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IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT.	Docket No. W-01303A-09-0343
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM/AGUA FRIA WASTEWATER DISTRICT, ITS SUN CITY WASTEWATER DISTRICT AND ITS SUN CITY WEST WASTEWATER DISTRICT.	Docket No. SW-01303A-09-0343

Arizona Corporation Commission
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RUCO'S NOTICE OF FILING DIRECT TESTIMONY

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Testimony of William A. Rigsby, CRRA, and Ralph C. Smith in the above-referenced matter.

RESPECTFULLY SUBMITTED this 8th day of March, 2010.

Daniel W. Pozefsky
Chief Counsel

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ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-09-0343
AND DOCKET NO. SW-01303A-09-0343

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 8, 2010

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INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utility regulation and your educational background.

A. I have been involved with utility regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. Appendix 1, which is attached to my direct testimony on the cost of capital issues in this case, further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present RUCO's position on Arizona-American Water Company's ("AAWC" or "Company") request for an infrastructure improvement surcharge for the Company's Sun City Water

District, which AAWC wants to expand for all of its operating systems in Arizona. The Company-proposed infrastructure improvement surcharge is explained in the direct testimony of AAWC witness Christopher C. Buls and is part of AAWC's application for a permanent rate increase ("Application") for the Company's Anthem and Sun City Water Districts and for the Company's Anthem/Agua Fria, Sun City and Sun City West Wastewater Districts.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your direct testimony is organized.

A. My direct testimony is organized into three sections. First, the introduction I have just presented and second, the summary of my testimony that I am about to give. Third, I will present RUCO's position on the Company proposed infrastructure improvement surcharge.

Q. Please summarize RUCO's recommendation on the Company-proposed infrastructure improvement surcharge.

A. For the reasons that are explained below, RUCO is recommending that the Commission reject the Company-proposed infrastructure improvement surcharge.

INFRASTRUCTURE IMPROVEMENT SURCHARGE

Q. Have you reviewed the direct testimony of AAWC witness Christopher C. Buls?

A. Yes. I have reviewed Mr. Buls testimony which addresses AAWC's request for an infrastructure improvement charge for the Company's Sun City Water District.

Q. Briefly explain AAWC's request.

A. According to Mr. Buls' testimony, AAWC is seeking Commission approval of a surcharge mechanism that would recover the costs of certain plant additions placed into service between permanent rate case proceedings. Mr. Buls states that the selected plant additions would include replacement mains, hydrants, meter, (including AMR replacements), services, tanks, and booster stations. AAWC also seeks to include infrastructure relocations as a selected addition that would be eligible for cost recovery under the Company-proposed surcharge.

Q. How would the Company-proposed recovery mechanism work?

A. Mr. Buls explains that the Company would analyze the qualifying assets placed into service twice a year. The calculation of the actual surcharge would be based on factors that are established in AAWC's most recent rate case before the ACC. The Company would essentially calculate a required level of revenue associated with the plant additions as it would in

a general rate case proceeding in order to arrive at the surcharge amount. The surcharge would then be revised as needed during general rate case filings. The Company further proposes that Commission Staff be required to review the Company's regular infrastructure surcharge requests within a thirty-day period and that the Commission vote on it at the next open meeting. Mr. Buls states that the ACC Staff review is only intended to be a check on the mechanics of the infrastructure surcharge mechanism, and not a full prudency review of the plant assets being placed into service. The prudency of the plant improvements would be determined in a future rate case proceeding.

Q. What is RUCO's recommendation regarding the Company's infrastructure improvement surcharge?

A. RUCO recommends that the Commission reject the Company-proposed infrastructure improvement surcharge.

Q. Why is RUCO recommending that the Commission reject the Company-proposed infrastructure improvement surcharge?

A. RUCO has consistently opposed the use of cost recovery mechanisms that do not allow for the type of thorough analysis that takes place in a general rate case proceeding. Furthermore, AAWC is proposing that it be permitted to earn a return on and a return of the costs of plant assets that are financed through non-investor supplied funds. In other words, AAWC

wants captive ratepayers to pay the Company a return on money that was supplied not by investors, but by the ratepayers themselves. An onerous arrangement that shifts the risk associated with the plant additions away entirely from AAWC, which will not have any of its own invested capital in the plant additions, and places the risk entirely on the backs of the Company's ratepayers. Quite simply, what the Company is proposing here is nothing more than a surcharge that is identical to the Arsenic Cost Recovery Mechanism ("ACRM") which the Commission approved in the past to allow Arizona water providers to recover the costs associated with meeting more stringent arsenic level standards. The fact that water providers had to comply with new federal regulations was an extraordinary circumstance that required extraordinary ratemaking.

Q. Why are the circumstances revolving around AAWC's infrastructure improvement surcharge request different from the circumstances that led to the Commission's approval of the ACRM?

A. First, AAWC is seeking immediate recovery of certain plant additions that would normally be recovered in a general rater case proceeding. There is nothing extraordinary about these types of plant additions. In fact, the use of non-investor supplied capital to finance the types of plant additions being proposed by AAWC would normally be treated as a contribution that provides no return on or return of the funds that were not supplied by the Company's investors.

Second, there is no federal or state requirement that requires the Commission to allow for recovery of plant additions placed into service between general rate case proceedings.

Q. Why is RUCO opposed to the implementation of ACRM-like mechanisms for the type of cost recovery that AAWC is seeking in this case?

A. There are several reasons why RUCO has consistently opposed the use of ACRM-like mechanisms. Adjustor mechanisms are extraordinary rate recovery devices that are permitted for certain narrow circumstances. The ACRM is a type of adjustor mechanism that was specifically designed to address a one-time event that impacted dozens of Arizona water companies simultaneously.

Q. What was the original intent for the ACRM?

A. The original ACRM was approved by the Commission to give water providers in Arizona the ability to recover the costs associated with meeting the U.S. Environmental Protection Agency's ("EPA") revised drinking water arsenic standard of 10 parts per billion. The EPA's requirement that water providers comply with the more stringent standard was in effect an unfunded mandate from the federal government. Multiple Arizona water providers had no choice but to either comply with the EPA's rule or face the consequences of being in violation of it. This being the case, representatives from the state's investor owned water companies,

ACC Staff, and RUCO developed the present ACRM which allows water utilities to comply with the new EPA standard through a surcharge that was established within the context of a rate case proceeding where a constitutional finding of a utility's fair value has been established. The key point here is that the EPA's revised arsenic standard represented an extraordinary circumstance that neither Arizona's government, which includes the Commission, or the state's water companies, either investor owned or municipal, had any control over, and that would be impacting a number of water utilities simultaneously.

Q. Are there any similar mandates in regard to the infrastructure improvements covered in AAWC's request?

A. No. There is no federal, or for that matter any other, mandates requiring that AAWC be required to construct the types infrastructure improvements covered in AAWC's request. Nor are there any other extraordinary circumstances that would warrant the approval of an ACRM-like mechanism in this case. As I stated earlier, under normal ratemaking procedures the funds collected from non-investors would be treated as a contribution-in-aid-of-construction that the company would not earn a return on or recover through rates. For these reasons and the reasons stated above, RUCO believes that the Company's request should be denied.

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of any of the witnesses for AAWC constitute your acceptance of their positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your testimony on AAWC?

A. Yes, it does.

ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-09-0343
AND DOCKET NO. SW-01303A-09-0343

DIRECT TESTIMONY
ON COST OF CAPITAL

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 8, 2010

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INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utilities regulation and your educational background.

A. I have been involved with utilities regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. I have been awarded the professional designation, Certified Rate of Return Analyst ("CRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). The CRRA designation is awarded based upon experience and the successful completion of a written examination. Appendix 1 further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

...

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present recommendations that are based on my analysis of Arizona American Water Company's ("AAWC" or "Company") application for a permanent rate increase ("Application") for two of the Company's water districts and three of AAWC's wastewater districts in the state of Arizona. AAWC has chosen the operating period ended December 31, 2008 for the test year in this proceeding. AAWC has also elected not to conduct a reconstruction cost new depreciated study for the purpose of establishing a fair value rate base, and to use its original cost rate base as its fair value rate base for the purpose of establishing a fair value rate of return on the Company's invested capital.

Q. Which water and wastewater districts are included in AAWC's Application?

A. AAWC is seeking permanent rate increases for the Anthem and Sun City Water Districts. The Company is also seeking permanent rate increases for its Anthem/Agua Fria, Sun City and Sun City West Wastewater Districts.

Q. Briefly describe Arizona-American.

A. Arizona-American operates eleven water and wastewater systems in Arizona. The Company is a subsidiary of American Water Works

Company, Inc., a publicly traded entity on the New York Stock Exchange, which is based in Voorhees, New Jersey.[1]

Q. Is this your first case involving Arizona-American?

A. No. I have also testified, as a witness for RUCO, on cost of capital issues in prior rate case proceedings for AAWC's Sun City and Sun City West Wastewater Districts[2]. I also appeared as a witness in rate case proceedings that involved the Company's Anthem/Agua Fria Water and Wastewater Districts[3], as well as Arizona-American's Mohave[4] and Paradise Valley Districts[5]. I also recommended, as a Senior Rate Analyst on the ACC Staff, that the Commission reauthorize a revolving line of credit for the Paradise Valley Water District[6]. Most recently I testified in AAWC's "Mega" case,[7] which involved all of the Company's districts that are not part of this filing. In addition to the rate increase and financing

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[1] According to the Value Line Investor Survey, American Water Works Company, Inc. is the largest investor-owned water and wastewater utility in the U.S., providing services to over 15 million people in 32 states and Canada. Its non-regulated business assists municipalities and military bases with the maintenance and upkeep as well. Regulated operations made up almost 90% of 2008 revenues. New Jersey is its biggest market accounting for nearly 20% of revenues. American Water Works Company, Inc. has roughly 7,300 employees. RWE AG owns roughly 49% of common stock outstanding. Capital World Investors, 8%. Off. & dir. own less than 1%. President & CEO; Donald L. Correl.

[2] Docket No. WS-01303A-06-0491

[3] Docket No. WS-01303A-06-0403

[4] Docket No. W-01303A-06-0014

[5] Docket No. W-01303A-05-0405 et al.

[6] Docket No. W-01335A-00-0327

[7] Docket No. W-01303A-08-0227 et al.

proceedings cited above, I have also prepared testimony in cases that involved a request for an arsenic cost recovery surcharge for AAWC's Paradise Valley District. I further testified on AAWC's request for an increase in hook-up fees to fund the construction of the Company's White Tanks surface water treatment facility ("White Tanks Plant"), for the Company's Agua Fria District.[8]

Q. What issues will you address in your testimony?

A. I will address the cost of capital issues associated with the case. I have also filed, under separate cover, direct testimony on RUCO's position on AAWC's proposed infrastructure improvement surcharge for the Company's Sun City District.

Q. Were you also responsible for conducting an analysis on the Company's proposed revenue level, rate base and rate design?

A. No. Mr. Ralph C. Smith of Larkin & Associates, PLLC, handled the required revenue and rate base aspects of the case and Mr. Rodney L. Moore of RUCO will file testimony on rate design.

Q. Please explain your role in RUCO's analysis of AAWC's Application.

A. I reviewed AAWC's Application and performed a cost of capital analysis to determine a fair rate of return on the Company's invested capital. In

[8] Docket No. W-01303A-05-0718

addition to my recommended capital structure, my direct testimony will present my recommended cost of common equity and my recommended costs of long and short-term debt (the Company has no preferred stock). The recommendations contained in this testimony are based on information obtained from Company responses to data requests, the Company's Application and from market-based research that I conducted during my analysis.

Q. Please identify the exhibits that you are sponsoring.

A. I am sponsoring Schedules WAR-1 through WAR-9.

SUMMARY OF TESTIMONY AND RECOMMENDATIONS

Q. Briefly summarize how your cost of capital testimony is organized.

A. My cost of capital testimony is organized into seven sections. First, the introduction I have just presented and second, the summary of my testimony that I am about to give. Third, I will present the findings of my cost of equity capital analysis, which utilized both the discounted cash flow ("DCF") method, and the capital asset pricing model ("CAPM"). These are the two methods that RUCO and ACC Staff have consistently used for calculating the cost of equity capital in rate case proceedings in the past, and are the methodologies that the ACC has given the most weight to in setting allowed rates of returns for utilities that operate in the Arizona jurisdiction. In this third section I will also provide a brief overview of the

current economic climate that AAWC is operating in. Fourth, I will discuss my recommended cost of debt. Fifth, I will compare my recommended capital structure with the Company-proposed capital structure. Sixth, I will explain my weighted cost of capital recommendation and seventh, I will comment on AAWC's cost of capital testimony. Schedules WAR-1 through WAR-9 will provide support for my cost of capital analysis.

Q. Please summarize the recommendations and adjustments that you will address in your testimony.

A. Based on the results of my analysis of AAWC, I am making the following recommendations:

Cost of Equity Capital – I am recommending a 9.50 percent cost of equity capital. This 9.50 percent figure falls within the range of results that I obtained in my cost of equity analysis, which employed both the DCF and CAPM methodologies.

Cost of Long-Term Debt – I am recommending a 5.47 percent cost of long-term debt. This is based on my review of the costs associated with AAWC's various long-term notes and agreements.

Cost of Short-Term Debt – I am recommending a 3.41 percent cost of short-term debt. This is based on the cost associated with commercial paper issued by AAWC.

Capital Structure – I am recommending that a blanket capital structure, for each of the five districts included in the Company's filing, comprised of approximately 13.29 percent short-term debt, 47.56 percent long-term debt and 39.15 percent common equity, be adopted by the Commission.

Weighted Average Cost of Capital – Based on the results of my recommended blanket capital structure, cost of common equity, and debt analyses, I am recommending a 6.77 percent weighted average cost of capital ("WACC") for AAWC. This figure represents the weighted cost of my recommended cost of common equity and my recommended cost of debt.

Q. Why do you believe that your recommended 6.77 percent cost of capital is an appropriate rate of return for AAWC to earn on its invested capital?

A. The 6.77 percent cost of capital figure that I have recommended meets the criteria established in the landmark Supreme Court cases of Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two

cases affirmed that a public utility that is efficiently and economically managed is entitled to a return on investment that instills confidence in its financial soundness, allows the utility to attract capital, and also allows the utility to perform its duty to provide service to ratepayers. The rate of return adopted for the utility should also be comparable to a return that investors would expect to receive from investments with similar risk.

The Hope decision allows for the rate of return to cover both the operating expenses and the "capital costs of the business" which includes interest on debt and dividend payment to shareholders. This is predicated on the belief that, in the long run, a company that cannot meet its debt obligations and provide its shareholders with an adequate rate of return will not continue to supply adequate public utility service to ratepayers.

Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient to cover all operating and capital costs is guaranteed?

A. No. Neither case *guarantees* a rate of return on utility investment. What the Bluefield and Hope decisions *do allow*, is for a utility to be provided with the *opportunity* to earn a reasonable rate of return on its investment. That is to say that a utility, such as AAWC, is provided with the opportunity to earn an appropriate rate of return if the Company's management exercises good judgment and manages its assets and resources in a manner that is both prudent and economically efficient.

COST OF EQUITY CAPITAL

Q. What is your recommended cost of equity capital for AAWC?

A. Based on the results of my DCF and CAPM analyses, which ranged from 5.24 percent to 9.75 percent, I am recommending a 9.50 percent cost of equity capital for AAWC. My recommended 9.50 percent figure falls on the high side of the aforementioned range of estimates that I obtained from my DCF and CAPM analyses, which utilized a sample of publicly traded water providers and a sample of publicly traded natural gas local distribution companies ("LDC").

Discounted Cash Flow Method

Q. Please explain the discounted cash flow ("DCF") method that you used to estimate AAWC's cost of equity capital.

A. The DCF method employs a stock valuation model known as the constant growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e. the Gordon model), the professor of finance who was responsible for its development. Simply stated, the DCF model is based on the premise that the current price of a given share of common stock is determined by the present value of all of the future cash flows that will be generated by that share of common stock. The rate that is used to discount these cash flows back to their present value is often referred to as the investor's cost of capital (i.e. the cost at which an investor is willing to forego other investments in favor of the one that he or she has chosen).

Another way of looking at the investor's cost of capital is to consider it from the standpoint of a company that is offering its shares of stock to the investing public. In order to raise capital, through the sale of common stock, a company must provide a required rate of return on its stock that will attract investors to commit funds to that particular investment. In this respect, the terms "cost of capital" and "investor's required return" are one in the same. For common stock, this required return is a function of the dividend that is paid on the stock. The investor's required rate of return can be expressed as the percentage of the dividend that is paid on the stock (dividend yield) plus an expected rate of future dividend growth. This is illustrated in mathematical terms by the following formula:

$$k = \frac{D_1}{P_0} + g$$

where: k = the required return (cost of equity, equity capitalization rate),

$\frac{D_1}{P_0}$ = the dividend yield of a given share of stock calculated by dividing the expected dividend by the current market price of the given share of stock, and

g = the expected rate of future dividend growth

This formula is the basis for the standard growth valuation model that I used to determine AAWC's cost of equity capital. It is similar to one of the models used by the Company.

Q. In determining the rate of future dividend growth for AAWC, what assumptions did you make?

A. There are two primary assumptions regarding dividend growth that must be made when using the DCF method. First, dividends will grow by a constant rate into perpetuity, and second, the dividend payout ratio will remain at a constant rate. Both of these assumptions are predicated on the traditional DCF model's basic underlying assumption that a company's earnings, dividends, book value and share growth all increase at the same constant rate of growth into infinity. Given these assumptions, if the dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as $g = b \times r$.

Q. Would you please provide an example that will illustrate the relationship that earnings, the dividend payout ratio and book value have with dividend growth?

