Todd Walker, External Affairs Manager
  - Thomas Broderick, Director of Rates and Regulation
  - Brad Cole, Director of Operations





## **Community meeting format**

- **2:00 pm – 4:00 pm**
- **Arizona American Water presentation (30 minutes)**
- **Please hold questions until conclusion of presentation, thank you**
- **Open house with Arizona American Water personnel with expertise in Rates, Customer Service, Water Quality and Conservation**





## **Today we will talk about...**

- **Water rates – current and proposed**
- **Basic rate formula**
- **Sun City West water district**
- **Capital investment & expenses**
- **Rate application timeline**
- **What's next**





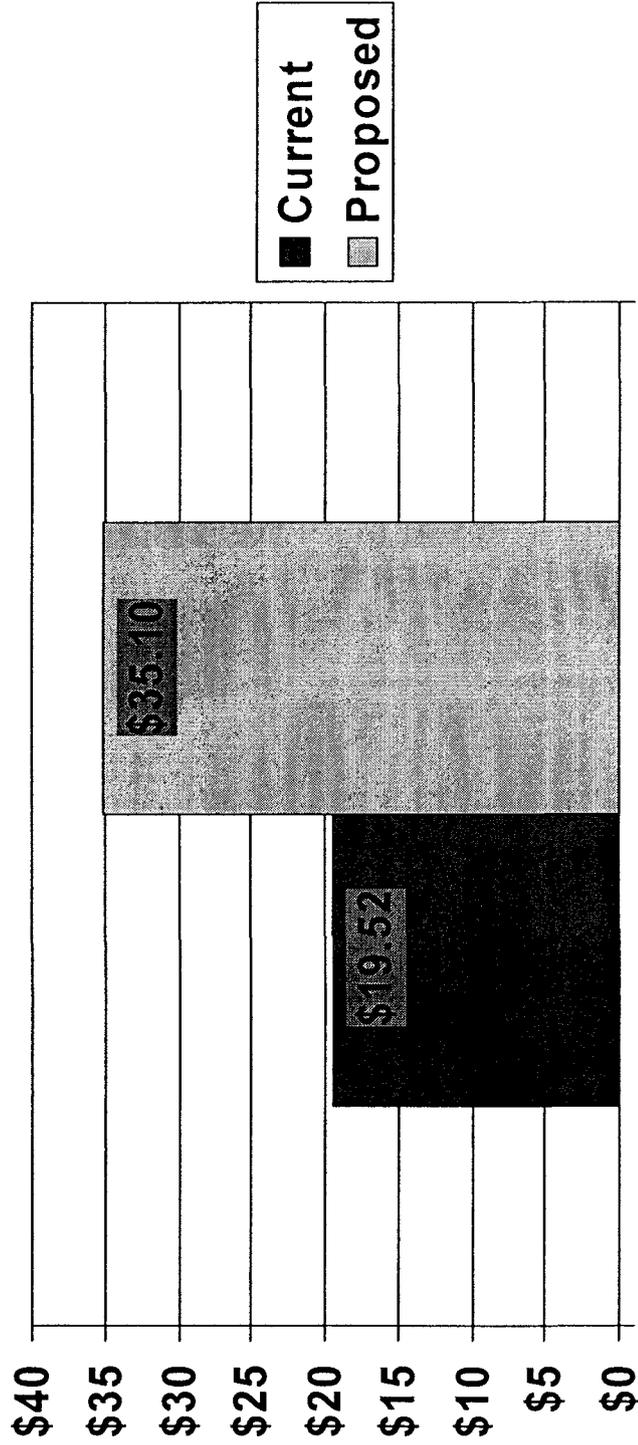
## Water consumption charges – 5/8 or 3/4 inch meter

	Current	Proposed
	Charge per 1,000 gallons	Charge per 1,000 gallons
• 0 – 4,000	\$1.31	• 0 – 4,000 \$2.88
• 4,001 – 15,000	\$1.74	• 4,001 – 15,000 \$3.17
• 15,001 +	\$2.01	• 15,001 + \$3.41
• Base Charge = \$9.57 per month		• Base Charge = \$15.00 per month

(includes step 1 arsenic charge)