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.[9]

[9] Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

Table I

	Year 1	Year 2	Year 3	Year 4	Year 5	Growth
Book Value	$10.00	$10.40	$10.82	$11.25	$11.70	4.00%
Equity Return	10%	10%	10%	10%	10%	N/A
Earnings/Sh.	$1.00	$1.04	$1.082	$1.125	$1.170	4.00%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	$0.60	$0.624	$0.649	$0.675	$0.702	4.00%

Table I of Mr. Hill's illustration presents data for a five-year period on his hypothetical utility. In Year 1, the utility had a common equity or book value of $10.00 per share, an investor-expected equity return of ten percent, and a dividend payout ratio of sixty percent. This results in earnings per share of $1.00 ($10.00 book value x 10 percent equity return) and a dividend of $0.60 ($1.00 earnings/sh. x 0.60 payout ratio) during Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's earnings are retained as opposed to being paid out to investors, book value increases to $10.40 in Year 2 of Mr. Hill's illustration. Table I presents the results of this continuing scenario over the remaining five-year period.

The results displayed in Table I demonstrate that under "steady-state" (i.e. constant) conditions, book value, earnings and dividends all grow at the same constant rate. The table further illustrates that the dividend growth rate, as discussed earlier, is a function of (1) the internally generated funds or earnings that are retained by a company to become new equity,

and (2) the return that an investor earns on that new equity. The DCF dividend growth rate, expressed as g = b x r, is also referred to as the internal or sustainable growth rate.

Q. If earnings and dividends both grow at the same rate as book value, shouldn't that rate be the sole factor in determining the DCF growth rate?

A. No. Possible changes in the expected rate of return on either common equity or the dividend payout ratio make earnings and dividend growth by themselves unreliable. This can be seen in the continuation of Mr. Hill's illustration on a hypothetical utility.

Table II

	Year 1	Year 2	Year 3	Year 4	Year 5	Growth
Book Value	$10.00	$10.40	$10.82	$11.47	$12.158	5.00%
Equity Return	10%	10%	15%	15%	15%	10.67%
Earnings/Sh	$1.00	$1.04	$1.623	$1.720	$1.824	16.20%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	$0.60	$0.624	$0.974	$1.032	$1.094	16.20%

In the example displayed in Table II, a sustainable growth rate of four percent[10] exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six

[10] [(Year 2 Earnings/Sh – Year 1 Earnings/Sh) ÷ Year 1 Earnings/Sh] = [($1.04 - $1.00) ÷ $1.00] = [$0.04 ÷ $1.00] = 4.00%

percent.[11] If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rates for earnings and dividends, displayed in the last column, are 16.20 percent. If this rate were to be used in the DCF model, the utility's return on common equity would be expected to increase by fifty percent every five years, [(15 percent ÷ 10 percent) – 1]. This is clearly an unrealistic expectation.

Although it is not illustrated in Mr. Hill's hypothetical example, a change in only the dividend payout ratio will eventually result in a utility paying out more in dividends than it earns. While it is not uncommon for a utility in the real world to have a dividend payout ratio that exceeds one hundred percent on occasion, it would be unrealistic to expect the practice to continue over a sustained long-term period of time.

Q. Other than the retention of internally generated funds, as illustrated in Mr. Hill's hypothetical example, are there any other sources of new equity capital that can influence an investor's growth expectations for a given company?

A. Yes, a company can raise new equity capital externally. The best example of external funding would be the sale of new shares of common stock. This would create additional equity for the issuer and is often the

[11] [(1 – Payout Ratio) x Rate of Return] = [(1 - 0.60) x 15.00%] = 0.40 x 15.00% = 6.00%

case with utilities that are either in the process of acquiring smaller systems or providing service to rapidly growing areas.

Q. How does external equity financing influence the growth expectations held by investors?

A. Rational investors will put their available funds into investments that will either meet or exceed their given cost of capital (i.e. the return earned on their investment). In the case of a utility, the book value of a company's stock usually mirrors the equity portion of its rate base (the utility's earning base). Because regulators allow utilities the opportunity to earn a reasonable rate of return on rate base, an investor would take into consideration the effect that a change in book value would have on the rate of return that he or she would expect the utility to earn. If an investor believes that a utility's book value (i.e. the utility's earning base) will increase, then he or she would expect the return on the utility's common stock to increase. If this positive trend in book value continues over an extended period of time, an investor would have a reasonable expectation for sustained long-term growth.

Q. Please provide an example of how external financing affects a utility's book value of equity.

A. As I explained earlier, one way that a utility can increase its equity is by selling new shares of common stock on the open market. If these new

shares are purchased at prices that are higher than those shares sold previously, the utility's book value per share will increase in value. This would increase both the earnings base of the utility and the earnings expectations of investors. However, if new shares sold at a price below the pre-sale book value per share, the after-sale book value per share declines in value. If this downward trend continues over time, investors might view this as a decline in the utility's sustainable growth rate and will have lower expectations regarding growth. Using this same logic, if a new stock issue sells at a price per share that is the same as the pre-sale book value per share, there would be no impact on either the utility's earnings base or investor expectations.

Q. Please explain how the external component of the DCF growth rate is determined.

A. In his book, The Cost of Capital to a Public Utility,[12] Dr. Gordon (the individual responsible for the development of the DCF or constant growth model) identified a growth rate that includes both expected internal and external financing components. The mathematical expression for Dr. Gordon's growth rate is as follows:

[12] Gordon, M.J., The Cost of Capital to a Public Utility, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

$$g = (br) + (sv)$$

where: g = DCF expected growth rate,

b = the earnings retention ratio,

r = the return on common equity,

s = the fraction of new common stock sold that accrues to a current shareholder, and

v = funds raised from the sale of stock as a fraction of existing equity.

and $v = 1 - [(BV) \div (MP)]$

where: BV = book value per share of common stock, and

MP = the market price per share of common stock.

Q. Did you include the effect of external equity financing on long-term growth rate expectations in your analysis of expected dividend growth for the DCF model?

A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of Schedule WAR-4, where it is added to the internal growth rate estimate (br) to arrive at a final sustainable growth rate estimate.

...

Q. Please explain why your calculation of external growth on page 2 of Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in the equation [(M ÷ B) + 1] ÷ 2.

A. The market price of a utility's common stock will tend to move toward book value, or a market-to-book ratio of 1.0, if regulators allow a rate of return that is equal to the cost of capital (one of the desired effects of regulation). As a result of this situation, I used [(M ÷ B) + 1] ÷ 2 as opposed to the current market-to-book ratio by itself to represent investor's expectations that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

Q. Has the Commission ever adopted a cost of capital estimate that included this assumption?

A. Yes. In a prior Southwest Gas Corporation rate case[13], the Commission adopted the recommendations of ACC Staff's cost of capital witness, Stephen Hill, who I noted earlier in my testimony. In that case, Mr. Hill used the same methods that I have used in arriving at the inputs for the DCF model. His final recommendation for Southwest Gas Corporation was largely based on the results of his DCF analysis, which incorporated the same valid market-to-book ratio assumption that I have used consistently in the DCF model as a cost of capital witness for RUCO.

[13] Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

Q. How did you develop your dividend growth rate estimate?

A. I analyzed data on two separate proxy groups. A water company proxy group comprised of four publicly traded water companies and a natural gas proxy group consisting of ten natural gas local distribution companies ("LDC") which have similar operating characteristics to water providers.

Q. Why did you use a proxy group methodology as opposed to a direct analysis of AAWC?

A. One of the problems in performing this type of analysis is that the utility applying for a rate increase is not always a publicly traded company, as is the case with AAWC itself. Although shares of AAWC's holding company, American Water Works Company, Inc., are traded on the New York Stock Exchange (NYSE) under the ticker symbol AWK, there is no financial data available on dividends paid on *publicly held* shares of AAWC or any of the Company's water or wastewater districts. Consequently it was necessary to create a proxy by analyzing publicly traded water companies and LDC's with similar risk characteristics.

Q. Are there any other advantages to the use of a proxy?

A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope decision that a utility is entitled to earn a rate of return that is commensurate with the returns on investments of other firms with comparable risk. The proxy technique that I have used derives that rate of

return. One other advantage to using a sample of companies is that it reduces the possible impact that any undetected biases, anomalies, or measurement errors may have on the DCF growth estimate.

Q. Didn't you state earlier that AAWC is seeking rates for both its water and wastewater operations in Arizona?

A. Yes, I did.

Q. Why did you analyze only publicly traded water utilities and LDC's as opposed to firms that provide wastewater service?

A. The use of water utilities and LDC's was necessitated by the fact that there is a lack of financial and market information available on stand-alone wastewater utilities. This in itself is not a problem, given the fact that both water and wastewater utilities share similar risk characteristics. Both types of utilities provide a basic service for which there are no substitutes and are also subject to strict federal and state regulations.

Q. What criteria did you use in selecting the companies that make up your water company proxy for AAWC?

A. Three of the water companies used in the proxy are publicly traded on the New York Stock Exchange ("NYSE"), and one of them, Southwest Water Company is traded over the counter through the National Association of Securities Dealers Automated Quotation System ("NASDAQ"). All four

water companies are followed by The Value Line Investment Survey ("Value Line") and are the same companies that comprise Value Line's large capitalization Water Utility Industry segment of the U.S. economy (Attachment A contains Value Line's January 22, 2010 update of the water utility industry and evaluations of the four water companies used in my proxy).

Q. What companies comprise your water company proxy group?

A. My water company proxy group includes American States Water Company (stock ticker symbol "AWR"), Aqua America, Inc. ("WTR"), California Water Service Group ("CWT") and Southwest Water Company ("SWWC"). Each of these water companies face the same types of risk that AAWC faces. For the sake of brevity, I will refer to each of these companies by their appropriate stock ticker symbols henceforth.

Q. Is American Water Works Company, Inc. ("American Water"), the ultimate parent of AAWC followed by Value Line?

A. Yes.

Q. Why didn't you include American Water in your sample of water companies?

A. American Water has only been publicly traded since 2006. Since I did not have a full five years of history on American Water which to establish

benchmark growth figures, I decided not to include it in my sample. Value Line is however making projections on American Water's return on book value common equity which I will discuss later in my testimony.

Q. Briefly describe the areas served by the companies in your water company sample proxy.

A. In addition to providing water service to residents of Fountain Hills, Arizona, through its wholly owned subsidiary Chaparral City Water Company, AWR serves communities located in Los Angeles, Orange and San Bernardino counties in California. CWT provides service to customers in seventy-five communities in California, New Mexico and Washington. CWT's principal service areas are located in the San Francisco Bay area, the Sacramento, Salinas and San Joaquin Valleys and parts of Los Angeles. SWWC owns and manages regulated systems in California, New Mexico, Oklahoma and Texas. WTR is a holding company for a large number of water and wastewater utilities operating in nine different states including Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas, Florida and Kentucky.

Q. Are these the same water companies that AAWC used in its application?

A. AAWC's cost of equity witness, Dr. Bente Villadsen, used three of the four water companies included in my proxy. In addition to these three companies, Dr. Villadsen also uses four other water companies in her

DCF and risk positioning (i.e. CAPM) analyses,[14] which are included in Value Line's Small and Mid Cap Edition.

Q. Which of the four water utilities in your sample did Dr. Villadsen exclude from her sample?

A. Dr. Villadsen excluded SWWC from her sample. Her reasons for not including SWWC were that it had recently cut its dividend and had not filed a Form 10-K with the Securities and Exchange Commission ("SEC") as of February of 2009.

Q. Why have you decided to include SWWC in your sample?

A. I am not as concerned about the dividend cut that Dr. Villadsen noted in her direct testimony and SWWC did file an SEC 10-K in July of 2009. In fact the inclusion of SWWC in both my DCF and CAPM analyses actually increased the results produced by those models.

Q. Why did you exclude the water companies that are followed in Value Line's Small and Mid Cap Edition?

A. Value Line does not provide the same type of forward-looking information (i.e. long-term estimates on return on common equity and share growth) on small and mid-cap companies that it provides on the four water

[14] Connecticut Water Service, Inc., Middlesex Water Company, Pennichuck Corp. SJW Corp, and York Water Co.

companies that I used in my proxy. Consequently, these water companies are not as suitable as the ones that I have used in my analysis.

Q. What criteria did you use in selecting the natural gas LDC's included in your proxy for AAWC?

A. As are the water companies that I just described, each of the natural gas LDC's used in the proxy are publicly traded on a major stock exchange (all ten trade on the NYSE) and are followed by Value Line. Each of the ten LDC's are tracked in Value Line's natural gas (distribution) industry segment. All of the companies in the proxy are engaged in the provision of regulated natural gas distribution services. Attachment B of my testimony contains Value Line's most recent evaluation of the natural gas proxy group that I used for my cost of common equity analysis.

Q. What companies are included your natural gas proxy?

A. The ten natural gas LDC's included in my proxy (and their NYSE ticker symbols) are AGL Resources, Inc. ("ATG"), Atmos Energy Corp. ("ATO"), Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"), Nicor, Inc. ("GAS"), Northwest Natural Gas Co. ("NWN"), Piedmont Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI") Southwest Gas Corporation ("SWX"), which is the dominant natural gas provider in Arizona, and WGL Holdings, Inc. ("WGL"). These are the

same ten LDC's that I analyzed recently in the UNS Gas, Inc. proceeding.[15]

Q. Briefly describe the regions of the U.S. served by the ten natural gas LDC's that make up your sample proxy.

A. The ten LDC's listed above provide natural gas service to customers in the Middle Atlantic region (i.e. NJI which serves portions of northern New Jersey, SJI which serves southern New Jersey and WGL which serves the Washington D.C. metro area), the Southeast and South Central portions of the U.S. (i.e. ATG which serves Virginia, southern Tennessee and the Atlanta, Georgia area and PNY which serves customers in North Carolina, South Carolina and Tennessee), the South, deep South and Midwest (i.e. ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas, Colorado and Kansas, GAS which provides service to northern and western Illinois, and LG which serves the St. Louis area), and the Pacific Northwest (i.e. NWN which serves Washington state and Oregon). Portions of Arizona, Nevada and California are served by SWX.

Q. Did the Company's witness also perform a similar analysis using natural gas LDC's?

A. Yes, she did.

[15] Docket No. G-04204A-06-0463

Q. Does Dr. Villadsen's sample of LDC's include all of the same companies that you included in your sample?

A. Yes. Dr. Villadsen also included an eleventh LDC, NiSource, Inc., which I have not included in my LDC sample in the past and saw no compelling reason to include it in my sample in this case.

Q. Please explain your DCF growth rate calculations for the sample companies used in your proxy.

A. Schedule WAR-5 provides retention ratios, returns on book equity, internal growth rates, book values per share, numbers of shares outstanding, and the compounded share growth for each of the water and gas utilities included in my samples for the historical observation period 2004 to 2008. Schedule WAR-5 also includes Value Line's projected 2009 and 2012-14 values for the retention ratio, equity return, book value per share growth rate, and number of shares outstanding for both the water utilities and the LDC's in my samples.

Q. Please describe how you used the information displayed in Schedule WAR-5 to estimate each comparable utility's dividend growth rate.

A. In explaining my analysis, I will use American States Water Company, (NYSE symbol AWR) as an example. The first dividend growth component that I evaluated was the internal growth rate. I used the "b x r" formula (described on page 9) to multiply AWR's earned return on

common equity by its earnings retention ratio for each year in the 2003 to 2007 observation period to derive the utility's annual internal growth rates. I used the mean average of this five-year period as a benchmark against which I compared the projected growth rate trends provided by Value Line. Because an investor is more likely to be influenced by recent growth trends, as opposed to historical averages, the five-year mean noted earlier was used only as a benchmark figure. As shown on Schedule WAR-5, Page 1, AWR's average internal growth rate of 2.62% over the 2004 to 2008 time frame reflects an upward trend that began during the 2006 operating period. Prior to 2006, AWR's internal sustainable growth increased from 1.01% in 2004 to 2.70 percent in 2005. After falling to 2.56 percent in 2006, internal growth climbed to 3.05 percent at the end of the observation period. Value Line is predicting that growth will increase from 4.31% in 2009, to 6.37% during the 2012-14 time frame. After weighing Value Line's projections on earnings, I believe that a 6.25% rate of growth is reasonable for AWR.

Q. Please continue with the external growth rate component portion of your analysis.

A. Schedule WAR-5 demonstrates that the pattern of share's outstanding increased from 16.75 million to 17.30 million from 2004 to 2008. Value Line is predicting that this level will increase from 18.60 million in 2009 to 20.00 million by the end of 2014. Based on this data, I believe that a

5.00% growth in shares is not unreasonable for AWR. My final dividend growth rate estimate for AWR is 8.19 percent (6.25 percent internal + 1.94 percent external) and is shown on Page 1 of Schedule WAR-4.

Q. What is your average dividend growth rate estimate using the DCF model for the sample water companies?

A. Based on the DCF model, my average dividend growth rate estimate for water companies is 6.55 percent as displayed on page 1 of Schedule WAR-4.

Q. How does your average dividend growth rate estimates on water companies compare to the growth rate data published by Value Line and other analysts?

A. Schedule WAR-6 compares my sustainable growth estimates with the five-year projections of both Zacks (Attachment C) and Value Line. In the case of the water companies, my 6.55 percent estimate is 174 basis points higher than the 4.81 percent projection of analysts at Value Line (which is an average of EPS, DPS and BVPS), and 42 basis points higher than the 6.13 percent consensus opinions published by Zacks Investment Research, Inc. ("Zacks"). My 6.55 percent estimate is 532 basis points higher than the 1.23 percent Value Line 5-year compound historical average also displayed in Schedule WAR-6. This indicates that investors are expecting increased performance from water utilities in the future. On

balance, I would say my 6.55 percent estimate is a good representation of the growth projections that are available to the investing public.

Q. Did you use the same approach to determine an average dividend growth rate for the proxy comprised of natural gas LDC's?

A. Yes.

Q. What is your average dividend growth rate estimate using the DCF model for the sample natural gas utilities?

A. Based on the DCF model, my average dividend growth rate estimate is 5.34 percent, which is also displayed on page 1 of Schedule WAR-4.

Q. How do your average dividend growth rate estimates on natural gas LDC's compare to the growth rate data published by Value Line and other analysts?