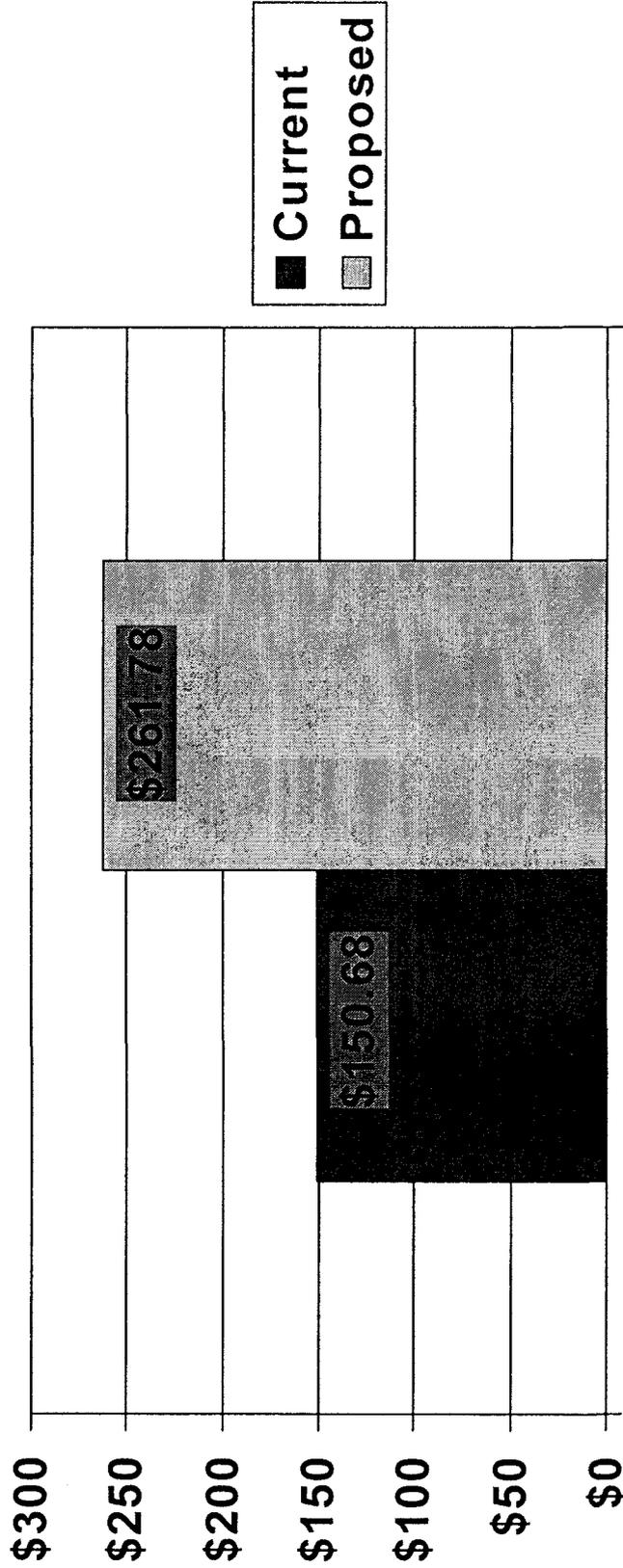
## Proposed Increase = 52 cents per day



Residential monthly bill based on average usage of 6,704 gallons and a 5/8 or 3/4 inch meter - 14,230 customers on this meter



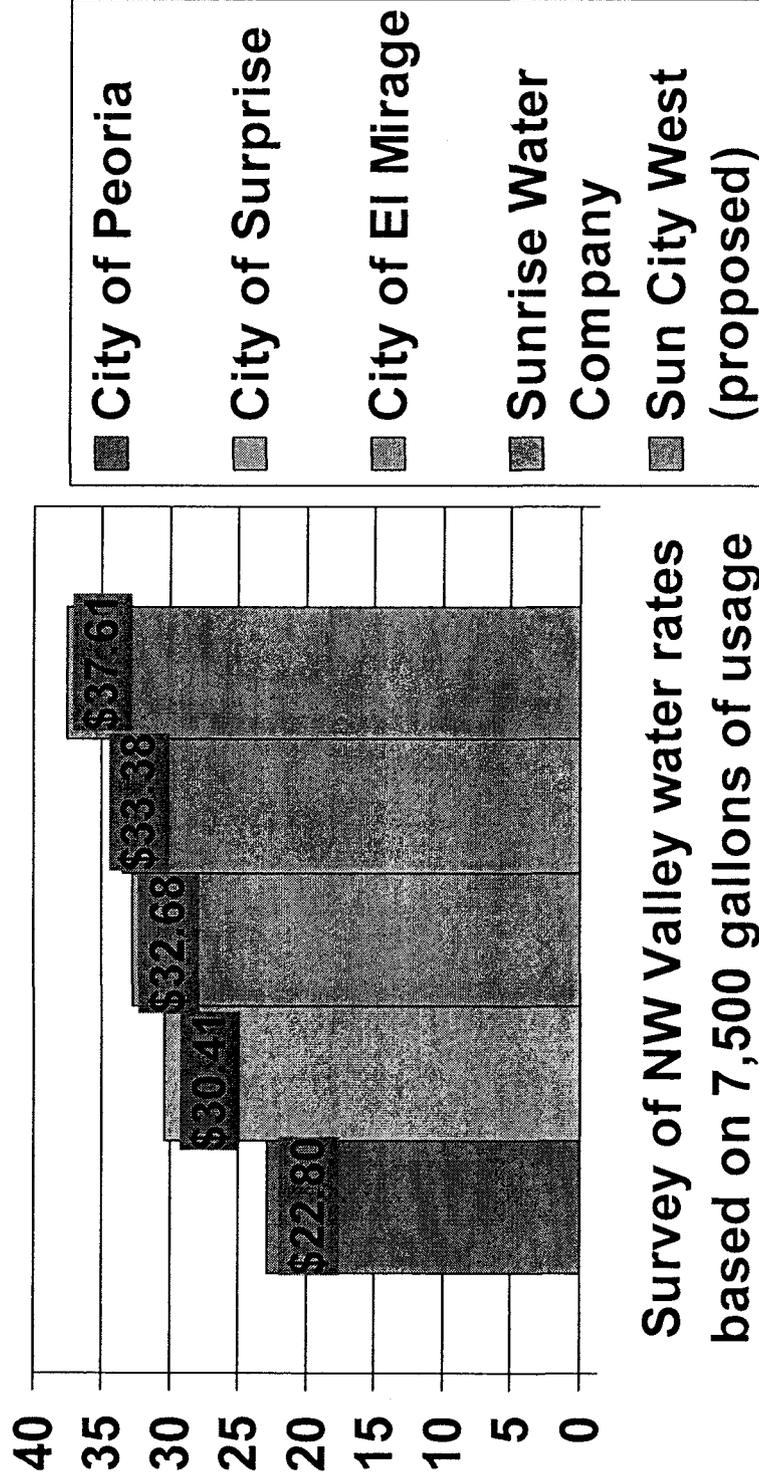
## Proposed Increase = \$3.70 per day



Monthly bill based on average usage of 56,413 gallons and a 1.5 inch meter - 474 multi-housing accounts on this meter