A. In regard to the natural gas LDC's, my 5.34 percent estimate is 78 basis points lower than the 6.12 percent consensus projections published by Zacks, and 76 basis points higher than Value Line's 4.58 percent projected estimates. As can also be seen on Schedule WAR-6, while the 5.34 percent estimate that I have calculated is 43 basis points lower than the 5.77 percent average of the 5-year historic EPS, DPS and BVPS means of Value Line, it is within 2 basis points of the 5.36 percent five-year compound historical average of Value Line data (on EPS, DPS and

BVPS). In fact, my 5.34 percent estimate is 9 basis points higher than the combined Value Line and Zacks averages of 5.25 percent. As with water companies, this indicates that investors are expecting increased performance from natural gas distribution companies in the future. In the case of the LDC's I would say that my 6.81 percent estimate, which is higher than Zack's projections and higher than Value Line's forecasts, is a fair representation of the growth projections presented by securities analysts at this point in time.

Q. How did you calculate the dividend yields displayed in Schedule WAR-3?

A. For both the water companies and the natural gas LDC's I used the estimated annual dividends, for the next twelve-month period, that appeared in Value Line's January 22, 2010 Ratings and Reports Water Services Industry update and Value Line's December 11, 2009 Ratings and Reports Natural Gas (Distribution) update. I then divided those figures by the eight-week average price per share of the appropriate utility's common stock. The eight-week average price is based on the daily closing stock prices for each of the companies in my proxies for the period December 7, 2009 to January 29, 2010.

...

Q. Based on the results of your DCF analysis, what is your cost of equity capital estimate for the water and natural gas utilities included in your sample?

A. As shown in Schedule WAR-2, the cost of equity capital derived from my DCF analysis is 9.75 percent for the water utilities and 9.55 percent for the natural gas LDC's.

Capital Asset Pricing Model (CAPM) Method

Q. Please explain the theory behind CAPM and why you decided to use it as an equity capital valuation method in this proceeding.

A. CAPM is a mathematical tool that was developed during the early 1960's by William F. Sharpe[16], the Timken Professor Emeritus of Finance at Stanford University, who shared the 1990 Nobel Prize in Economics for research that eventually resulted in the CAPM model. CAPM is used to analyze the relationships between rates of return on various assets and risk as measured by beta.[17] In this regard, CAPM can help an investor to determine how much risk is associated with a given investment so that he or she can decide if that investment meets their individual preferences. Finance theory has always held that as the risk associated with a given

[16] William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

[17] Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

investment increases, so should the expected rate of return on that investment and vice versa. According to CAPM theory, risk can be classified into two specific forms: nonsystematic or diversifiable risk, and systematic or non-diversifiable risk. While nonsystematic risk can be virtually eliminated through diversification (i.e. by including stocks of various companies in various industries in a portfolio of securities), systematic risk, on the other hand, cannot be eliminated by diversification. Thus, systematic risk is the only risk of importance to investors. Simply stated, the underlying theory behind CAPM states that the expected return on a given investment is the sum of a risk-free rate of return plus a market risk premium that is proportional to the systematic (non-diversifiable risk) associated with that investment. In mathematical terms, the formula is as follows:

$$k = r_f + [\, ß\, (r_m - r_f)\,]$$

where:

k	=	the expected return of a given security,
r_f	=	risk-free rate of return,
$ß$	=	beta coefficient, a statistical measurement of a security's systematic risk,
r_m	=	average market return (e.g. S&P 500), and
$r_m - r_f$	=	market risk premium.

Q. What types of financial instruments are generally used as a proxy for the risk-free rate of return in the CAPM model?

A. Generally speaking, the yields of U.S. Treasury instruments are used by analysts as a proxy for the risk-free rate of return component.

Q. Please explain why U.S. Treasury instruments are regarded as a suitable proxy for the risk-free rate of return?

A. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments will reveal that those with longer maturity dates do have slightly higher yields. Treasury yields are comprised of two separate components,[18] a real rate of interest (believed to be approximately 2.00 percent) and an inflationary expectation. When the real rate of interest is subtracted from the total treasury yield, all that remains is the inflationary expectation. Because increased inflation represents a potential capital loss, or risk, to investors, a higher inflationary expectation by itself represents a degree of risk to an investor. Another way of looking at this is from an opportunity cost standpoint. When an investor locks up funds in long-term T-Bonds, compensation must be provided for future investment opportunities

[18] As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the real rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

foregone. This is often described as maturity or interest rate risk and it can affect an investor adversely if market rates increase before the instrument matures (a rise in interest rates would decrease the value of the debt instrument). As discussed earlier in the DCF portion of my testimony, this compensation translates into higher rates of returns to the investor.

Q. What security did you use for a risk-free rate of return in your CAPM analysis?

A. I used an eight-week average of the yields on a 5-year U.S. Treasury instrument which were published in Value Line's Selection and Opinion publication from December 12, 2009 through February 5, 2010. (Attachment E). This resulted in a risk-free (r_f) rate of return of 2.43 percent.

Q. Why did you use the yield on a 5-year year U.S. Treasury instrument as opposed to a short-term T-Bill?

A. While a shorter term instrument, such as a 91-day T-Bill, presents the lowest possible total risk to an investor, a good argument can be made that the yield on an instrument that matches the investment period of the asset being analyzed in the CAPM model should be used as the risk-free rate of return. Since utilities in Arizona generally file for rates every three to five years, the yield on a 5-year U.S. Treasury Instrument closely

matches the investment period or, in the case of regulated utilities, the period that new rates will be in effect.

Q. How did you calculate the market risk premium used in your CAPM analysis?

A. I used both a geometric and an arithmetic mean of the historical returns on the S&P 500 index from 1926 to 2008 as the proxy for the market rate of return (r_m). For the risk-free portion of the risk premium component (r_f), I used corresponding geometric and arithmetic means of the yields of intermediate-term government bonds for the same eighty-two year period. The risk premium (r_m - r_f) that results by using a geometric mean is 4.20 percent (9.60% - 5.40% = 4.20%). The risk premium that results by using the arithmetic mean calculation is 6.10 percent (11.70% - 5.60% = 6.10%).

Q. How did you select the beta coefficients that were used in your CAPM analysis?

A. The beta coefficients (ß), for the individual utilities used in both my proxy groups, were calculated by Value Line and were current as of January 22, 2010 for the water companies and December 11, 2009 for the natural gas LDC's. Value Line calculates its betas by using a regression analysis between weekly percentage changes in the market price of the security being analyzed and weekly percentage changes in the NYSE Composite Index over a five-year period. The betas are then adjusted by Value Line

for their long-term tendency to converge toward 1.00. The beta coefficients for the service providers included in my water company sample ranged from 0.65 to 1.10 with an average beta of 0.83. The beta coefficients for the LDC's included in my natural gas sample ranged from 0.60 to 0.75 with an average beta of 0.67.

Q. What are the results of your CAPM analysis?

A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation using a geometric mean to calculate the risk premium results in an average expected return of 5.90 percent for the water companies and 5.24 percent for the natural gas LDC's. My calculation using an arithmetic mean results in an average expected return of 7.46 percent for the water companies and 6.52 percent for the natural gas LDC's.

Q. Please summarize the results derived under each of the methodologies presented in your testimony.

A. The following is a summary of the cost of equity capital derived under each methodology used:

METHOD	RESULTS
DCF (Water Sample)	9.75%
DCF (Natural Gas Sample)	9.55%
CAPM (Water Sample)	5.90% – 7.46%
CAPM (Natural Gas)	5.24% – 6.52%

Based on these results, my best estimate of an appropriate range for a cost of common equity for AAWC is 5.24 percent to 9.75 percent. My final recommended cost of common equity figure is 9.50 percent.

Q How did you arrive at your final recommended 9.50 percent cost of common equity?

A. My recommended 9.50 percent cost of common equity falls on the high end of the range of estimates produced by my DCF and CAPM results. My final estimate takes into consideration information on the improving state of the economy, a rejuvenated stock market and reports in the financial press which anticipate Federal Reserve actions to raise interest rates.

Q. Can you provide some examples of the reports that you noted above that that influenced your common equity estimate of 9.50 percent?

A. Yes. Value Line analysts cited the improving economic situation in the Economic and Stock Market Commentary section of its Selection & Opinion publication dated November 27, 2009:

> **The long recession has faded into history,** brought to an end in the third quarter when the nation's gross domestic product increased by a solid 3.5% [later revised to 2.8%]. That notable rebound followed four straight quarters of contracting economic activity. The recession was the worst in decades. The third quarter's surge in activity, which was underpinned to some degree by federal programs to assist the troubled auto and housing industries, may not continue to the same degree in the current period. In fact, we expect GDP growth to ease to a level closer to 2.0%-2.5% during the fourth quarter. We think that the evolving expansion will then remain on a similarly subdued path for much of 2010. Thereafter, an increasing level of aggregate

> demand is likely to develop—with belated help from better employment and housing trends—and push the economy onto a materially faster track by 2011. The 3.0%, or better, pace of economic growth that we see evolving by that time is likely to then continue through the middle years of the coming decade.

Value Line's analysts had this to say about the current state of the stock market:

> Unlike the economy, which has proceeded on an irregular path during the formative stages of its comeback, the stock market, which lost more than half of its value from October, 2007 through March, 2009, has come roaring back. At press time, the Dow Jones Industrial Average was up about 60% from its bear market lows of this past March. However, it was still some 25% below the record highs set in late 2007. The market's revival, which began as the worst fears on the credit and business fronts didn't materialize, has been sustained with an assist from the Federal Reserve, the government's stimulus efforts, and the aforementioned revivals on the economic and profit fronts. Now, with valuations having become a little stretched following eight months of steady market increases, the bulls may have to deliver even more good news to keep the rally going.

In regard to possible Federal Reserve action on interest rates, Wall Street Journal correspondent Jon Hilsenrath recently reported[19] that "Federal Reserve officials are thinking mostly these days about how to unwind the unprecedented stimulus they've pumped into the economy" and that eventually will mean raising interest rates. Mr. Hilsenrath quoted former Fed governor Frederic Mishkin, a former Federal Reserve governor who advocated moving rates down swiftly leading up to crises and who says they might someday need to move up swiftly too, as saying "If you move in a very gradual fashion back up when you need to, you'll get behind the

[19] Hilsenrath, Jon, "WSJ Fed's Path to Higher Interest Rates Begins to Take Shape" The Wall Street Journal, November 2, 2009

curve in terms of tightening fast enough." Based on the information obtained from these sources, I began increasing my cost of equity recommendations to reflect both an improving economy, an improved stock market and the increased possibility of higher interest rates in the coming 12 month period.

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. The 12.25 percent cost of equity capital proposed by the Company is 275 basis points higher than the 9.50 percent cost of equity capital that I am recommending.

Current Economic Environment

Q. Please explain why it is necessary to consider the current economic environment when performing a cost of equity capital analysis for a regulated utility.

A. Consideration of the economic environment is necessary because trends in interest rates, present and projected levels of inflation, and the overall state of the U.S. economy determine the rates of return that investors earn on their invested funds. Each of these factors represent potential risks that must be weighed when estimating the cost of equity capital for a regulated utility and are, most often, the same factors considered by individuals who are also investing in non-regulated entities.

Q. Please discuss your analysis of the current economic environment.

A. My analysis includes a brief review of the economic events that have occurred since 1990. Schedule WAR-8 displays various economic indicators and other data that I will refer to during this portion of my testimony.

In 1991, as measured by the most recently revised annual change in gross domestic product ("GDP"), the U.S. economy experienced a rate of growth of negative 0.20 percent. This decline in GDP marked the beginning of a mild recession that ended sometime before the end of the first half of 1992. Reacting to this situation, the Federal Reserve Board ("Federal Reserve" or "Fed"), then chaired by noted economist Alan Greenspan, lowered its benchmark federal funds rate[20] in an effort to further loosen monetary constraints - an action that resulted in lower interest rates.

During this same period, the nation's major money center banks followed the Federal Reserve's lead and began lowering their interest rates as well. By the end of the fourth quarter of 1993, the prime rate (the rate charged by banks to their best customers) had dropped to 6.00 percent from a 1990 level of 10.01 percent. In addition, the Federal Reserve's discount rate on loans to its member banks had fallen to 3.00 percent and short-

[20] This is the interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

term interest rates had declined to levels that had not been seen since 1972.

Although GDP increased in 1992 and 1993, the Federal Reserve took steps to increase interest rates beginning in February of 1994, in order to keep inflation under control. By the end of 1995, the Federal discount rate had risen to 5.21 percent. Once again, the banking community followed the Federal Reserve's moves. The Fed's strategy, during this period, was to engineer a "soft landing." That is to say that the Federal Reserve wanted to foster a situation in which economic growth would be stabilized without incurring either a prolonged recession or runaway inflation.

Q. Did the Federal Reserve achieve its goals during this period?

A. Yes. The Fed's strategy of decreasing interest rates to stimulate the economy worked. The annual change in GDP began an upward trend in 1992. A change of 4.50 percent and 4.20 percent were recorded at the end of 1997 and 1998 respectively. Based on daily reports that were presented in the mainstream print and broadcast media during most of 1999, there appeared to be little doubt among both economists and the public at large that the U.S. was experiencing a period of robust economic growth highlighted by low rates of unemployment and inflation. Investors, who believed that technology stocks and Internet company start-ups (with little or no history of earnings) had high growth potential, purchased these types of issues with enthusiasm. These types of investors, who exhibited

what former Chairman Greenspan described as "irrational exuberance," pushed stock prices and market indexes to all time highs from 1997 to 2000.

Q. What has been the state of the economy since 2001?

A. The U.S. economy entered into a recession near the end of the first quarter of 2001. The bullish trend, which had characterized the last half of the 1990's, had already run its course sometime during the third quarter of 2000. Economic data released since the beginning of 2001 had already been disappointing during the months preceding the September 11, 2001 terrorist attacks on the World Trade Center and the Pentagon. Slower growth figures, rising layoffs in the high technology manufacturing sector, and falling equity prices (due to lower earnings expectations) prompted the Fed to begin cutting interest rates as it had done in the early 1990's. The now infamous terrorist attacks on New York City and Washington D.C. marked a defining point in this economic slump and prompted the Federal Reserve to continue its rate cutting actions through December 2001. Prior to the 9/11 attacks, commentators, reporting in both the mainstream financial press and various economic publications including Value Line, believed that the Federal Reserve was cutting rates in the hope of avoiding a recession.

Despite several intervals during 2002 and 2003 in which the Federal Open Market Committee ("FOMC") decided not to change interest rates – moves which indicated that the worst may be over and that the recession might have bottomed out during the last quarter of 2001 – a lackluster economy persisted. The continuing economic malaise and even fears of possible deflation prompted the FOMC to make a thirteenth rate cut on June 25, 2003. The quarter point cut reduced the federal funds rate to 1.00 percent, the lowest level in forty-five years.

Even though some signs of economic strength, mainly attributed to consumer spending, began to crop up during the latter part of 2002 and into 2003, Chairman Greenspan appeared to be concerned with sharp declines in capital spending in the business sector.

During the latter part of 2003, the FOMC went on record as saying that it intended to leave interest rates low "for a considerable period." After its two-day meeting that ended on January 28, 2004, the FOMC announced "that with inflation 'quite low' and plenty of excess capacity in the economy, policy-makers 'can be patient in removing its policy accommodation.'[21]

...

[21] Wolk, Martin, "Fed holds interest rates steady," MSNBC, January 28, 2004.

Q. What actions has the Federal Reserve taken in terms of interest rates since the beginning of 2001?

A. As noted earlier, from January 2001 to June 2003 the Federal Reserve cut interest rates a total of thirteen times. During this period, the federal funds rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25 percent. From June 29, 2004 to January 31, 2006, the FOMC raised the federal funds rate thirteen more times to a level of 4.50 percent.

The FOMC's January 31, 2006 meeting marked the final appearance of Alan Greenspan, who had presided over the rate setting body for a total of eighteen years. On that same day, Greenspan's successor, Ben Bernanke, the former chairman of the President's Council of Economic Advisers and a former Fed governor under Greenspan from 2002 to 2005, was confirmed by the U.S. Senate to be the new Federal Reserve chief.

As expected by Fed watchers, Chairman Bernanke picked up where his predecessor left off and increased the federal funds rate by 25 basis points during each of the next three FOMC meetings for a total of seventeen consecutive rate increases since June 2004, and raising the federal funds rate to a level of 5.25 percent. The Fed's rate increase campaign finally came to a halt at the FOMC meeting held on August 8, 2006, when the FOMC decided not to raise rates.

Q. What was the reaction in the financial community to the Fed's decision not to raise interest rates?

A. As in the past, banks followed the Fed's lead once again and held the prime rate to a level of 8.25 percent, or 300 basis points higher than the federal funds rate of 5.25 percent established on June 29, 2006.

Q. How did analysts view the Fed's actions between January 2001 and August 2006?

A. According to an article that appeared in the December 2, 2004 edition of The Wall Street Journal, the FOMC's decision to begin raising rates two years ago was viewed as a move to increase rates from emergency lows in order to avoid creating an inflation problem in the future as opposed to slowing down the strengthening economy.[22] In other words, the Fed was trying to head off inflation *before* it became a problem. During the period following the August 8, 2006 FOMC meeting, the Fed's decisions not to raise rates were viewed as a gamble that a slower U.S. economy would help to cap growing inflationary pressures.[23]

...

[22] McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

[23] Ip, Greg, "Fed Holds Interest Rates Steady As Slowdown Outweighs Inflation," The Wall Street Journal Online Edition, August 8, 2006.

Q. Was the Fed attempting to engineer another "soft landing", as it did in the mid-nineties, by holding interest rates steady?

A. Yes, however, as pointed out in an August 2006 article in The Wall Street Journal by E.S. Browning, soft landings – like the one that the Fed managed to pull off during the 1994-95 time frame, in which a recession or a bear market were avoided – rarely happen[24]. Since it began increasing the federal funds rate in June 2004, the Fed had assured investors that it would increase rates at a "measured" pace. Many analysts and economists interpreted this language to mean that former Chairman Greenspan would be cautious in increasing interest rates too quickly in order to avoid what is considered to be one of the Fed's few blunders during Greenspan's tenure – a series of increases in 1994 that caught the financial markets by surprise after a long period of low rates. The rapid rise in rates contributed to the bankruptcy of Orange County, California and the Mexican peso crisis[25]. According to Mr. Browning, at the time that his article was published, the hope was that Chairman Bernanke would succeed in slowing the economy "just enough to prevent serious inflation, but not enough to choke off growth." In other words, "a 'Goldilocks economy,' in which growth is not too hot and not too cold."

[24] Browning, E.S, "Not Too Fast, Not Too Slow…," The Wall Street Journal Online Edition, August 21, 2006.

[25] Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

Q. Was the Fed's attempt to engineer a soft landing successful during the period that followed the August 8, 2006 FOMC meeting?

A. It would appear so. Articles published in the mainstream financial press were generally upbeat on the economy during that period. An example of this is an article written by Nell Henderson that appeared in the January 30, 2007 edition of The Washington Post. According to Ms. Henderson, "a year into [Fed Chairman] Bernanke's tenure, the [economic] picture has turned considerably brighter. Inflation is falling; unemployment is low; wages are rising; and the economy, despite continued problems in housing, is growing at a brisk clip."[26]

Q. What has been the state of the economy over the past two years?

A. Reports in the mainstream financial press during the majority of 2007 reflected the view that the U.S. economy was slowing as a result of a worsening situation in the housing market and higher oil prices. The overall outlook for the economy was one of only moderate growth at best. Also during this period the Fed's key measure of inflation began to exceed the rate setting body's comfort level.

On August 7, 2007, the FOMC decided not to increase or decrease the federal funds rate for the ninth straight time and left its target rate

[26] Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

unchanged at 5.25 percent.[27] At the time of the Fed's decision, analysts speculated that a rate cut over the next several months was unlikely given the Fed's concern that inflation would fail to moderate. However, during this same period, evidence of an even slower economy and a possible recession was beginning to surface. Within days of the Fed's decision to stand pat on rates, a borrowing crisis rooted in a deterioration of the market for subprime mortgages and securities linked to them, forced the Fed to inject $24 billion in funds (raised through open market operations) into the credit markets.[28] By Friday, August 17, 2007, after a turbulent week on Wall Street, the Fed made the decision to lower its discount rate (i.e. the rate charged on direct loans to banks) by 50 basis points, from 6.25 percent to 5.75 percent, and took steps to encourage banks to borrow from the Fed's discount window in order to provide liquidity to lenders. According to an article that appeared in the August 18, 2007 edition of The Wall Street Journal, [29] the Fed had used all of its tools to restore normalcy to the financial markets. If the markets failed to settle down, the Fed's only weapon left was to cut the Federal Funds rate – possibly before the next FOMC meeting scheduled on September 18, 2007.

[27] Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

[28] Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

[29] Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

Q. Did the Fed cut rates as a result of the subprime mortgage borrowing crises?

A. Yes. At its regularly scheduled meeting on September 18, 2007, the FOMC surprised the investment community and cut both the federal funds rate and the discount rate by 50 basis points (25 basis points more than what was anticipated). This brought the federal funds rate down to a level of 4.75 percent. The Fed's action was seen as an effort to curb the aforementioned slowdown in the economy. Over the course of the next four months, the FOMC reduced the Federal funds rate by a total 175 basis points to a level of 3.00 percent – mainly as a result of concerns that the economy was slipping into a recession. This included a 75 basis point reduction that occurred one week prior to the FOMC's meeting on January 29, 2008.

Q. What actions has the Fed taken in regard to interest rates since the beginning of 2008?

A. The Fed made two more rate cuts which included a 75 basis point reduction in the federal funds rate on March 18, 2008 and an additional 25 basis point reduction on April 30, 2008. The Fed's decision to cut rates was based on its belief that the slowing economy was a greater concern than the current rate of inflation (which the majority of FOMC members

1 believed would moderate during the economic slowdown).[30] As a result of
2 the Fed's actions, the federal funds rate was reduced to a level of 2.00
3 percent. From April 30, 2008 through September 16, 2008, the Fed took
4 no further action on its key interest rate. However, the days before and
5 after the Fed's September 16, 2008 meeting saw longstanding Wall Street
6 firms such as Lehman Brothers, Merrill Lynch and AIG failing as a result of
7 their subprime holdings. By the end of the week, the Bush administration
8 had announced plans to deal with the deteriorating financial condition
9 which had now become a worldwide crisis. The administrations actions
10 included former Treasury Secretary Henry Paulson's request to Congress
11 for $700 billion to buy distressed assets as part of a plan to halt what has
12 been described as the worst financial crisis since the 1930's[31]. Amidst this
13 turmoil, the Fed made the decision to cut the federal funds rate by another
14 50 basis points in a coordinated move with foreign central banks on
15 October 8, 2008. This was followed by another 50 basis point cut during
16 the regular FOMC meeting on October 29, 2008. At the time of this
17 writing, the federal funds target rate now stands at 0.25 percent, the result
18 of a 75 basis point cut announced on December 16, 2008. Over the
19 course of 2009, the FOMC elected not to make any changes in the federal
20 funds rate. During this same period of time, the Federal Reserve

[30] Ip, Greg, "Credit Worries Ease as Fed Cuts, Hints at More Relief" The Wall Street Journal, March 19, 2008

[31] Soloman, Deborah, Michael R. Crittenden and Damian Paletta, "U.S. Bailout Plan Calms Markets, But Struggle Looms Over Details" The Wall Street Journal, September 20, 2008

purchased over $1 trillion in mortgage-backed securities and U.S. Treasury instruments from banks in order to inject liquidity into the U.S. financial system. In testimony offered to the House Financial Services Committee on Wednesday, February 24, 2010, Chairman Bernanke stated that the Fed would continue to keep rates low over the next several months.[32] The Fed chief further stated that the Federal Reserve is actively looking at what tools to use once the economy will need higher interest rates. Of particular concern at this point in time is how the fed will drain the excess reserves that banks have accumulated, as a result of the aforementioned purchases of mortgage-backed securities and U.S. Treasuries, in order to avoid unwanted inflation.

Q. Putting this all into perspective, how have the Fed's actions since 2000 affected benchmark rates?

A. U.S. Treasury instruments are for the most part still at historically low levels. As can be seen on the first page of Attachment D, the previously mentioned federal discount rate (the rate charged to the Fed's member banks), has fallen to 0.50 percent from 1.25 percent in 2008.

...

[32] Di Leo, Luca and Tom Barkley, "Bernanke: Low Rates Still Needed" The Wall Street Journal, February 24, 2010

Q. What has been the trend in other leading interest rates over the last year?

A. As of January 27, 2010, leading interest rates that include the 3-month, 6-month and 1-year treasury yields have dropped from their 2009 levels. Longer term yields including the 5-year, 10-year, 30-year constant maturity and 30-year Zero rates, have increased from levels that existed a year ago (Attachment D, Value Line Selection & Opinion page 3065). The prime rate has remained constant at 3.25 percent over the past year, as has the benchmark federal funds rate discussed above. A previous trend, described by former Chairman Greenspan as a "conundrum"[33], in which long-term rates fell as short-term rates increased, thus creating a somewhat inverted yield curve that existed as late as June 2007, is completely reversed and a more traditional yield curve (one where yields increase as maturity dates lengthen) presently exists (Attachment D). The 5-year Treasury yield, used in my CAPM analysis, has increased 70 basis points from 1.69 percent, in January 2009, to 2.39 percent as of January 27, 2010. As noted above, the 30-Year Treasury constant maturity rate increased from 3.42 percent over the past year to 4.56 percent. Still these current yields are considerably lower than corresponding yields that existed during the early nineties and at the beginning of the current decade (as can be seen on Schedule WAR-8).

[33] Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005

Q. What is the current outlook for the economy?

A. Value Line's analysts are seeing mixed signs as the economy works it way out of recession, and had this to say in the February 19, 2010 edition of Value Line's Selection and Opinion publication:

> **The employment picture remains mixed**, more than six months into the business upturn. (Note: The National Bureau of Economic Research—which has the last word on the timing of an economic cycle — has yet to rule on the recession's end, although with back-to-back quarterly gains in the gross domestic product recently, such a ruling should come shortly.) In any event, the expansion is proceeding without help from rising job totals, as payrolls dropped by another 20,000 in January after a 150,000 decline in December. We've now seen the loss of 8.4 million jobs since December, 2007, when the recession officially began. Two bits of good news were a dip in the jobless rate last month to 9.7% and the larger-than-expected drop in first-time unemployment claims in the week ended February 6th. This suggests we are at least seeing some recovery in the labor market. It is just not the improvement we should be experiencing by now.

Value Line's analysts went on to state

> **Other economic indicators are mixed as well.** For example, we've seen manufacturing perk up a bit, but nonmanufacturing is stuck in neutral. Housing remains depressed, with foreclosures and repossessions likely to rise in the months to come. An uncertain labor market and credit worries will keep a lid on home sales, further pressuring prices. Finally, chain store sales rose in January, but a consistent uptrend in retailing may not evolve until payrolls increase on a sustained basis.

Q. How are water utilities faring in the current economic environment?

A. Although, as always, there are concerns regarding long-term infrastructure requirements, water utilities are being viewed as they normally are during better economic times according to Value Line analyst Andre J. Costanza. In the January 22, 2010 quarterly update on the water utility industry Mr. Costanza stated the following:

> There has not been any major developments or changes to water utility fundamentals of late, suggesting that the weakness is largely a byproduct of improving investor confidence and a brighter outlook for the broader market. But that's not to say that there haven't been some lingering issues at play too. Water infrastructures are aging and in many cases require considerable maintenance and capital investment in order to meet increasingly stringent requirements. The rising costs of doing business are likely to offset most of the benefits stemming form more favorable regulatory backing that has become apparent (see below), limiting shareholder gains for both the near and long-term. It should be noted that these stocks are typically bottom-dwellers in times of prosperity and renewed confidence, with their perceived safety historically faring better in times of economic uncertainty.

Q. How is Value Line viewing AAWC's parent, American Water?

A. While many of the issues noted above by Mr. Costanza on the industry as a whole impact American Water, he is clearly impressed with its dividend yield as evidenced by his following evaluation:

> **That said, the stock's dividend yield cannot be ignored.** It is well above average and worthwhile even when compared to others in the utility sector. We suspect that increases will remain a priority, regardless of the infrastructure requirements. Thus, the issue may well interest the risk-tolerant seeking total return with a bias for a steady dose of income.

Q. How does American Water's projected dividend yield compare with the average projected dividend yield of your water company sample?

A. Based on closing stock prices over the eight-week period between December 7, 2009 and January 29, 2010, American Water's projected dividend yield is 3.79 percent as opposed to the average projected dividend yield of 3.20 percent for my sample water companies.

...

Q. How does your recommended 9.50 percent cost of equity capital compare with Value Lines projected returns on American Water's book common equity?

A. As can be seen in Attachment E, my 9.50 percent recommended cost of equity capital is 350 to 450 basis points higher than Value Lines projected 5.00 percent, 6.00 percent and 6.00 percent returns on book common equity over the 2009, 2010 and 2012-14 time frames.

Q. After weighing the economic information that you've just discussed, do you believe that the 9.50 percent cost of equity capital that you have estimated is reasonable for AAWC?

A. I believe that my recommended 9.50 percent cost of equity will provide AAWC with a reasonable rate of return on the Company's invested capital when economic data on interest rates (that are low by historical standards), the current situation in new housing construction, and the Fed's ability to keep inflation in check are all taken into consideration. As I noted earlier, the Hope decision determined that a utility is entitled to earn a rate of return that is commensurate with the returns it would make on other investments with comparable risk. I believe that my cost of equity analysis, which is on the high side of the range of results I obtained from both the DCF and CAPM models, has produced such a return.

COST OF DEBT

Q. Have you reviewed the costs associated on AAWC's various debt issuances?

A. Yes. Based on the information contained on Schedule D of AAWC's Application, I am recommending a cost of short-term debt of 3.41 percent and a cost of long-term debt of 5.47 percent.

Q. Does the Company-proposed capital structure contain short-term debt?

A. No. It does not.

Q. Has the Commission included short-term debt in the capital structures that it adopted for AAWC in prior cases?

A. Yes. The Commission adopted capital structures containing short-term debt in AAWC's last two rate case proceedings.

CAPITAL STRUCTURE

Q. What capital structure is AAWC proposing in this case?

A. For each of the five districts included in the Company's filing AAWC is recommending a blanket capital structure comprised of 54.85 percent long-term debt and 45.15 percent common equity.

Q. What capital structure are you proposing for AAWC?

A. For each of the five districts included in the Company's filing I am recommending a blanket capital structure comprised of 13.29 percent

short-term debt, 47.56 percent long-term debt and 39.15 percent common equity.

Q. Is AAWC's capital structure in line with industry averages?

A. No. AAWC's capital structure is heavier in debt than the capital structures of the other water companies included in my cost of capital analysis (Schedule WAR-9). The capital structures for those utilities averaged 48.6 percent for debt and 51.4 percent for equity.

Q. In terms of risk, how does AAWC's capital structure compare to the water utilities in your sample?

A. The water utilities in my sample would be considered as having a somewhat lower level of financial risk (i.e. the risk associated with debt repayment) because of their lower levels of debt. The additional financial risk due to debt leverage is embedded in the cost of equities derived for those companies through the DCF analysis. Thus, the cost of equity derived in my DCF analysis is applicable to companies that are not as leveraged and, theoretically speaking, not as risky as a utility with a level of debt similar to AAWC's. In the case of a publicly traded company, such as those included in my proxy, a company with AAWC's level of debt would be perceived as having a somewhat higher level of financial risk.

Q. Have you made an adjustment to your DCF estimate based on this perception of higher financial risk?

A. I have not made a specific upward adjustment for my recommended cost of common equity for AAWC, however, my recommended 9.50 percent cost of equity is 50 basis points higher than the 9.00 percent that I have been recommending in the last four water and wastewater rate cases that I have testified in. Those water and wastewater companies all had capital structures that were heavier in equity than the capital structure I am recommending for AAWC in this case.

Q. Why have you decided not to make an upward adjustment to AAWC's cost of common equity?

A. In prior AAWC cases I have made such an adjustment and in some cases I have even done so in conjunction with a hypothetical capital structure. In this case I have decided not to make such an adjustment because I believe that the Company should start making a concerted effort to increase its level of common equity in order to achieve a more balanced capital structure. I should point out that ACC staff has taken such a position in other cases before the Commission and have placed utilities on notice that the use of hypothetical capital structures to improve their operating incomes may not be a given in future rate cases.

WEIGHTED COST OF CAPITAL

Q. How does the Company's proposed weighted cost of capital compare with your recommendation?

A. The Company has proposed a weighted cost of capital of 8.53 percent. This composite figure is the result of a weighted average of AAWC's proposed 5.47 percent cost of debt and 12.25 percent cost of equity capital. The Company-proposed 8.53 percent weighted cost of capital is 176 basis points higher than the 6.77 percent weighted cost that I am recommending.

COMMENTS ON AAWC'S COST OF EQUITY CAPITAL TESTIMONY

Q. How does your recommended cost of equity capital compare with the cost of equity capital proposed by the Company?

A. As I noted earlier in my testimony, the 12.25 percent cost of equity capital proposed by the Company is 275 basis points higher than the 9.50 percent cost of equity capital that I am recommending.

Q. Who estimated the Company-proposed cost of equity capital?

A. As I also noted earlier, Dr. Bente Villadsen, a principal of the Brattle Group, a consulting firm located in Cambridge, Massachusetts, estimated the Company-proposed cost of equity capital. Dr. Villadsen estimated a cost of common equity to be within a range of 11.75 percent to 13.00

percent. Her final recommendation is 12.25 percent. In arriving at her recommended cost of equity, Dr. Villadsen employs an after tax weighted average cost of capital ("ATWACC") methodology which was advocated by Dr. A. Lawrence Kolbe, also of the Brattle Group, in a prior AAWC proceeding that involved the Company's Paradise Valley Water District.

Q. Did the Commission adopt Dr. Kolbe's ATWACC methodology in the Company's Paradise Valley Water District proceeding?

A. No. Dr. Kolbe's ATWACC methodology for estimating the cost of equity capital for the AAWC rate case was rejected by the Commission.[34]

Q. Has the Commission adopted the results of the ATWACC methodology in any other AAWC cases that have been before the Commission?

A. No the Commission has never adopted the recommendations of any of the Brattle Group's consultants who have advocated Dr. Kolb's ATWACC methodology despite the fact that it has been advanced in all but one AAWC rate proceeding since the aforementioned Paradise Valley case. This includes AAWC's most recent rate case proceeding which included all of the Company's districts not included in this case.

...

[34] Decision No. 71410, Dated December 8, 2009

Q. Does your silence on any of the issues, matters or findings addressed in the testimony of Dr. Villadsen or any other witness for AAWC constitute your acceptance of their positions on such issues, matters or findings?

A. No, it does not.

Q. Does this conclude your direct testimony on the cost of capital issues in AAWCs filing?

A. Yes, it does.

Appendix 1

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 &1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

Appendix 1

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

Utility Company	Docket No.	Type of Proceeding
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval
Arizona-American Water Company	W-01303A-05-0405	ACRM Filing
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
UNS Gas, Inc.	G-04204A-06-0463	Rate Increase
Arizona-American Water Company	WS-01303A-06-0491	Rate Increase
UNS Electric, Inc.	E-04204A-06-0783	Rate Increase
Arizona-American Water Company	W-01303A-07-0209	Rate Increase
Tucson Electric Power	E-01933A-07-0402	Rate Increase
Southwest Gas Corporation	G-01551A-07-0504	Rate Increase
Chaparral City Water Company	W-02113A-07-0551	Rate Increase
Arizona Public Service Company	E-01345A-08-0172	Rate Increase
Johnson Utilities, LLC	WS-02987A-08-0180	Rate Increase
Arizona-American Water Company	W-01303A-08-0227 et al.	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

Utility Company	Docket No.	Type of Proceeding
UNS Gas, Inc.	G-04204A-08-0571	Rate Increase
Arizona Water Company	W-01445A-08-0440	Rate Increase
Far West Water & Sewer Company	WS-03478A-08-0608	Interim Rate Increase
Black Mountain Sewer Corporation	SW-02361A-08-0609	Rate Increase
Global Utilities	SW-02445A-09-0077 et al.	Rate Increase
Litchfield Park Service Company	SW-01428A-09-0104 et al.	Rate Increase
UNS Electric, Inc.	E-04204A-09-0206	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-08-09-0257	Rate Increase

ATTACHMENT A

The Water Utility Industry has not been the best place to reside in recent months. Indeed, the stocks in the group have shown little, if any, share-price appreciation since our October review. Some have even experienced deterioration, as the market continued to reveal signs of awaking from its earlier slumber and investor sentiment swung to more aggressive areas in an attempt to be at the forefront of a potential economic revival.