## Residential water rates comparisons



Survey of NW Valley water rates  
based on 7,500 gallons of usage  
per month







## Sun City West water district facts

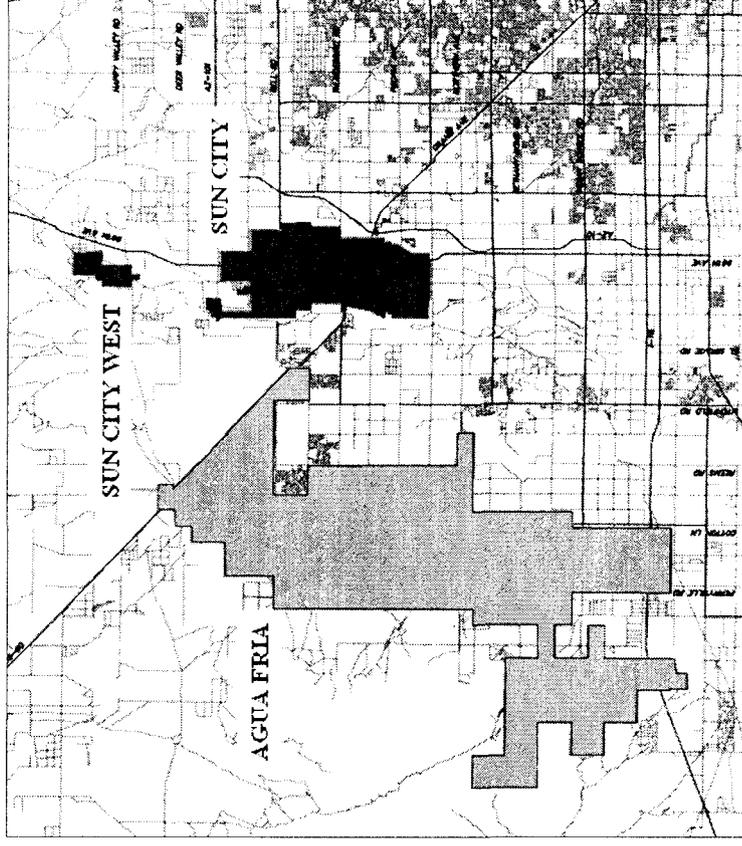
- Arizona American Water's Sun City West water district provides high-quality water services to customers in the community of Sun City West
- Currently has 15,358 water customers
- Current Sun City West water rates were established in July of 2004 and based on investment and operating expense through calendar year 2001.
- Current rate application is based on the amount of investment and operating expense through calendar year 2007



## Water Facilities

- **Listing of key infrastructure**
  - Wells – 10
    - Yield – 11,050 gallons per minute
    - ♦ Production – 2.113 billion gallons
  - Water Treatment Plants
    - ♦ Arsenic Removal
      - Coagulation/Filtration (1)
      - Granular Iron Media (1)
  - Tanks – 4
    - ♦ Capacity - 4 million gallons
  - Booster Pumps – 19
  - Water Mains – 1,039,632 linear feet (196.90 miles)
  - Fire Hydrants – 1,142
  - Gate Valves – 2,608

## Central Division





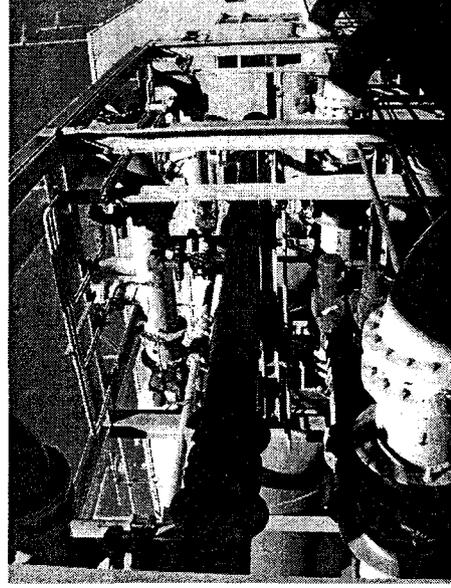
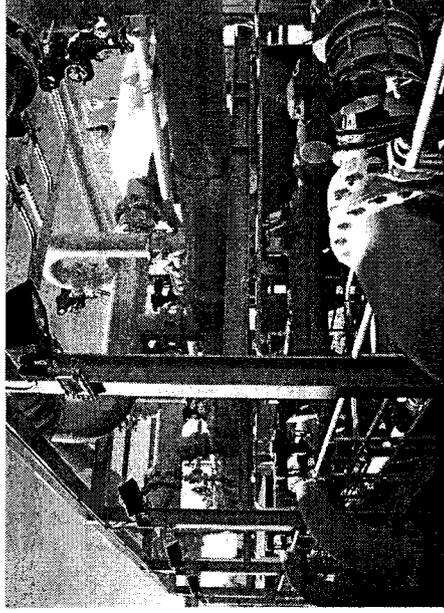
## Capital Investments

Additional investment in current case filing:

Water Treatment	\$1.02 million	Water treatment equipment, trans. & dist. mains, comm. equip., and structures & Impr.
Wells	\$1.28 million	Well # 1.4
Pumps & Motors	\$1.81 million	Replacements
Water Service Lines	\$0.78 million	New & Replacements



## Arsenic Removal – Sun City West Water Plant 1

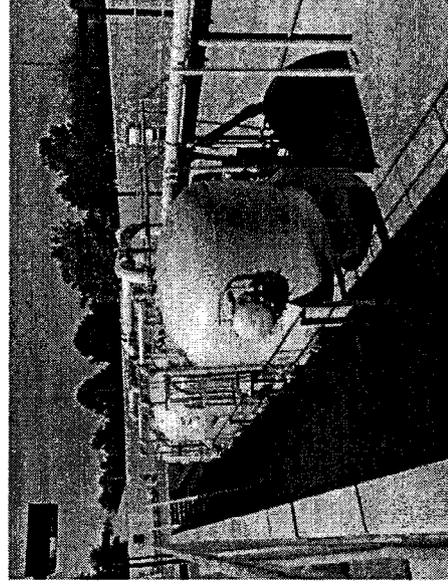
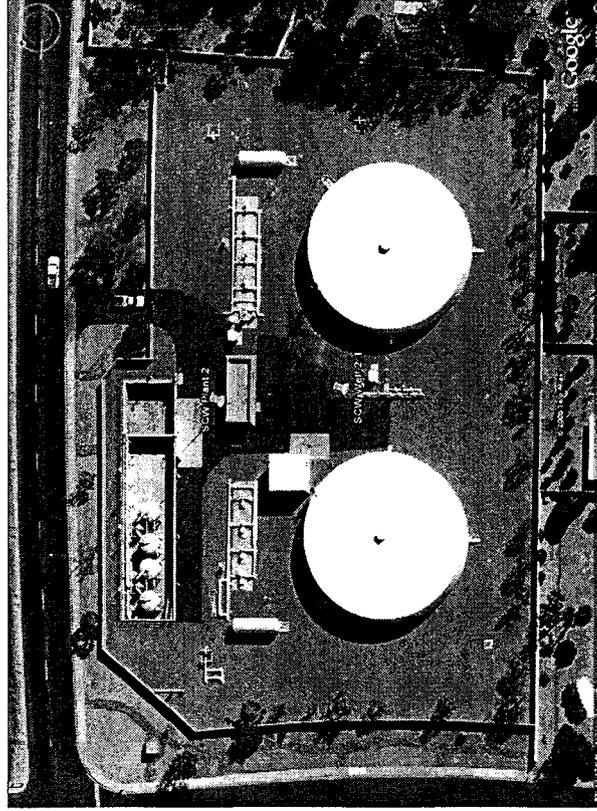