There has not been any major developments or changes to water utility fundamentals of late, suggesting that the weakness is largely a byproduct of improving investor confidence and a brighter outlook for the broader market. But that's not to say that there haven't been some lingering issues at play too. Water infrastructures are aging and in many cases require considerable maintenance and capital investment in order to meet increasingly stringent requirements. The rising costs of doing business are likely to offset most of the benefits stemming form more favorable regulatory backing that has become apparent (see below), limiting shareholder gains for both the near and long-term. It should be noted that these stocks are typically bottom-dwellers in times of prosperity and renewed confidence, with their perceived safety historically faring better in times of economic uncertainty.

Undeniable Demand

It's a fact of life, water is one of the biggest necessities to human survival. And, although more than two thirds of the world is made up of the liquid, providers are needed to help safely and effectively deliver water to hundreds of millions of Americans everyday.

Given the dependency on water, each state has a regulatory body in place in order to oversee water utilities and maintain a balance of power between them and customers. However, many of these authorities, responsible for reviewing and ruling on general rate requests made by utilities to help recover costs, long sided with the public, creating a lop-sided and difficult backdrop for providers. That said, more recently most have had a change of heart and have been handing down more business friendly rulings on general rates in far more timely fashion. The recent implementation of accounting mechanisms originally outlined in the Water Action Plan speaks volumes to such and should only help to drive more predictable and improved results in the future.

INDUSTRY TIMELINESS: 74 (of 98)

Pressures to Keep Up

But not everything is as bright as the improving regulatory environment. In order to meet the demands of the public, providers employ millions of feet of pipes and a plethora of wells to say the least. Many of these systems were built decades ago and over the course of time have begun to decay and require significant maintenance or even complete overhauls. This coupled with the growing threat of bioterrorism will likely continue driving maintenance and infrastructure costs through the roof and forcing most in this space to seek help on the financing front because of inadequate cash levels. Meanwhile, many smaller operations, unable to survive, are closing up shop, presenting opportunities for the larger players with the flexibility to increase their customer base at relatively lower start-up costs. *Aqua America* is a prime example and thus sports some of the best long-term growth prospects. M&A activity is likely to remain hot, as the costs of doing business are expected to climb into the hundreds of millions by the next decade.

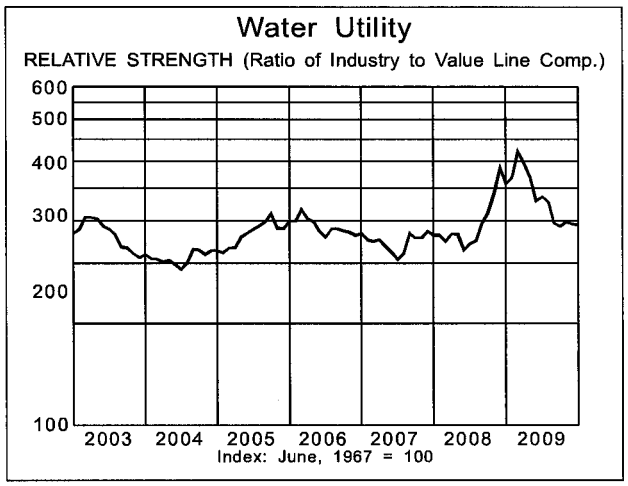
Conclusion

At this juncture, this industry does not cater to the investment demands of most. Just about every stock in the group lacks appreciation potential, whether it be for the coming six to 12 months or the 3- to 5-year pull. The aforementioned *Aqua America*, along with *SouthWest Water Company* and *American Water Works*, top our list for growth potential, but each pales in comparison to the alternatives offered outside the industry. Although the steady stream of income of some in this group may well intrigue investors seeking total return, the risk profiles of each of these stocks are higher than one might think because of a dependency on M&A's, finance concerns, and a lack of track record. Meanwhile, those with a more conservative bent and an affinity for income can do better by looking elsewhere, specifically the Electric Utility segment. As always, we advise potential investors to thumb through reports of each individual stock before making a commitment.

Andre J. Costanza

Composite Statistics: Water Utility Industry

2005	2006	2007	2008	2009	2010		12-14
1256.9	3454.1	3702.5	3913.8	***4150***	***4455***	Revenues ($mill)	***5425***
148.2	d5.8	d183.0	352.7	***405***	***470***	Net Profit ($mill)	***625***
40.5%	NMF	NMF	37.0%	***38.0%***	***38.0%***	Income Tax Rate	***39.0%***
1.1%	NMF	NMF	6.5%	***8.0%***	***10.0%***	AFUDC % to Net Profit	***15.0%***
50.4%	54.0%	51.0%	52.6%	***55.0%***	***53.0%***	Long-Term Debt Ratio	***50.0%***
49.5%	45.9%	49.0%	47.4%	***45.0%***	***47.0%***	Common Equity Ratio	***50.0%***
3053.8	12113.9	12985.9	12629.1	***13365***	***13800***	Total Capital ($mill)	***15725***
4200.7	13308.3	14315.2	15356.1	***16115***	***16950***	Net Plant ($mill)	***19050***
6.3%	1.6%	.2%	4.3%	***5.0%***	***5.5%***	Return on Total Cap'l	***6.0%***
9.8%	NMF	NMF	5.9%	***6.5%***	***7.5%***	Return on Shr. Equity	***8.0%***
9.8%	NMF	NMF	5.9%	***6.5%***	***7.5%***	Return on Com Equity	***8.0%***
3.7%	NMF	NMF	2.9%	***3.0%***	***3.5%***	Retained to Com Eq	***4.0%***
62%	NMF	NMF	51%	***63%***	***60%***	All Div'ds to Net Prof	***55%***
29.4	NMF	NMF	21.0	***Bold figures are Value Line estimates***		Avg Ann'l P/E Ratio	***20.0***
1.57	NMF	NMF	1.26			Relative P/E Ratio	***1.35***
2.1%	2.0%	2.3%	2.4%			Avg Ann'l Div'd Yield	***2.5%***



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AMER. STATES WATER NYSE-AWR

RECENT PRICE 34.75 | P/E RATIO 18.5 (Trailing: 18.6 Median: 22.0) | RELATIVE P/E RATIO 1.07 | DIV'D YLD 3.0% | VALUE LINE

TIMELINESS 3 Lowered 6/5/09
SAFETY 3 New 2/4/00
TECHNICAL 3 Raised 12/4/09
BETA .80 (1.00 = Market)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
High:	19.5	26.5	25.3	26.4	29.0	29.0	26.8	34.6	43.8	46.1	42.0	38.8
Low:	14.1	14.8	16.7	19.0	20.3	21.6	20.8	24.3	30.3	33.6	27.0	29.8

2012-14 PROJECTIONS

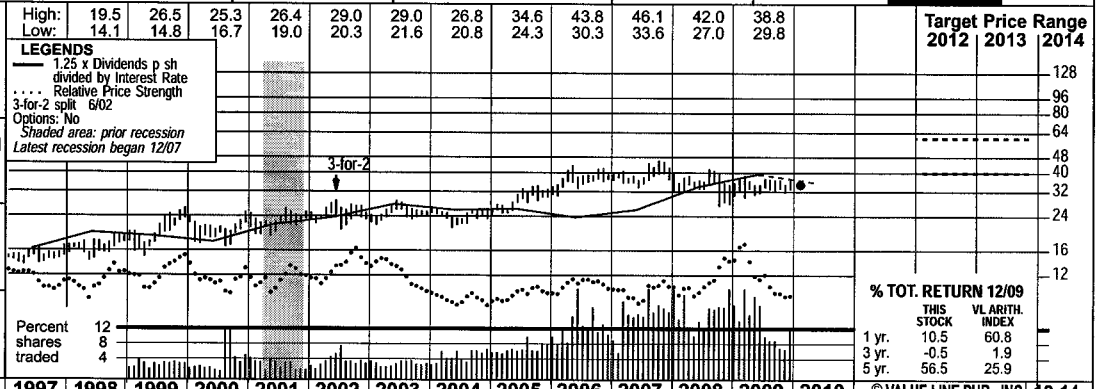
	Price	Gain	Ann'l Total Return
High	60	(+75%)	17%
Low	40	(+15%)	6%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	1	0	0	0	0	1	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	55	66	54
to Sell	66	53	53
Hld's(000)	9283	10578	10847



% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	10.5	60.8
3 yr.	-0.5	1.9
5 yr.	56.5	25.9

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
9.27	10.43	11.03	11.37	11.44	11.02	12.91	12.17	13.06	13.78	13.98	13.61	14.06	15.76	17.49	18.42	*19.60*	*20.55*	Revenues per sh	*21.75*
1.67	1.68	1.75	1.75	1.85	2.04	2.26	2.20	2.53	2.54	2.08	2.23	2.64	2.89	3.31	3.37	*3.65*	*3.90*	"Cash Flow" per sh	*4.60*
1.11	.95	1.03	1.13	1.04	1.08	1.19	1.28	1.35	1.34	.78	1.05	1.32	1.33	1.62	1.55	*1.85*	*2.00*	Earnings per sh A	*2.60*
.79	.80	.81	.82	.83	.84	.85	.86	.87	.87	.88	.89	.90	.91	.96	1.00	1.01	*1.05*	Div'd Decl'd per sh B■	*1.22*
1.90	2.43	2.19	2.40	2.58	3.11	4.30	3.03	3.18	2.68	3.76	5.03	4.24	3.91	2.89	4.45	*4.05*	*4.25*	Cap'l Spending per sh	*5.00*
9.95	10.07	10.29	11.01	11.24	11.48	11.82	12.74	13.22	14.05	13.97	15.01	15.72	16.64	17.53	17.95	*19.60*	*20.00*	Book Value per sh	*22.00*
11.71	11.77	11.77	13.33	13.44	13.44	13.44	15.12	15.12	15.18	15.21	16.75	16.80	17.05	17.23	17.30	*18.60*	*19.00*	Common Shs Outst'g C	*20.00*
13.4	12.8	11.6	12.6	14.5	15.5	17.1	15.9	16.7	18.3	31.9	23.2	21.9	27.7	24.0	22.6	*18.54*		Avg Ann'l P/E Ratio	*19.0*
.79	.84	.78	.79	.84	.81	.97	1.03	.86	1.00	1.82	1.23	1.17	1.50	1.27	1.37	*1.22*		Relative P/E Ratio	*1.25*
5.3%	6.6%	6.7%	5.8%	5.5%	5.0%	4.2%	4.2%	3.9%	3.6%	3.5%	3.6%	3.1%	2.5%	2.5%	2.9%	2.9%		Avg Ann'l Div'd Yield	*2.4%*

CAPITAL STRUCTURE as of 9/30/09
Total Debt $327.5 mill. **Due in 5 Yrs** $25.0 mill.
LT Debt $306.3 mill. **LT Interest** $23.5 mill.
(LT interest earned: 3.8x: total interest coverage: 3.5x) (46% of Cap'l)

Leases, Uncapitalized: Annual rentals $2.9 mill.

Pension Assets-12/08 $54.2 mill. **Oblig.** $94.5 mill.

Pfd Stock None.

Common Stock 18,512,032 shs. as of 11/3/09

MARKET CAP: $650 million (Small Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
173.4	184.0	197.5	209.2	212.7	228.0	236.2	268.6	301.4	318.7	*365*	*390*	Revenues ($mill)	*450*
16.1	18.0	20.4	20.3	11.9	16.5	22.5	23.1	28.0	26.8	*35.0*	*39.0*	Net Profit ($mill)	*52.0*
46.0%	45.7%	43.0%	38.9%	43.5%	37.4%	47.0%	40.5%	42.6%	37.8%	*38.5%*	*38.5%*	Income Tax Rate	*40.0%*
--	--	--	--	--	--	--	12.2%	8.5%	6.9%	*5.0%*	*5.0%*	AFUDC % to Net Profit	*5.0%*
51.0%	47.5%	54.9%	52.0%	52.0%	47.7%	50.4%	48.6%	46.9%	46.2%	*46.0%*	*44.5%*	Long-Term Debt Ratio	*46.5%*
48.4%	51.9%	44.7%	48.0%	48.0%	52.3%	49.6%	51.4%	53.1%	53.8%	*54.0%*	*55.5%*	Common Equity Ratio	*53.5%*
328.2	371.1	447.6	444.4	442.3	480.4	532.5	551.6	569.4	577.0	*675*	*705*	Total Capital ($mill)	*825*
449.6	509.1	539.8	563.3	602.3	664.2	713.2	750.6	776.4	825.3	*870*	*920*	Net Plant ($mill)	*1025*
6.6%	6.4%	6.1%	6.5%	4.6%	5.2%	5.4%	6.0%	6.7%	6.4%	*7.0%*	*7.5%*	Return on Total Cap'l	*8.5%*
10.0%	9.2%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	*9.5%*	*10.5%*	Return on Shr. Equity	*12.0%*
10.1%	9.3%	10.1%	9.5%	5.6%	6.6%	8.5%	8.1%	9.3%	8.6%	*9.5%*	*10.5%*	Return on Com Equity	*12.0%*
2.9%	3.0%	3.6%	3.3%	NMF	1.0%	2.8%	2.7%	3.9%	3.1%	*4.5%*	*5.0%*	Retained to Com Eq	*6.5%*
72%	68%	65%	65%	113%	84%	67%	67%	58%	64%	*54%*	*53%*	All Div'ds to Net Prof	*47%*

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	1.7	7.3	7.4
Other	61.4	83.3	92.3
Current Assets	63.1	90.6	99.7
Accts Payable	29.1	36.6	37.4
Debt Due	37.8	75.3	21.2
Other	27.4	25.5	40.4
Current Liab.	94.3	137.4	99.0
Fix. Chg. Cov.	314%	293%	352%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	4.5%	5.0%	*4.0%*
"Cash Flow"	5.5%	6.0%	*6.5%*
Earnings	3.5%	5.5%	*9.5%*
Dividends	1.5%	2.0%	*4.5%*
Book Value	4.5%	5.0%	*4.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	64.3	63.0	75.0	66.3	268.6
2007	72.3	79.3	75.8	74.0	301.4
2008	68.9	80.3	85.3	84.2	318.7
2009	79.6	93.6	101.8	*90.0*	*365*
2010	*85.0*	*100*	*108*	*97.0*	*390*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	.35	.36	.32	.30	1.33
2007	.40	.42	.44	.35	1.62
2008	.30	.53	.26	.43	1.55
2009	.28	.64	.52	*.41*	*1.85*
2010	*.30*	*.65*	*.58*	*.47*	*2.00*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.225	.225	.225	.235	.91
2007	.235	.235	.235	.250	.96
2008	.250	.250	.250	.250	1.00
2009	.250	.250	.250	.260	1.01
2010					

BUSINESS: American States Water Co. operates as a holding company. Through its principal subsidiary, Golden State Water Company, it supplies water to more than 250,000 customers in 75 communities in 10 counties. Service areas include the greater metropolitan areas of Los Angeles and Orange Counties. The company also provides electric utility services to nearly 23,250 customers in the city of Big Bear Lake and in areas of San Bernardino County. Acquired Chaparral City Water of Arizona (10/00). Has roughly 675 employees. Officers & directors own 2.5% of common stock (4/09 Proxy). Chairman: Lloyd Ross. President & CEO: Floyd Wicks. Inc: CA. Addr.: 630 East Foothill Boulevard, San Dimas, CA 91773. Tele.: 909-394-3600. Internet: www.aswater.com.

American States Water posted impressive third-quarter growth. Indeed, the water utility reported earnings of $0.52 a share, as revenues advanced 17%, to a record $101 million.

Expectations should be tempered a bit, however. Last year's third-quarter figures were relatively weak. The December-period comparisons are far more formidable. Plus, although the top line is likely to continue being the beneficiary of favorable general rate case rulings from the California Public Utilities Commission, operating expenses look to be on the rise, as evidenced by the most recent double-digit increase. Already decaying infrastructures are only growing older and requiring more investment. Much in that vein, we anticipate that the company had trouble meeting last year's share-net total in the fourth quarter, despite a healthy high single-digit top-line advance. For many of the same reasons, bottom-line growth for full-year 2010, though healthy, will likely pale in comparison to the levels witnessed in 2009.

The company's balance sheet is not exactly seductive. In order to meet the growing infrastructure requirements mentioned above, the cash-strapped entity will have to continue to seek outside financing, with debt and share offerings likely becoming commonplace. The higher interest rate and share count associated with these transactions will limit the benefits of the expansion of the nonregulated business.

These shares are not too intriguing at this juncture. Share-price momentum has tapered off in the months following our October review and is likely to remain relatively stagnant over the coming six to 12 months as the emergence from the recession continues to gain steam and investors regain confidence and take a more aggressive stance. The longer-term picture is not much better, with burgeoning financing costs curbing 3- to 5-year shareholder gains. Although risk-averse investors may be intrigued by the issue's income component (in a much anticipated move the board recently raised the quarterly dividend by 4% to $0.26 a share), it should be noted that there are a number of better income sources, particularly in the utility genre, to choose from.

Andre J. Costanza *January 22, 2010*

(A) Primary earnings. Excludes nonrecurring gains/(losses): '04, 14¢; '05, 25¢; '06, 6¢; '08, (27¢). Next earnings report due late February. May not add due to rounding.
(B) Dividends historically paid in early March, June, September, and December. ■ Div'd reinvestment plan available.
(C) In millions, adjusted for split.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	70
Earnings Predictability	70

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CALIFORNIA WATER NYSE-CWT

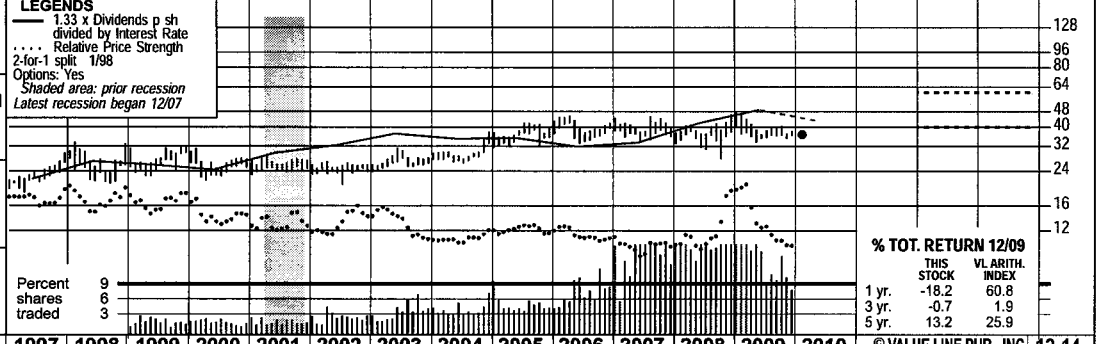
RECENT PRICE 36.83 | P/E RATIO 18.4 (Trailing: 18.5 Median: 22.0) | RELATIVE P/E RATIO 1.06 | DIV'D YLD 3.2% | VALUE LINE

TIMELINESS 4 Lowered 11/6/09
SAFETY 3 Lowered 7/27/07
TECHNICAL 3 Lowered 12/25/09
BETA .75 (1.00 = Market)

High:	33.8	32.0	31.4	28.6	26.9	31.4	37.9	42.1	45.8	45.4	46.6	48.3
Low:	20.8	22.6	21.5	22.9	20.5	23.7	26.1	31.2	32.8	34.2	27.7	33.5

Target Price Range 2012 | 2013 | 2014

LEGENDS
— 1.33 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 1/98
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+65%)	15%
Low	40	(+10%)	5%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	83	76	56
to Sell	81	85	75
Hld's(000)	10000	10018	9635

Percent shares traded 9 6 3

% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-18.2	60.8
3 yr.	-0.7	1.9
5 yr.	13.2	25.9

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
13.34	12.59	13.17	14.48	15.48	14.76	15.96	16.16	16.26	17.33	16.37	17.18	17.44	16.20	17.76	19.80	21.35	22.10	Revenues per sh	23.90
2.25	2.02	2.07	2.50	2.92	2.60	2.75	2.52	2.20	2.65	2.51	2.83	3.03	2.71	3.12	3.72	4.05	4.25	"Cash Flow" per sh	4.80
1.35	1.22	1.17	1.51	1.83	1.45	1.53	1.31	.94	1.25	1.21	1.46	1.47	1.34	1.50	1.90	1.99	2.10	Earnings per sh A	2.60
.96	.99	1.02	1.04	1.06	1.07	1.09	1.10	1.12	1.12	1.12	1.13	1.14	1.15	1.16	1.17	1.18	1.19	Div'd Decl'd per sh B ■	1.25
2.53	2.26	2.17	2.83	2.61	2.74	3.44	2.45	4.09	5.82	4.39	3.73	4.01	4.28	3.68	4.82	5.20	5.25	Cap'l Spending per sh	5.25
10.90	11.56	11.72	12.22	13.00	13.38	13.43	12.90	12.95	13.12	14.44	15.66	15.79	18.15	18.50	19.44	20.00	19.75	Book Value per sh C	21.30
11.38	12.49	12.54	12.62	12.62	12.62	12.94	15.15	15.18	15.18	16.93	18.37	18.39	20.66	20.67	20.72	21.00	21.25	Common Shs Outst'g D	23.00
13.6	14.1	13.7	11.9	12.6	17.8	17.8	19.6	27.1	19.8	22.1	20.1	24.9	29.2	26.1	19.8	19.3		Avg Ann'l P/E Ratio	19.0
.80	.92	.92	.75	.73	.93	1.01	1.27	1.39	1.08	1.26	1.06	1.33	1.58	1.39	1.20	1.26		Relative P/E Ratio	1.25
5.2%	5.8%	6.4%	5.8%	4.6%	4.2%	4.0%	4.3%	4.4%	4.5%	4.2%	3.9%	3.1%	2.9%	3.0%	3.1%	3.1%		Avg Ann'l Div'd Yield	2.5%
						206.4	244.8	246.8	263.2	277.1	315.6	320.7	334.7	367.1	410.3	448	470	Revenues ($mill) E	550
						19.9	20.0	14.4	19.1	19.4	26.0	27.2	25.6	31.2	39.8	42.0	45.0	Net Profit ($mill)	60.0
						37.9%	42.3%	39.4%	39.7%	39.9%	39.6%	42.4%	37.4%	39.9%	37.7%	40.0%	39.0%	Income Tax Rate	39.0%
						--	--	--	--	10.3%	3.2%	3.3%	10.6%	8.3%	8.6%	8.5%	10.0%	AFUDC % to Net Profit	10.0%
						46.9%	48.9%	50.3%	55.3%	50.2%	48.6%	48.3%	43.5%	42.9%	41.6%	47.0%	46.5%	Long-Term Debt Ratio	48.5%
						52.0%	50.2%	48.8%	44.0%	49.1%	50.8%	51.1%	55.9%	56.6%	58.4%	53.0%	53.5%	Common Equity Ratio	51.5%
						333.8	388.8	402.7	453.1	498.4	565.9	568.1	670.1	674.9	690.4	795	805	Total Capital ($mill)	950
						515.4	582.0	624.3	697.0	759.5	800.3	862.7	941.5	1010.2	1112.4	1175	1240	Net Plant ($mill)	1425
						7.8%	6.8%	5.3%	5.9%	5.6%	6.1%	6.3%	5.2%	5.9%	7.1%	7.0%	7.0%	Return on Total Cap'l	8.0%
						11.2%	10.0%	7.2%	9.4%	7.8%	8.9%	9.3%	6.8%	8.1%	9.9%	10.0%	10.5%	Return on Shr. Equity	12.0%
						11.4%	10.1%	7.2%	9.5%	7.9%	9.0%	9.3%	6.8%	8.1%	9.9%	10.0%	10.5%	Return on Com Equity	12.0%
						3.5%	1.8%	NMF	1.0%	.7%	2.1%	2.1%	1.0%	1.8%	3.8%	4.0%	5.0%	Retained to Com Eq	6.5%
						70%	82%	119%	90%	91%	77%	78%	86%	77%	61%	59%	56%	All Div'ds to Net Prof	48%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $397.9 mill. **Due in 5 Yrs** $40.0 mill.
LT Debt $373.5 mill. **LT Interest** $25.0 mill.

(LT interest earned: 7.8x; total int. cov.: 6.6x)

Pension Assets-12/08 $66.9 mill. **Oblig.** $192.9 mill.

Pfd Stock None

Common Stock 20,744,952 shs. as of 11/2/09

MARKET CAP: $775 million (Small Cap)

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	6.7	13.9	47.6
Other	53.3	65.9	92.8
Current Assets	60.0	79.8	140.4
Accts Payable	36.7	45.1	54.4
Debt Due	2.7	42.8	24.4
Other	30.3	35.3	52.0
Current Liab.	69.7	123.2	130.8
Fix. Chg. Cov.	333%	398%	430%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	2.0%	1.5%	5.0%
"Cash Flow"	2.0%	5.5%	7.0%
Earnings	--	7.0%	8.5%
Dividends	1.0%	0.5%	1.5%
Book Value	4.0%	6.5%	2.0%

Cal-endar	QUARTERLY REVENUES ($ mill.)E Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	65.2	81.1	107.8	80.6	334.7
2007	71.6	95.8	113.8	85.9	367.1
2008	72.9	105.6	131.7	100.1	410.3
2009	86.7	116.7	139.2	105.4	448
2010	91.0	122	146	111	470

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.04	.31	.68	.31	1.34
2007	.07	.37	.67	.39	1.50
2008	.01	.48	1.06	.35	1.90
2009	.12	.58	.94	.35	1.99
2010	.11	.60	1.00	.39	2.10

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.2875	.2875	.2875	.2875	1.15
2007	.290	.290	.290	.290	1.16
2008	.293	.293	.293	.293	1.17
2009	.295	.295	.295	.295	1.18
2010					

BUSINESS: California Water Service Group provides regulated and nonregulated water service to roughly 463,600 customers in 83 communities in California, Washington, New Mexico, and Hawaii. Main service areas: San Francisco Bay area, Sacramento Valley, Salinas Valley, San Joaquin Valley & parts of Los Angeles. Acquired Rio Grande Corp; West Hawaii Utilities (9/08). Revenue breakdown, '08: residential, 69%; business, 18%; public authorities, 5%; industrial, 5%; other, 3%. '08 reported depreciation rate: 2.4%. Has roughly 929 employees. Chairman: Robert W. Foy. President & CEO: Peter C. Nelson (4/09 Proxy). Inc.: Delaware. Address: 1720 North First Street, San Jose, California 95112-4598. Telephone: 408-367-8200. Internet: www.calwatergroup.com.

Improvements on the regulatory front augur well for California Water Service Group's top line. Indeed, earlier rate increases handed down by the California Public Utilities Commission (CPUC) enabled the water utility to post record-high revenues of $139.2 million in the third quarter, a 6% improvement from the year before. We look for similar growth in the fourth quarter and for full-year 2010. Meanwhile, the company filed its 2009 general rate case during the period, seeking $71 million in 2011 with increases of nearly $25 million in 2012 and 2013. It was CWT's first consolidated request, covering all 24 districts, and a ruling may well take 18 months to be made. We expect a relatively favorable outcome given the CPUC's more recent disposition.

However, operating costs appear to be on the rise, too. Despite the top-line benefits mentioned above, share earnings fell 11% in the September period and came in a dime below our estimate. Operating expenses swelled 10%, as aging infrastructures required greater maintenance, and the increased demand drove up distribution costs. We suspect that these trends persisted in the fourth quarter and will only intensify going forward. As a result, we've tempered our expectations, estimating that CWT barely broke even in the final quarter of 2009 and that earnings growth will not be anything to write home about for full-year 2010.

The stock has fallen a notch for Timeliness and is now ranked 4 (Below Average). Recent share-price declines, coupled with the tough outlook, make this an unattractive selection for the coming six to 12 months.

Its 3- to 5-year appeal is better, but still lacking in our opinion. CWT does not have the finances on hand to meet the rising infrastructure costs that are likely to amount over the next couple of years. The share and/or debt offerings that will be required to help improve the balance sheet will come at a price, with the higher share count and interest rate expenses limiting potential shareholder gains. Although the dividend yield looks healthy at first blush, those seeking an income vehicle have better options available, particularly on a risk-adjusted basis.

Andre J. Costanza *January 22, 2010*

(A) Basic EPS. Excl. nonrecurring gain (loss): '00, (7¢); '01, 4¢; '02, 8¢. Next earnings report due early February.
(B) Dividends historically paid in mid-Feb., May, Aug., and Nov. ■ Div'd reinvestment plan available.
(C) Incl. deferred charges. In '08: $3.9 mill., $.19/sh.
(D) In millions, adjusted for split.
(E) Excludes non-reg. rev.

Company's Financial Strength	B++
Stock's Price Stability	80
Price Growth Persistence	75
Earnings Predictability	80

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SOUTHWEST WATER NDQ-SWWC

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
6.26	28.5	(Trailing: 34.8 Median: 29.0)	1.65	3.2%	VALUE LINE

TIMELINESS 3 Raised 11/27/09
SAFETY 4 New 10/23/09
TECHNICAL 3 Raised 1/1/10
BETA 1.10 (1.00 = Market)

High:	5.6	9.2	8.3	10.2	12.4	11.2	14.3	15.2	19.1	16.4	13.4	6.3					
Low:	3.5	3.6	5.1	6.9	7.6	8.1	10.3	9.0	10.8	11.5	2.7	3.1					

Target Price Range
2012 | 2013 | 2014

2012-14 PROJECTIONS

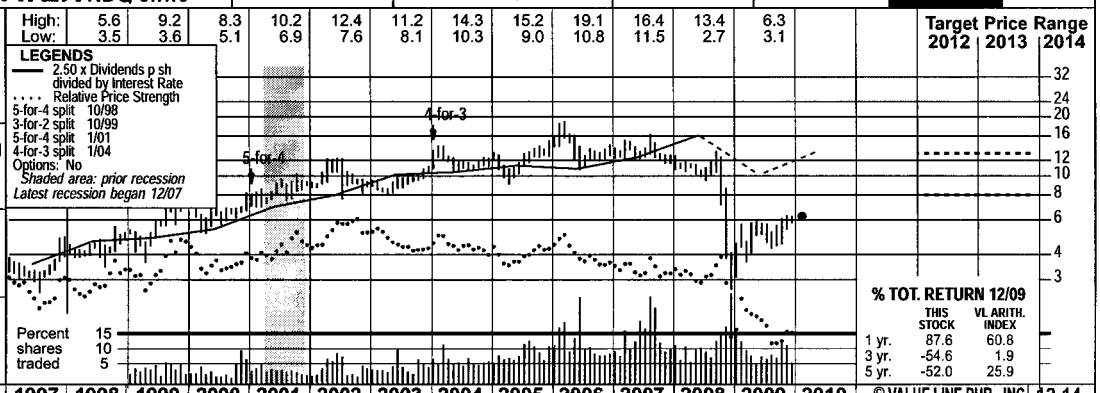
	Price	Gain	Ann'l Total Return
High	13	110%	20%
Low	8	30%	6%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	39	42	42
to Sell	38	39	31
Hld's(000)	11007	11107	10401



% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	87.6	60.8
3 yr.	-54.6	1.9
5 yr.	-52.0	25.9

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
4.03	4.20	4.84	5.31	5.61	5.63	6.16	7.49	8.15	9.12	10.70	9.23	9.10	9.42	8.96	8.87	*8.70*	*8.80*	Revenues per sh	*10.55*
.38	.38	.44	.46	.53	.59	.65	.76	.87	.86	.91	.67	.78	.85	.69	.66	*.35*	*.50*	"Cash Flow" per sh	*1.00*
.08	.09	.12	.15	.21	.25	.31	.38	.42	.39	.44	.23	.34	.40	.31	.04	*.16*	*.30*	Earnings per sh A	*.50*
.14	.08	.08	.09	.09	.10	.11	.13	.14	.15	.16	.18	.20	.21	.23	.24	.13	*.20*	Div'd Decl'd per sh B	*.20*
.60	.72	.84	.95	.74	.79	.53	.55	1.06	1.78	1.14	1.26	1.66	1.87	1.70	1.35	*.70*	*.75*	Cap'l Spending per sh	*1.90*
2.31	2.31	2.45	2.40	2.52	2.70	3.05	3.44	3.84	4.27	4.90	6.17	6.49	6.98	6.54	4.55	*4.50*	*4.55*	Book Value per sh D	*5.10*
11.97	12.13	11.74	12.45	12.65	12.83	13.12	13.99	14.17	14.35	16.17	20.36	22.33	23.80	24.27	24.90	*25.00*	*25.50*	Common Shs Outst'g C	*26.50*
35.8	22.3	14.6	16.5	16.9	17.2	19.6	17.0	19.8	24.8	21.2	NMF	35.5	34.8	42.1	NMF	*32.0*		Avg Ann'l P/E Ratio	*20.0*
2.11	1.46	.98	1.03	.97	.89	1.12	1.11	1.01	1.35	1.21	NMF	1.89	1.88	2.23	NMF	*2.14*		Relative P/E Ratio	*1.65*
4.7%	4.2%	4.7%	3.4%	2.7%	2.3%	1.8%	2.0%	1.7%	1.5%	1.7%	1.5%	1.6%	1.5%	1.8%	2.4%	2.5%		Avg Ann'l Div'd Yield	*2.0%*

CAPITAL STRUCTURE as of 9/30/09
Total Debt $155.7 mill. **Due in 5 Yrs** $153.5 mill.
LT Debt $153.5 mill. **LT Interest** $7.0 mill.
(Total interest coverage: 2.7x) (48% of Cap'l)

Leases, Uncapitalized: Annual rentals $5.5 mill.
Pension Liability None

Pfd Stock $.458 mill. **Pfd Div'd** $.020 mill.
Common Stock 24,875,369 shs.
as of 10/31/09

MARKET CAP: $150 million (Small Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
80.9	104.7	115.5	130.8	173.0	188.0	203.2	224.2	217.3	220.9	*218*	*225*	Revenues ($mill)	*280*
4.2	5.4	6.2	6.0	7.2	4.5	7.3	9.3	5.1	1.0	*4.0*	*7.5*	Net Profit ($mill)	*13.0*
39.0%	37.0%	36.0%	34.9%	35.9%	36.1%	36.0%	35.0%	56.0%	NMF	*NMF*	*NMF*	Income Tax Rate	*NMF*
--	--	14.4%	3.2%	--	11.0%	9.5%	--	12.5%	10.0%	*13.0%*	*13.5%*	AFUDC % to Net Profit	*12.0%*
45.2%	48.8%	51.4%	56.7%	47.9%	47.9%	44.7%	43.6%	47.7%	62.6%	*61.5%*	*60.0%*	Long-Term Debt Ratio	*59.5%*
54.1%	50.7%	48.2%	42.9%	51.8%	52.0%	55.1%	56.3%	52.1%	37.2%	*38.5%*	*40.0%*	Common Equity Ratio	*40.5%*
73.9	95.0	113.0	142.8	152.8	242.0	262.9	295.2	304.5	304.4	*295*	*285*	Total Capital ($mill)	*300*
113.7	157.8	171.1	203.9	219.5	302.6	344.8	389.6	417.9	429.3	*420*	*440*	Net Plant ($mill)	*500*
7.6%	7.6%	7.6%	5.8%	6.2%	3.1%	4.1%	4.5%	2.9%	1.8%	*2.5%*	*4.0%*	Return on Total Cap'l	*5.5%*
10.3%	11.1%	11.4%	9.7%	9.0%	3.6%	5.0%	5.6%	3.2%	.9%	*3.5%*	*6.5%*	Return on Shr. Equity	*10.0%*
10.4%	11.1%	11.4%	9.7%	9.1%	3.6%	5.0%	5.6%	3.2%	.8%	*3.5%*	*6.5%*	Return on Com Equity	*10.0%*
7.0%	7.8%	7.8%	6.3%	5.8%	.8%	2.1%	2.6%	NMF	NMF	*NMF*	*2.5%*	Retained to Com Eq	*6.0%*
33%	31%	32%	36%	36%	78%	58%	54%	112%	NMF	*NMF*	*66%*	All Div'ds to Net Prof	*40%*

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	2.9	1.1	1.6
Receivables	26.0	29.7	34.0
Inventory (Avg Cst)	--	--	--
Other	32.7	26.9	25.4
Current Assets	61.6	57.7	61.0
Accts Payable	14.9	16.1	15.0
Debt Due	1.9	2.2	2.2
Other	29.4	28.4	18.5
Current Liab.	46.2	46.7	35.7

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	5.0%	-0.5%	*2.5%*
"Cash Flow"	3.5%	-3.5%	*9.5%*
Earnings	2.0%	-10.0%	*12.0%*
Dividends	9.5%	8.5%	*-2.0%*
Book Value	9.0%	7.0%	*-2.5%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	50.8	55.4	60.1	57.9	224.2
2007	48.1	55.0	57.4	56.8	217.3
2008	49.6	56.9	60.4	54.0	220.9
2009	50.1	52.4	59.0	*56.5*	*218*
2010	*52.0*	*55.0*	*60.0*	*58.0*	*225*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	.03	.08	.16	.13	.40
2007	.03	.09	.09	.11	.31E
2008	d.04	.03	d.02	.07	.04
2009	.03	.03	.05	*.05*	*.16*
2010	*.06*	*.06*	*.08*	*.10*	*.30*

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.052	.052	.052	.058	.21
2007	.058	.058	.058	.058	.23
2008	.06	.06	.06	.06	.24
2009	.025	.025	.025	.05	.13
2010	.05				

BUSINESS: SouthWest Water Company provides a broad range of services including water production, treatment and distribution; wastewater collection and treatment; utility billing and collection; and utility infrastructure. It operates four groups, Utility, 32% of 2008 revenues; Texas Utility, 16%; O&M Services, 18%; Texas MUD Services, 34%. Utility and Texas Utility own and manage rate-regulated public water utilities in California, Alabama, Oklahoma, and Texas. O&M and Texas MUD Services maintain projects on a contract and fee basis. Officers and directors own 4.2% of common shares (4/09 proxy). CEO/Chrmn: Mark Swatek. Inc.: DE. Addr.: One Wilshire Building, 624 S. Grand Ave. Ste. 2900, Los Angeles, CA 90017. Tel.: 213-929-1800. Internet: www.swwc.com.