**New – control room, filter  
gallery, chemical storage,  
clarifiers and sludge  
holding tank**





## Arsenic Removal – Sun City West Water Plant 2



**New – well fill line,  
chemical storage and  
filter gallery**





## Sun City West Water Expenses

### 2001 versus 2007

- **Primary reasons for expense increases are:**
  - Shared corporate and support services, National call center and National laboratories, and Reporting & Compliance, \$0.9 million
  - Depreciation, \$0.6 million
  - Electricity and chemicals, \$0.5 million
  - Arizona labor and customer service accounting, \$0.4 million
  - Employee health insurance and pension, \$0.3 million
  - 10- year water tank maintenance program, \$0.1 million







## What's Next?

- Rate Case Hearings-

Thursday, March 19, 2:00 pm at Arizona Corporation  
Commission offices – 1200 W. Washington, Phoenix, AZ

- Documents-

[www.cc.state.az.us](http://www.cc.state.az.us) Use the e-docket function. Reference

Docket No. W-01303A-08-0227

- E-mail us to calculate the affect of the proposed rate increase  
on your water bill- [azrates@amwater.com](mailto:azrates@amwater.com)

**Dear Agua Fria Water Customer,**

I am writing to you to explain our recent request to the Arizona Corporation Commission (ACC) to increase the rates we charge for water service in your area. The rate increase request is \$0.47 per day for the average residential customer with a 5/8-inch water meter and if approved would take effect late summer or fall 2009.

**Why do we need a rate increase?**

The requested rate increase is necessary to pay for the significant improvements being made to your water system and to keep it well-maintained and in good condition. In addition, some operating costs have increased since our last request for a general rate adjustment which was filed in November, 2002.

We understand that no one wants to see their bills go up, especially during these challenging economic times, but the proposed rate increase is necessary to ensure that our system is capable of meeting your existing and future water needs.

Approximately, 83% of the requested revenue increase is due to new investment in the local system. Since the previous rate filing, Arizona American Water has invested approximately \$80 million in the Agua Fria water district. These investments include water treatment facilities for arsenic removal and treatment of surface water, transmission and distribution mains, tank reservoirs, pumps, and wells throughout the Agua Fria district. These system improvements prevent leaks and main breaks, maintain adequate water supply, and improve water pressure and water quality.

The remainder of the requested additional revenue will cover increases in chemicals for water treatment, electricity costs, labor and labor-related expenses..

**How much will it cost?**

Under the proposed increase, the typical water bill for residential customers in the Agua Fria water district with a 5/8-inch meter would increase by about \$0.47 per day from \$24.16 to \$38.21 per month based on monthly water consumption of 7,400 gallons. The typical water bill for residential customers with a 1-inch meter would increase by about \$0.84 per day from \$52.83 to \$78.15 per month based on monthly water consumption of 11,753 gallons.

This is a significant increase, but ultimately the investments funded by the rate increase will save customers money in the long run as a well-maintained water system is more efficient and reliable.

Water rates for each of Arizona American's districts are approved by the Arizona Corporation Commission separately and are determined based on the unique local cost to serve each district.

Recently, you received a required public notice at your service address containing important information about the rate filing. This packet included the date of the hearing at the ACC, opportunities for public comment and deadlines for case participation.

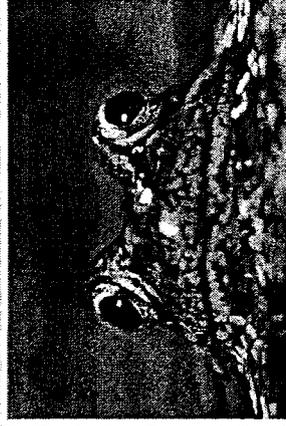
Arizona American Water will hold a community meeting at **5:00 p.m., on December 16, 2008 in the Agua Fria Room, Cimarron Center, Sun City Grand, Surprise, AZ 85374**. Doors will open at 4:30 p.m. for an open house where water professionals will be on hand to answer customers' questions and provide information about water rates, water quality, conservation, and customer service. Further details on current Agua Fria water district rates are available at [www.arizonaamwater.com](http://www.arizonaamwater.com) under the Customer Service tab.

Thank you,

Bradley Cole, Director of Operations



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Investing in the West Valley

Information about Proposed Water Rate  
Increase

December 16, 2008



## Introductions

### **Arizona American Water:**

- **Kevin Tilden, External Affairs Director**
- **Sheryl Hubbard, Manager, Rates & Regulation**
- **Brad Cole, Director of Operations**

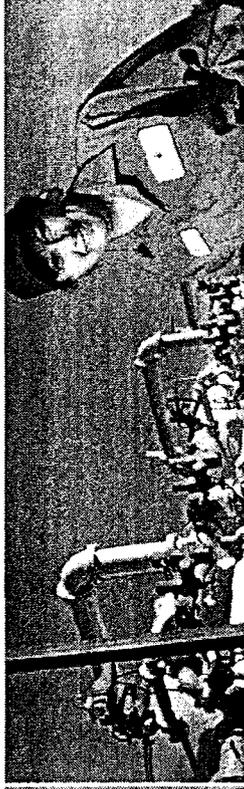




## Community Meeting Format

- 5:00 p.m.- Arizona American Water Presentation
- Please hold questions until presentation concludes, Thank You.
- Open house: Arizona American Water experts will answer questions on Rates, Billing, Operations, Customer Service, Engineering, Water Quality, and Conservation.





**Today we will talk about...**

- **Agua Fria District Water System**
- **Water Rates – Current & Proposed**
- **How Rate Proposals are Formulated**
- **Investment in Local Infrastructure**
- **Rate Application Timeline**





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## Agua Fria Water District Facts

- Arizona American Water's Agua Fria water district provides high-quality water services to customers stretching from Surprise in the north and Buckeye in the south.
- Agua Fria district has 33,561 water customer connections.
- Current Agua Fria water rates were established in June of 2004 and based on investment and operating expenses through calendar year 2001.
- Arsenic cost recovery surcharge was authorized by ACC in July 2006.