SouthWest Water Company probably finished 2009 on a good note . . . Although share-profit comparisons likely dropped, year over year, revenues for the fourth quarter probably showed a slight increase. As SouthWest begins to recover from the weakened economy, we expect good quarter-to-quarter earnings gains, excluding charges associated from the delayed quarterly filings in 2008 (due to accounting errors). Severe droughts in California and Texas, two key SWWC markets, reduced water demand in the 12-month period ending in June, 2009. Moreover, the resulting dry soil increased repair costs during the latter half of 2009. Looking ahead,

. . . In 2010, the top and bottom lines should continue to recover in line with the overall economy. The company will likely be bolstered from the recently approved rate increase for its California utilities segment. Also, SouthWest plans to focus on reducing operating costs through consolidating office support functions, as well as by divesting underperforming businesses.

The board voted to increase the dividend payout. For its November payment, management doubled the amount paid during the prior three quarters. Though we do not expect the dividend rate to fully recover from the reduction in early 2008, this increase may be sustainable over the coming 3 to 5 years. However, even with a much reduced capital spending budget, free cash flow appears to fall short of preferred and common dividend expense.

These neutrally ranked shares are best suited for risk tolerant investors. Note, however, that the above-average price recovery potential is offset by the degree of risk attached to these shares. This risk is shown by the Low (C++) rank for Financial Strength, as well as the below-par scores for Stock Price Stability and Earnings Predictability. Business prospects are clouded due to uncertainties related to weather conditions and the housing market.

John D. Burke *January 22, 2010*

CASH POSITION	5-Year Av'g	9/30/09
Current Assets to Current Liabilities:	125%	170%
Cash & Equiv's to Current Liabilities:	10%	4%
Working Capital to Sales:	5%	12%

(A) Diluted earnings. Excludes nonrecurring gains (losses): '00, (3¢); '01, (5¢); '02, 1¢; '05, (23¢); '07, (54¢); '08, ($1.35); 1Q '09 (24¢); 2Q '09, (54¢). Next earnings report late February.
(B) Dividends historically paid in late January, April, July, and October.
(C) In millions, adjusted for splits.
(D) Includes intangibles. In 2008: $19.3 million, $0.83/share.
(E) Earnings may not add due to rounding.

Company's Financial Strength	C++
Stock's Price Stability	45
Price Growth Persistence	35
Earnings Predictability	45

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AQUA AMERICA NYSE-WTR

RECENT PRICE 17.57 | P/E RATIO 20.9 (Trailing: 23.7 Median: 25.0) | RELATIVE P/E RATIO 1.21 | DIV'D YLD 3.4% | VALUE LINE

TIMELINESS 3 Lowered 6/26/09
SAFETY 3 Lowered 8/1/03
TECHNICAL 3 Lowered 1/1/10
BETA .65 (1.00 = Market)

High:	11.5	11.5	12.0	14.8	15.0	16.8	18.5	29.2	29.8	26.6	22.0	21.5	
Low:	7.2	7.6	6.3	9.4	9.6	11.8	14.2	17.5	20.1	18.9	12.2	15.4	

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

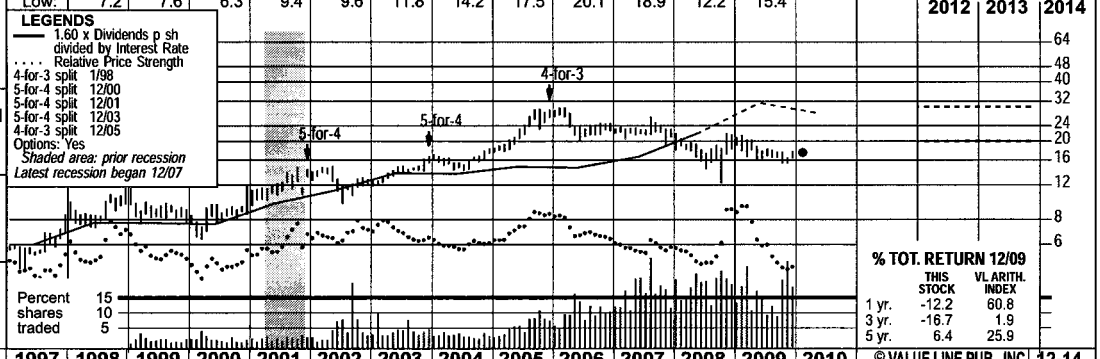
	Price	Gain	Ann'l Total Return
High	30	(+70%)	14%
Low	20	(+15%)	3%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	0	0	0	0	0	0
Options	1	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	130	117	88
to Sell	134	136	118
Hld's(000)	63551	61341	60196



% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-12.2	60.8
3 yr.	-16.7	1.9
5 yr.	6.4	25.9

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
1.70	1.82	1.84	1.86	2.02	2.09	2.41	2.46	2.70	2.85	2.97	3.48	3.85	4.03	4.52	4.63	4.95	5.35	Revenues per sh	6.45
.42	.42	.47	.50	.56	.61	.72	.76	.86	.94	.96	1.09	1.21	1.26	1.37	1.42	1.70	1.85	"Cash Flow" per sh	2.40
.24	.26	.29	.30	.34	.40	.42	.47	.51	.54	.57	.64	.71	.70	.71	.73	.80	.90	Earnings per sh A	1.25
.21	.21	.22	.23	.24	.26	.27	.28	.30	.32	.35	.37	.40	.44	.48	.51	.55	.59	Div'd Decl'd per sh B■	.70
.47	.46	.52	.48	.58	.82	.90	1.16	1.09	1.20	1.32	1.54	1.84	2.05	1.79	1.98	1.90	1.95	Cap'l Spending per sh	2.15
2.29	2.41	2.46	2.69	2.84	3.21	3.42	3.85	4.15	4.36	5.34	5.89	6.30	6.96	7.32	7.82	7.90	8.35	Book Value per sh	10.35
59.40	59.77	63.74	65.75	67.47	72.20	106.80	111.82	113.97	113.19	123.45	127.18	128.97	132.33	133.40	135.37	136.30	137.00	Common Shs Outst'g C	139.00
14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	31.8	34.7	32.0	24.9	22.2		Avg Ann'l P/E Ratio	21.0
.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.33	1.69	1.87	1.70	1.50	1.48		Relative P/E Ratio	1.40
5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	1.8%	1.8%	2.1%	2.8%	3.0%		Avg Ann'l Div'd Yield	2.0%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $1320.2 mill. **Due in 5 Yrs** $245.0 mill.
LT Debt $1265.4 mill. **LT Interest** $65.0 mill.
(LT interest earned: 3.4x; total interest coverage: 3.4x) (54% of Cap'l)

Pension Assets-12/08 $112.2 mill. **Oblig.** $204.7 mill.

Pfd Stock None
Common Stock 136,270,613 shares as of 10/20/09

MARKET CAP: $2.4 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
257.3	275.5	307.3	322.0	367.2	442.0	496.8	533.5	602.5	627.0	675	735	Revenues ($mill)	900
45.0	50.7	58.5	62.7	67.3	80.0	91.2	92.0	95.0	97.9	109	123	Net Profit ($mill)	175
38.4%	38.9%	39.3%	38.5%	39.3%	39.4%	38.4%	39.6%	38.9%	39.7%	39.0%	39.0%	Income Tax Rate	39.0%
--	--	--	--	--	--	--	--	2.9%	3.1%	3.0%	2.6%	AFUDC % to Net Profit	2.0%
52.9%	52.0%	52.2%	54.2%	51.4%	50.0%	52.0%	51.6%	55.4%	54.1%	54.0%	53.0%	Long-Term Debt Ratio	48.0%
46.7%	47.8%	47.7%	45.8%	48.6%	50.0%	48.0%	48.4%	44.6%	45.9%	46.0%	47.0%	Common Equity Ratio	52.0%
782.7	901.1	990.4	1076.2	1355.7	1497.3	1690.4	1904.4	2191.4	2306.6	2276	2345	Total Capital ($mill)	2765
1135.4	1251.4	1368.1	1490.8	1824.3	2069.8	2280.0	2506.0	2792.8	2997.4	3150	3300	Net Plant ($mill)	3500
7.6%	7.4%	7.8%	7.6%	6.4%	6.7%	6.9%	6.4%	5.9%	5.7%	6.0%	6.5%	Return on Total Cap'l	7.5%
12.2%	11.7%	12.3%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	10.0%	10.5%	Return on Shr. Equity	12.0%
12.3%	11.7%	12.4%	12.7%	10.2%	10.7%	11.2%	10.0%	9.7%	9.3%	10.0%	10.5%	Return on Com Equity	12.0%
4.3%	4.7%	5.1%	5.2%	4.2%	4.6%	4.9%	3.7%	3.2%	2.8%	3.5%	3.0%	Retained to Com Eq D	5.0%
65%	60%	59%	59%	59%	57%	56%	63%	67%	70%	66%	69%	All Div'ds to Net Prof	57%

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	14.5	14.9	18.0
Receivables	82.9	84.5	86.1
Inventory (AvgCst)	8.8	9.8	10.3
Other	9.3	11.8	10.5
Current Assets	115.5	121.0	124.9
Accts Payable	45.8	50.0	26.3
Debt Due	80.8	87.9	54.8
Other	56.6	55.3	149.0
Current Liab.	183.2	193.2	230.1
Fix. Chg. Cov.	323%	329%	325%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	8.0%	9.0%	6.5%
"Cash Flow"	9.5%	8.0%	10.0%
Earnings	7.5%	5.5%	10.0%
Dividends	7.0%	8.0%	6.5%
Book Value	9.5%	10.0%	6.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	117.9	131.7	147.0	136.9	533.5
2007	137.3	150.6	165.5	149.1	602.5
2008	139.3	151.0	177.1	159.6	627.0
2009	154.5	167.3	180.8	172.4	675
2010	165	185	195	190	735

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.13	.17	.21	.19	.70
2007	.13	.17	.22	.19	.71
2008	.11	.17	.26	.19	.73
2009	.14	.19	.25	.22	.80
2010	.15	.22	.28	.25	.90

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.107	.107	.115	.115	.44
2007	.115	.115	.125	.125	.48
2008	.125	.125	.125	.135	.51
2009	.135	.135	.135	.145	.55
2010					

BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately three million residents in Pennsylvania, Ohio, North Carolina, Illinois, Texas, New Jersey, Florida, Indiana, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired AquaSource, 7/03; Consumers Water, 4/99; and others. Water supply revenues '08: residential, 60%; commercial, 14%; industrial & other, 26%. Officers and directors own 1.3% of the common stock (4/09 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.

During the September interim, Aqua America lost some ground on a year-over-year basis. Although revenues were up slightly from the prior year, earnings dropped a penny, as unfavorable weather conditions and higher operating costs hurt profits during the third quarter. Looking ahead, though,

the company probably ended the year on a good note. A number of rate-relief cases were set to be decided in the fourth quarter which, if approved, should provide a slight last-minute boost to the top and bottom lines. Also, management has been actively working to reduce operating costs, and the benefits of these efforts should help widen margins. For the year, we expect a total increase in revenues and earnings of $48 million and $0.07 a share, respectively, but it should be noted that last year included a gain from the sale of its underperforming Woodhaven system.

Aqua America should continue to expand its reach through acquisitions and rate-relief cases over the next few years. The company has acquired a wastewater treatment plant in Lumpkin County, Georgia, and this new subsidiary (Aqua Georgia Inc.) may be bolstered by further purchases in this region. Also, WTR expanded its Aqua Pennsylvania division in December, purchasing the assets of Athens Township Authority, and subsequently signed a 20-year contract to provide water services. Additionally, the $75 million in rate cases filed in 2009 should, if judged in Aqua's favor, boost revenues and earnings over the next few years.

These shares are a neutral choice for the coming six to 12 month period, but hold some appeal for the long haul. One attractive trait is the steady dividend yield, which was raised 7.4% during the fourth quarter of 2008. The company has historically raised its payout every year, and this will most likely continue over the coming 3- to 5-year stretch. Also, the top- and bottom-line gains we project over the 2012-2014 horizon give this equity good recovery potential. Conservative investors should also take note of the high scores for Stock Price Stability and Earnings Predictability, as well as the below-the-market average Beta coefficient.

John D. Burke *January 22, 2010*

(A) Diluted shares. Excl. nonrec. gains (losses): '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early February.

(B) Dividends historically paid in early March, June, Sept. & Dec. ■ Div'd. reinvestment plan available (5% discount).

(C) In millions, adjusted for stock splits.

Company's Financial Strength	B+
Stock's Price Stability	95
Price Growth Persistence	70
Earnings Predictability	100

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ATTACHMENT B

The Natural Gas Utility Industry has fallen to the bottom quartile of our Timeliness spectrum. These utilities are operating in a tough business environment due to low natural gas prices and customer conservation. Moreover, the economic recovery has led investors to turn to less conservative investments, which has hurt valuations across this group. All told, near-term prospects are widely unattractive. However, many issues in this sector still offer attractive dividend yields, which may be of interest to income-oriented investors.

Economic Environment

Improved investor confidence has caused the stock market to rally in recent months. As a result, investors have sought higher returns, which has adversely affected defensive sectors like the Natural Gas Utility Industry. What's more, this group has been facing a variety of challenges of late. Most notably, the weakness in the housing market continues to pressure usage for natural gas. This, coupled with customer conservation, has depressed demand across this sector. In response, many of these utilities have scaled back their capital spending to adjust to the difficult operating environment. Moreover, many have increased their marketing efforts in recent months in an effort to induce demand. All told, we expect the tough market conditions to continue to weigh on results in the near term.

Regulation

The regulatory environment in this sector remains crucial to this group's profitability over the long haul. These companies are regulated by state commissions that determine the return on equity these businesses can attain. For the most part, these utilities tend to post flat bottom-line results, year to year. Rate cases generally occur when operational costs pressure profitability. The outcome of these cases can have a meaningful impact on stock valuations because they have a heavy bearing on profitability. Thus, regulators try to strike a balance between shareholder and customer interests when rendering decisions. All told, interested investors should keep a close eye on pending rate cases when reading the following pages.

INDUSTRY TIMELINESS: 79 (of 98)

Other Operating Factors

Many of the utilities have invested in nonregulated operations in recent years. While this makes up only a small portion of revenues for this sector, we expect it to become an increasingly important opportunity in the years ahead. Nonregulated activities are businesses that are free from the oversight of the aforementioned regulatory bodies. These ventures are generally more risky, but also offer greater potential for returns. Moreover, they provide a way for these companies to diversify their income.

Cost controls are another way these utilities use to strengthen their results. Given the regulatory oversight, earnings growth is restricted. Thus, effective cost management is one of the main methods these companies utilize to improve their profitability.

Another factor that weighs on this group is unseasonable weather. Warmer- or colder-than-normal weather can increase volatility for natural gas prices. To limit this risk, the management of these businesses sometimes use hedging techniques, namely weather-adjusted rate mechanisms. Thus, investors looking for utilities with more stable results will probably want to look for those that utilize this strategy.

Energy-efficiency programs are becoming an increasingly important theme, as well. Regulators have encouraged these companies to implement such programs to decrease energy consumption. Government-backed incentives allow these businesses to adopt these programs without sacrificing profitability.