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# AGUA FRIA BILL

## Customer Account Information

For Service To:

Account Number: /  
Premise Number: /

## Billing Period & Meter Information

Billing Date: Dec 10, 2008  
Billing Period: Nov 05 to Dec 05 (30 days)

Next reading on/about: Jan 07, 2009  
Rate Type: Residential

Meter readings in current billing period:

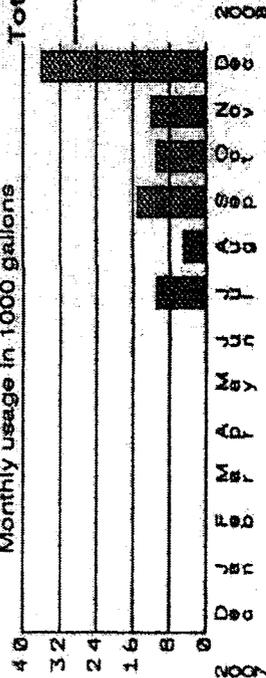
Meter Number S81953635 is a 5/8-inch meter.  
Present-actual 101  
Last-actual 65  
T-gal used 36

## Billing Summary

Prior Balance		\$89.03
Balance from last bill		-89.03
Payments as of Dec 10, 2008. Thanks!		0.00
Total prior balance, Dec 10, 2008		0.00
<b>Current Water Charges</b>		
Basic Services		9.08
Water Volume	(@ 1.380 x 4.00)	5.52
	(@ 2.060 x 9.00)	18.54
	(@ 2.487 x 23.00)	57.20
Groundwater Withdrawal Fee		.36
Total Use Billed		90.70
<b>Current Wastewater Charges</b>		
ACC Resid Reg Assmnt Fee		.10
Sewer Service		27.76
Per Unit	(@ 3.480 x 7.00)	24.36
	(@ .000 x 29.00)	.00
Total Use Billed		52.22
<b>Other Current Charges</b>		
Arsenic Recovery (EPA mandate)		7.12
ACC Resid Reg Assmnt Fee		.19
Total other charges, Dec 10, 2008		7.31
<b>Taxes</b>		
County Tax - Maricopa		.68
State Tax		5.48
Water Use Tax		.23
Total taxes, Dec 10, 2008		6.39
<b>TOTAL AMOUNT DUE</b>		<b>\$156.62</b>

## Water Usage Comparison

Monthly usage in 1000 gallons

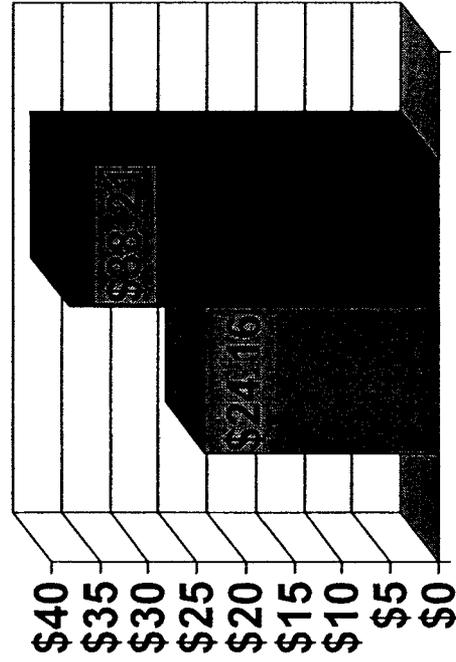




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## Proposed Increase = 47 cents per day



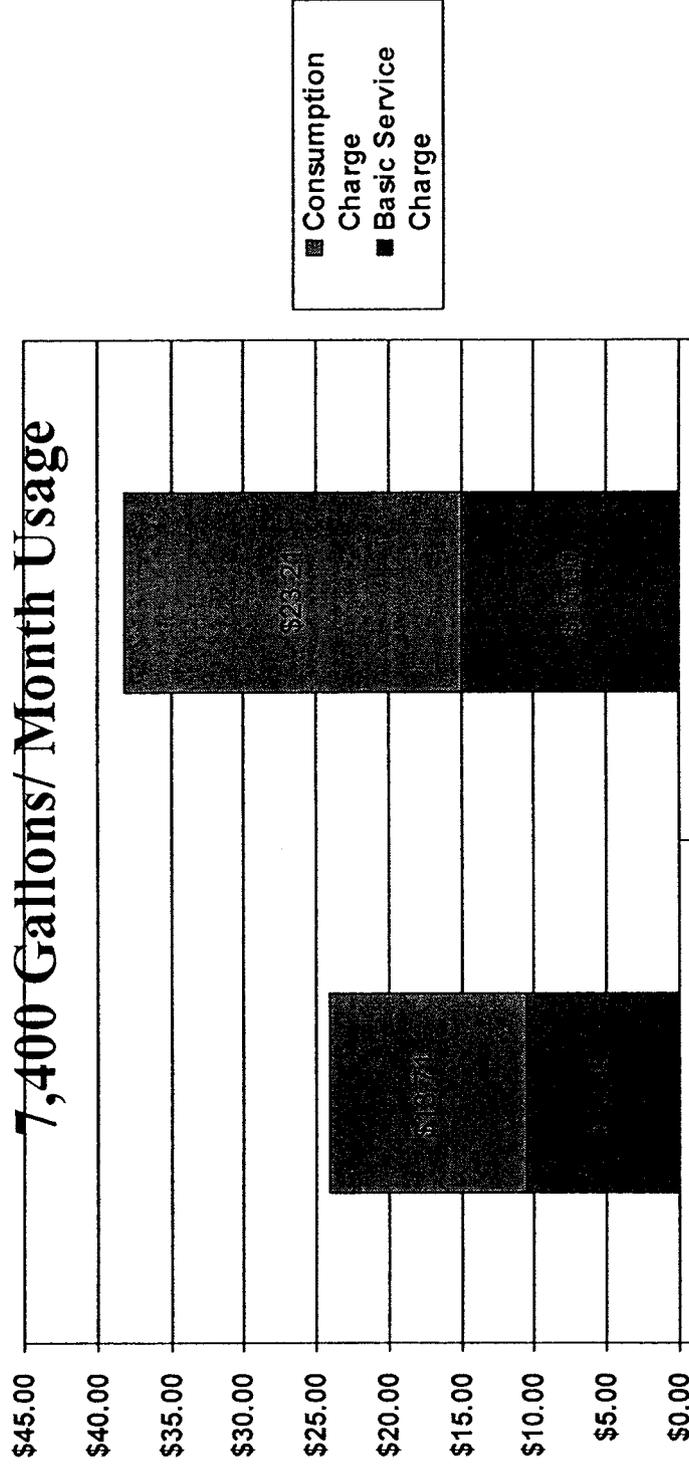
Average residential  
monthly bill based on  
monthly usage of 7,400  
gallons for 5/8" & 3/4"  
meters (approx 28,000  
customers)





## Rate Components – Service Charge & Usage Charge

5/8 & 3/4 Inch Meters Based on  
7,400 Gallons/ Month Usage



**Current = \$24.16    Proposed = \$38.21**



**Residential Water Usage Charge**  
**per 1,000 gallons for 5/8 & 3/4 inch meters**

Gallons of Water (per month)	Current (per 1,000 gallons)	Proposed (per 1,000 gallons)
0- 4,000 gallons	\$1.54	\$2.93
4,000-13,000 gallons	\$2.22	\$3.38
> 13,001 gallons	\$2.65	\$3.59





**Basic Formula For Water Rates**

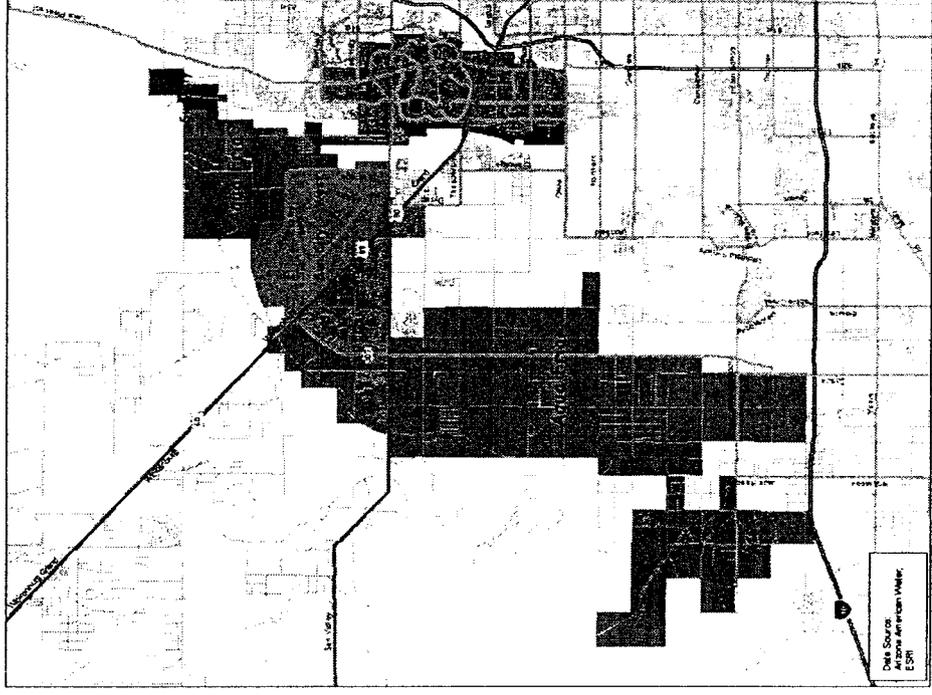
<b>2007 Infrastructure Investment or "Rate Base"</b>	<b>\$ 97.0 M</b>
<b><u>Requested Cost of Capital</u></b>	<b>\$ 8.4%</b>
Requested Annual Operating Income	\$ 8.1 M
<b>2007 Actual Revenues</b>	<b>\$ 18.8 M</b>
<b><u>2007 Actual Expenses</u></b>	<b>\$ 16.2 M</b>
Actual Operating Income/Loss	\$ 2.6 M
<b>Operating Income Deficiency</b>	<b>\$ 5.5 M</b>
<b><u>Additional Taxes</u></b>	<b>\$ 3.7 M</b>
Proposed Increase in Revenues	\$ 9.2 M





## Agua Fria District Highlights

- **736 Miles of Water Mains**
- **34 Wells**
  - 30,000 Gallons per minute capacity
  - 6 Billion gallons water production 2007
- **17 Storage Tanks (17 million gallons)**
- **67 Booster Pumps**
- **6,120 Fire Hydrants**
- **15,342 Valves**
- **Water Treatment Plants**
  - 4 - Arsenic Removal
  - 1 - Arsenic/Nitrate Removal
  - 1 - Surface Water Treatment





## Investing in the West Valley

### Key Infrastructure Investments Total = \$ 80 Million

- 1) **White Tanks WTP**- Under construction = \$25 Million
- 2) **Agua Fria Main** - 12.4 miles of 12-inch to 30-inch pipe= \$10.4 Million
- 3) **Arsenic Removal Facilities**- Agua Fria Water Plants = \$8.5 Million
- 4) **Distribution System Improvements & Reservoirs** = \$3 Million
- 5) **Wells**- Installed & replaced = \$8 Million
- 6) **Pumps & Equipment**- Installed & replaced = \$8 Million



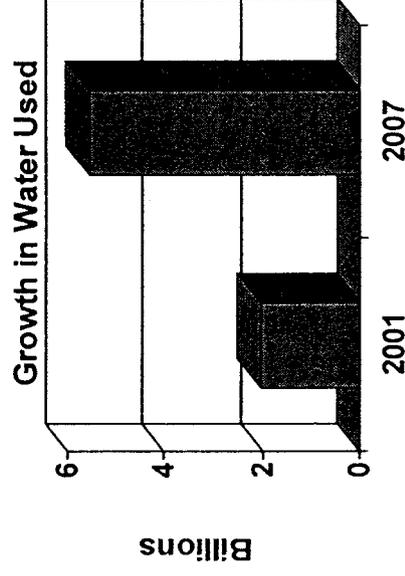
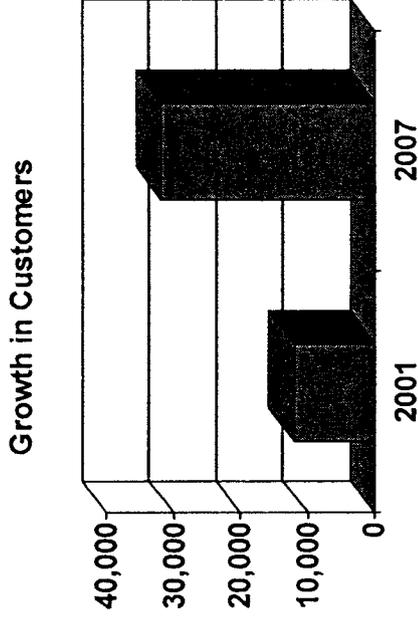


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## Agua Fria District Growth 2001-2007

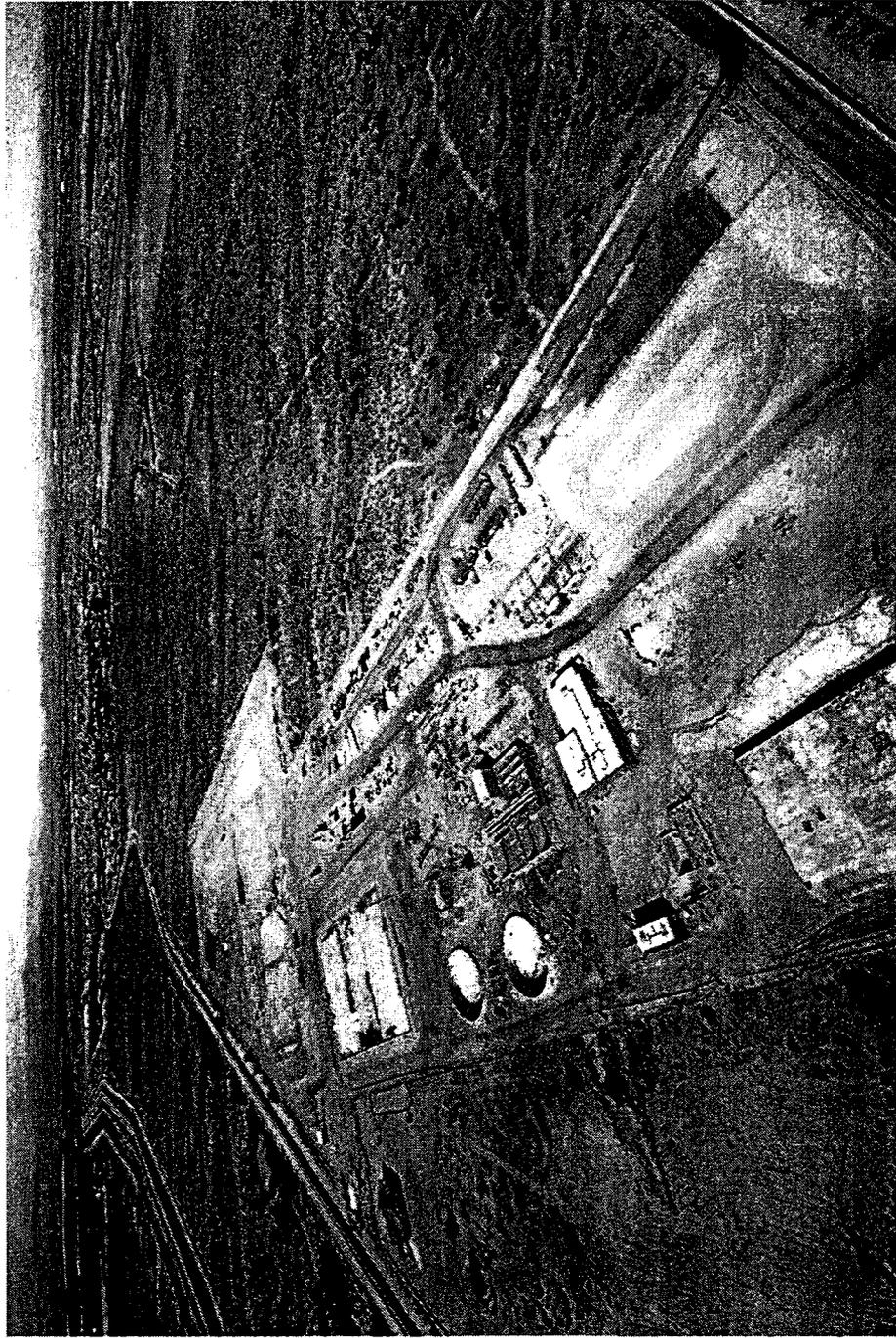
- **Number of Customers**
  - 2001 = 12,182
  - 2007 = 31,882
- **Gallons Used**
  - 2001 = 2 Billion gallons
  - 2007 = 5.6 Billion gallons



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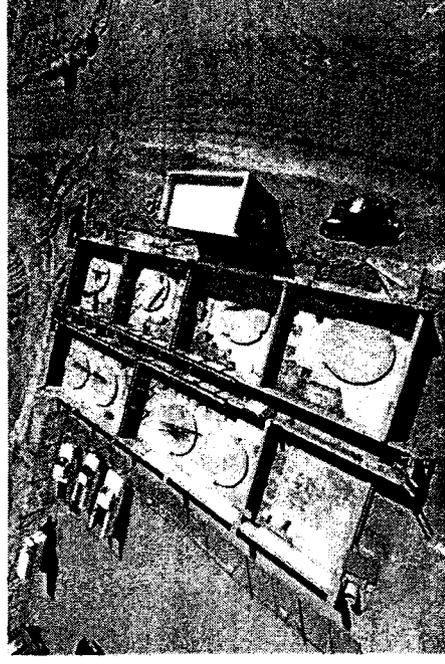
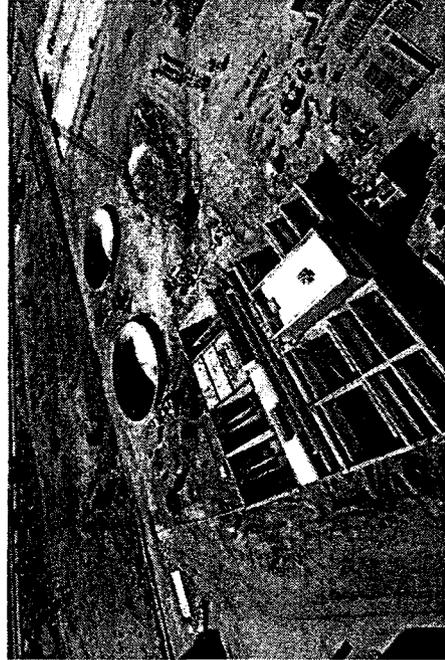
## White Tanks Water Treatment Plant



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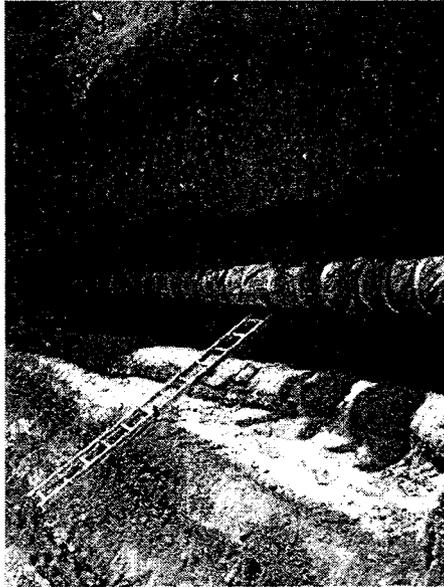
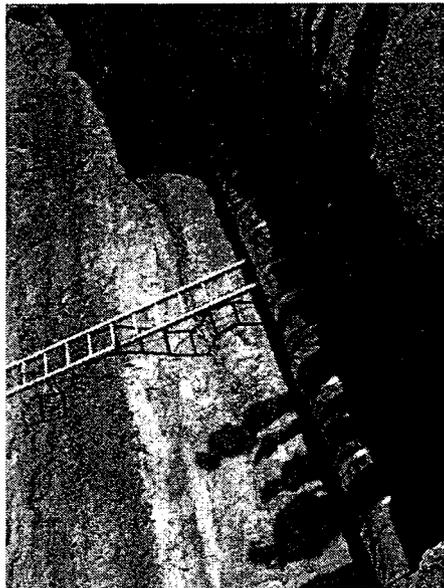
## White Tanks Water Treatment Plant



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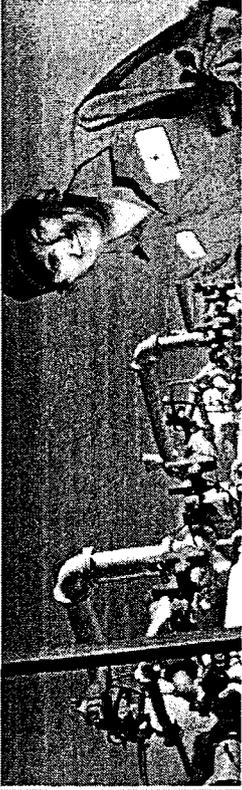


## Agua Fria Trunk Line

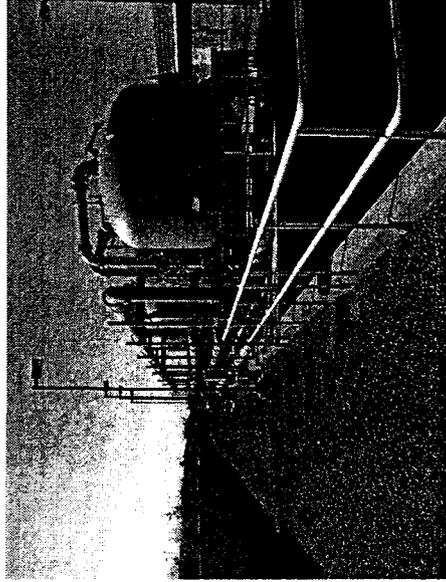
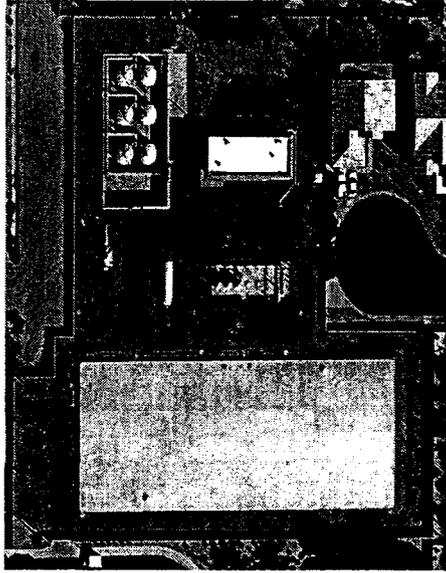




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## Arsenic Removal Facilities





## Agua Fria District Water Expenses

### 2001 versus 2007

- **Total Operating and Maintenance Expense Increased = \$11.6 Million**

#### Primary Reasons for Expense Increase are:

- 1.) Depreciation  
= \$ 3.1 Million
- 2.) Electricity & Chemicals  
= \$ 3.0 Million
- 3.) Water Quality Laboratory, Customer Service Center  
and other Shared Services  
= \$ 2.7 Million
- 4.) Labor, Health Insurance, Pensions  
= \$ 1.7 Million
- 5.) Operating, Maintenance & Taxes  
= \$ 1.1 Million



## Summary:

- **Water Rates Haven't Increased in 4 Years:** In the last six years we have invested more than \$80 million in Agua Fria and our operating expenses have increased by \$11.6 million without any increase in rates.
- **Average Customer:** Our proposal is asking our customers to pay the real costs of treatment and delivery through water rates.  
Proposed Increase = extra 47 cents per day
- **High Quality & Good Value:** Water is typically the least expensive commodity in the American household.

***If the proposed rate increase is approved, 1 gallon of water will cost only a half a penny per gallon.***

**That's still a good value.**





## Rate Application Timeline

- Rate Application Filed **May 2, 2008**
- Community Meeting **December 16, 2008**
- ACC Staff & Intervener Proposals **January 9, 2009**
- ACC Hearings Begin **March 19, 2009**
- New Rates Expected **September 1, 2009**

Additional public comments will be taken on the first day of the hearings. Written public comments can be accepted by visiting [www.azcc.gov](http://www.azcc.gov) or by mailing a letter to the Commission referencing Docket Number W-01303A-08-0227



## Contact Arizona American Water

Please contact Arizona American Water with any questions or concerns you have:

**24-hour Service Center: 1-800-383-0834**

We are located at: Arizona American Water  
15626 N. Del Webb Blvd.  
Sun City, AZ 85351

You can email us at [azrates@amwater.com](mailto:azrates@amwater.com) for a calculation of the impact of the rate proposal on your account.