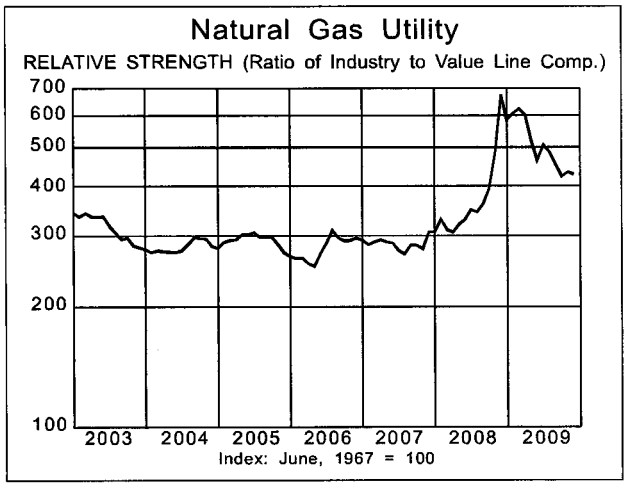
Conclusion

The Natural Gas Utility Industry is not ranked favorably for year-ahead price performance. Investors interested in stock appreciation over the coming six to 12 months would probably do better to look elsewhere. However, income-oriented accounts may want to take a look at some of the stocks in the following pages. Indeed, numerous equities in this group offer rather attractive dividend yields.

Richard Gallagher

Composite Statistics: Natural Gas Utility

2005	2006	2007	2008	2009	2010		12-14
36075	38273	38528	44207	***45500***	***47000***	Revenues ($mill)	***52750***
1386.0	1553.3	1562.4	1694.2	***1775***	***1850***	Net Profit ($mill)	***2150***
36.0%	35.3%	33.9%	35.7%	***36.0%***	***36.0%***	Income Tax Rate	***36.0%***
3.8%	4.0%	4.1%	3.8%	***3.9%***	***3.9%***	Net Profit Margin	***4.1%***
51.3%	51.2%	50.4%	50.6%	***51.0%***	***51.0%***	Long-Term Debt Ratio	***52.0%***
48.4%	48.7%	49.5%	49.4%	***48.0%***	***48.0%***	Common Equity Ratio	***46.0%***
29218	30847	32263	32729	***33250***	***34750***	Total Capital ($mill)	***40000***
30894	32543	33936	35342	***36750***	***38500***	Net Plant ($mill)	***46250***
6.5%	6.6%	6.5%	6.8%	***6.5%***	***6.5%***	Return on Total Cap'l	***7.0%***
9.7%	10.2%	9.8%	10.5%	***10.0%***	***10.5%***	Return on Shr. Equity	***11.0%***
9.8%	10.2%	9.8%	10.5%	***10.0%***	***10.5%***	Return on Com Equity	***11.0%***
3.5%	4.0%	3.7%	4.3%	***4.0%***	***4.5%***	Retained to Com Eq	***5.0%***
65%	61%	62%	59%	***60%***	***62%***	All Div'ds to Net Prof	***65%***
17.1	15.6	16.6	13.9	***Bold figures are Value Line estimates***		Avg Ann'l P/E Ratio	***13.0***
.91	.84	.88	.83			Relative P/E Ratio	***.85***
3.8%	3.9%	3.7%	4.2%			Avg Ann'l Div'd Yield	***4.6%***
315%	327%	336%	358%	***375%***	***375%***	Fixed Charge Coverage	***400%***



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AGL RESOURCES NYSE-AGL

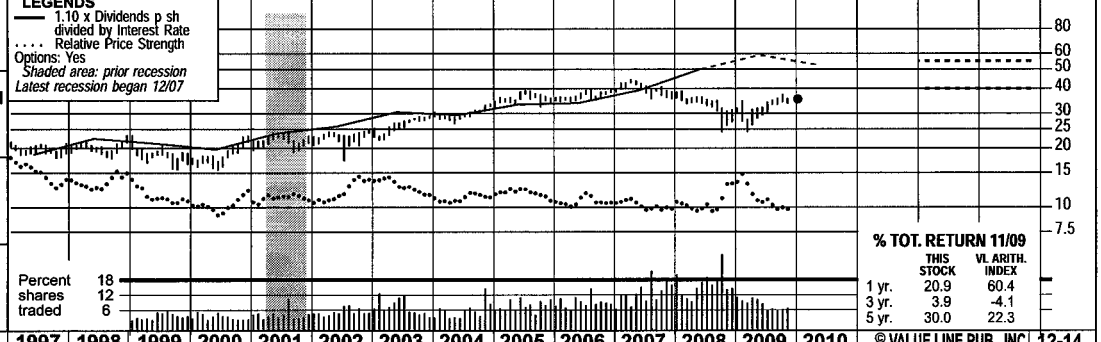
RECENT PRICE **35.38** | P/E RATIO **13.2** (Trailing: 12.0 / Median: 14.0) | RELATIVE P/E RATIO **0.80** | DIV'D YLD **5.0%** | VALUE LINE

TIMELINESS 4 Lowered 11/13/09
SAFETY 2 New 7/27/90
TECHNICAL 3 Raised 10/9/09
BETA .75 (1.00 = Market)

High:	23.4	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.1	44.7	39.1	37.5	
Low:	17.7	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4	35.2	24.0	24.0	

Target Price Range 2012 | 2013 | 2014

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	55	(+55%)	15%
Low	40	(+15%)	8%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	0	0	0	0	0
Options	0	2	0	0	1	0	0	0	0
to Sell	0	1	0	0	2	0	0	1	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	107	110	124
to Sell	111	107	96
Hld's(000)	46113	45714	45662

Percent shares traded 18 / 12 / 6

% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	20.9	60.4
3 yr.	3.9	-4.1
5 yr.	30.0	22.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	33.73	32.64	36.41	*29.70*	*31.85*	Revenues per sh A	*38.75*
2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.50	4.65	4.68	*4.80*	*5.05*	"Cash Flow" per sh	*5.70*
1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.72	2.72	2.71	*2.75*	*2.90*	Earnings per sh A B	*3.30*
1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.48	1.64	1.68	*1.72*	*1.76*	Div'ds Decl'd per sh C■	*1.88*
2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.26	3.39	4.84	*5.15*	*5.30*	Cap'l Spending per sh	*5.65*
9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.71	21.74	21.48	*22.45*	*22.95*	Book Value per sh D	*25.00*
49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.70	76.40	76.90	*77.50*	*78.50*	Common Shs Outst'g E	*80.00*
17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	13.5	14.7	12.3	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.73	.78	.74	*Value Line*		Relative P/E Ratio	*1.00*
5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	4.0%	4.1%	5.0%	*estimates*		Avg Ann'l Div'd Yield	*3.8%*

CAPITAL STRUCTURE as of 9/30/09
Total Debt $2285.0 mill. **Due in 5 Yrs** $853.0 mill.
LT Debt $1975.0 mill. **LT Interest** $90.0 mill.
(Total interest coverage: 4.5x)

Leases, Uncapitalized Annual rentals $30.0 mill.
Pension Assets-12/08 $242.0 mill. **Oblig.** $442.0 mill.

Pfd Stock None

Common Stock 77,398,732 shs. as of 10/22/09
MARKET CAP: $2.7 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
1068.6	607.4	1049.3	868.9	983.7	1832.0	2718.0	2621.0	2494.0	2800.0	*2300*	*2500*	Revenues ($mill) A	*3100*
52.1	71.1	82.3	103.0	132.4	153.0	193.0	212.0	211.0	207.6	*212*	*225*	Net Profit ($mill)	*265*
33.1%	34.3%	40.7%	36.0%	35.9%	37.0%	37.7%	37.8%	37.6%	40.5%	*35.0%*	*38.0%*	Income Tax Rate	*38.0%*
4.9%	11.7%	7.8%	11.9%	13.5%	8.4%	7.1%	8.1%	8.5%	7.4%	*9.2%*	*9.0%*	Net Profit Margin	*8.5%*
45.3%	45.9%	61.3%	58.3%	50.3%	54.0%	51.9%	50.2%	50.2%	50.3%	*53.5%*	*52.5%*	Long-Term Debt Ratio	*51.0%*
49.2%	48.3%	38.7%	41.7%	49.7%	46.0%	48.1%	49.8%	49.8%	49.7%	*46.5%*	*47.5%*	Common Equity Ratio	*49.0%*
1345.8	1286.2	1736.3	1704.3	1901.4	3008.0	3114.0	3231.0	3335.0	3327.0	*3740*	*3800*	Total Capital ($mill)	*4100*
1598.9	1637.5	2058.9	2194.2	2352.4	3178.0	3271.0	3436.0	3566.0	3816.0	*4060*	*4150*	Net Plant ($mill)	*4400*
5.7%	7.4%	6.5%	8.1%	8.9%	6.3%	7.9%	8.0%	7.7%	7.4%	*7.0%*	*7.5%*	Return on Total Cap'l	*7.5%*
7.1%	10.2%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	*12.0%*	*12.5%*	Return on Shr. Equity	*13.0%*
7.9%	11.5%	12.3%	14.5%	14.0%	11.0%	12.9%	13.2%	12.7%	12.6%	*12.0%*	*12.5%*	Return on Com Equity	*13.0%*
NMF	3.2%	4.2%	7.0%	6.6%	5.6%	6.2%	6.3%	5.3%	5.1%	*4.5%*	*5.0%*	Retained to Com Eq	*5.5%*
101%	72%	65%	52%	53%	49%	52%	52%	58%	60%	*63%*	*61%*	All Div'ds to Net Prof	*57%*

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	21.0	16.0	21.0
Other	1790.0	2026.0	1297.0
Current Assets	1811.0	2042.0	1318.0
Accts Payable	172.0	202.0	155.0
Debt Due	580.0	866.0	310.0
Other	893.0	915.0	579.0
Current Liab.	1645.0	1983.0	1044.0
Fix. Chg. Cov.	391%	416%	463%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	4.0%	15.5%	2.0%
"Cash Flow"	6.0%	6.5%	3.5%
Earnings	7.0%	8.5%	3.5%
Dividends	4.0%	8.0%	2.5%
Book Value	7.0%	10.0%	2.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1044	436	434	707	2621
2007	973	467	369	685	2494
2008	1012	444	539	805	2800
2009	995	377	307	*621*	*2300*
2010	*950*	*400*	*425*	*725*	*2500*

Cal-endar	EARNINGS PER SHARE B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.41	.25	.46	.60	2.72
2007	1.29	.40	.17	.86	2.72
2008	1.16	.30	.28	.97	2.71
2009	1.55	.26	.16	*.78*	*2.75*
2010	*1.45*	*.30*	*.25*	*.90*	*2.90*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.31	.31	.31	.37	1.30
2006	.37	.37	.37	.37	1.48
2007	.41	.41	.41	.41	1.64
2008	.42	.42	.42	.42	1.68
2009	.43	.43	.43	.43	

BUSINESS: AGL Resources Inc. is a public utility holding company. Its distribution subsidiaries include Atlanta Gas Light, Chattanooga Gas, Elizabethtown Gas and Virginia Natural Gas. The utilities have more than 2.2 million customers in Georgia, Virginia, Tennessee, New Jersey, Florida, and Maryland. Engaged in non-regulated natural gas marketing and other allied services. Deregulated subsidiaries: Georgia Natural Gas markets natural gas at retail. Sold Utilipro, 3/01. Acquired Compass Energy Services, 10/07. Franklin Resources owns 7.7% of common stock; off./dir., less than 1.0% (3/09 Proxy). Pres. & CEO: John W. Somerhalder II. Inc.: GA. Addr.: Ten Peachtree Place N.E., Atlanta, GA 30309. Telephone: 404-584-4000. Internet: www.aglresources.com.

AGL Resources reported lower revenues and share earnings for the third quarter. The natural gas distribution business experienced higher pension, depreciation, and payroll and benefits costs. This was partially offset by higher fees charged to marketers and greater pipeline replacement revenues at Atlanta Gas Light. Meanwhile, the company's retail energy and wholesale services businesses posted modest operating losses for the period. Elsewhere, energy investments contributed operating earnings of $3 million, flat with the prior-year period. An increase in revenue at AGL Networks was offset by higher outside services expenses at Jefferson Island Storage & Hub and an increase in depreciation at Golden Triangle Storage. Looking forward, we anticipate an unfavorable comparison for the fourth quarter, as well. Even so, the bottom line may well inch higher for full-year 2009, thanks to strong results in the first quarter.

Chattanooga Gas Company has filed a rate case with the Tennessee Regulatory Authority. The company is seeking an increase of $2.6 million, citing higher operating expenses and the need for greater capital expenditures as reasons for the request. It has also proposed an energy-efficiency program, based on a proven rate design model known as decoupling. This would help customers save money, promoting conservation and energy efficiency.

The company has completed its Magnolia Pipeline Project. This pipeline connects AGL's Georgia service territory to liquefied natural gas (LNG) imports arriving at the Elba Island terminal near Savannah. The project should position AGL to meet future increases in natural gas demand when the economy recovers.

These shares are ranked to lag the broader market for the coming six to 12 months. However, the stock may interest patient, income-oriented investors. This issue offers worthwhile risk-adjusted total return potential, considering its healthy dividend yield. Growth in the payout is likely to rise in conjunction with earnings, too. Moreover, AGL earns superior scores for Safety, Price Stability, and Earnings Predictability.

Michael Napoli, CPA *December 11, 2009*

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
(B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, ($0.83); '99, $0.39; '00, $0.13; '01, $0.13; '03, ($0.07); '08, $0.13. Next earnings report due in February. (C) Dividends historically paid early March, June, Sept., and Dec. ■ Div'd reinvest. plan available. (D) Includes intangibles. In 2008: $418 million, $5.44/share.
(E) In millions.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	75
Earnings Predictability	90

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ATMOS ENERGY CORP. NYSE-ATO

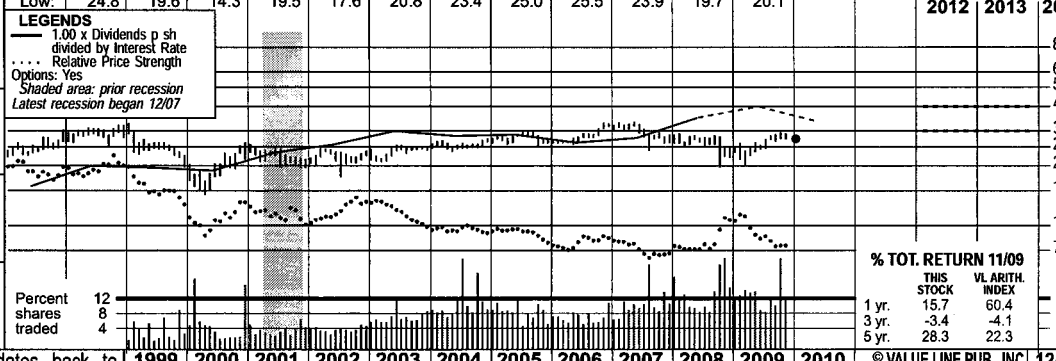
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
27.53	13.5	(Trailing: 14.0 Median: 16.0)	0.82	4.9%	VALUE LINE

TIMELINESS 3 Lowered 9/11/09
SAFETY 2 Raised 12/16/05
TECHNICAL 3 Raised 10/16/09
BETA .65 (1.00 = Market)

High:	32.3	33.0	26.3	25.8	24.5	25.5	27.6	30.0	33.1	33.5	29.3	29.5
Low:	24.8	19.6	14.3	19.5	17.6	20.8	23.4	25.0	25.5	23.9	19.7	20.1

Target Price Range
2012 | 2013 | 2014

LEGENDS
— 1.00 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+45%)	13%
Low	30	(+10%)	6%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	1	0	0	0	0	0	0
Options	0	1	0	0	0	0	0	1	0
to Sell	0	1	0	0	0	0	0	3	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	141	108	107
to Sell	103	122	115
Hld's(000)	53678	53874	54285

% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	15.7	60.4
3 yr.	-3.4	-4.1
5 yr.	28.3	22.3

Atmos Energy's history dates back to 1906 in the Texas Panhandle. Over the years, through various mergers, it became part of Pioneer Corporation, and, in 1981, Pioneer named its gas distribution division Energas. In 1983, Pioneer organized Energas as a separate subsidiary and distributed the outstanding shares of Energas to Pioneer shareholders. Energas changed its name to Atmos in 1988. Atmos acquired Trans Louisiana Gas in 1986, Western Kentucky Gas Utility in 1987, Greeley Gas in 1993, United Cities Gas in 1997, and others.

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
22.09	26.61	35.36	22.82	54.39	46.50	61.75	75.27	66.03	79.52	53.70	68.45	Revenues per sh A	77.25
2.62	3.01	3.03	3.39	3.23	2.91	3.90	4.26	4.14	4.19	4.30	4.60	"Cash Flow" per sh	4.80
.81	1.03	1.47	1.45	1.71	1.58	1.72	2.00	1.94	2.00	1.97	2.20	Earnings per sh A B	2.50
1.10	1.14	1.16	1.18	1.20	1.22	1.24	1.26	1.28	1.30	1.32	1.34	Div'ds Decl'd per sh C■	1.40
3.53	2.36	2.77	3.17	3.10	3.03	4.14	5.20	4.39	5.20	5.50	5.65	Cap'l Spending per sh	6.60
12.09	12.28	14.31	13.75	16.66	18.05	19.90	20.16	22.01	22.60	23.55	24.25	Book Value per sh	26.90
31.25	31.95	40.79	41.68	51.48	62.80	80.54	81.74	89.33	90.81	92.50	93.50	Common Shs Outst'g D	110.00
33.0	18.9	15.6	15.2	13.4	15.9	16.1	13.5	15.9	13.6	12.5		Avg Ann'l P/E Ratio	14.0
1.88	1.23	.80	.83	.76	.84	.86	.73	.84	.84	.86		Relative P/E Ratio	.95
4.1%	5.9%	5.1%	5.4%	5.2%	4.9%	4.5%	4.7%	4.2%	4.8%	5.3%		Avg Ann'l Div'd Yield	4.0%
690.2	850.2	1442.3	950.8	2799.9	2920.0	4973.3	6152.4	5898.4	7221.3	4969.1	6400	Revenues ($mill) A	8500
25.0	32.2	56.1	59.7	79.5	86.2	135.8	162.3	170.5	180.3	179.7	205	Net Profit ($mill)	275
35.0%	36.1%	37.3%	37.1%	37.1%	37.4%	37.7%	37.6%	35.8%	38.4%	34.4%	37.0%	Income Tax Rate	40.5%
3.6%	3.8%	3.9%	6.3%	2.8%	3.0%	2.7%	2.6%	2.9%	2.5%	3.6%	3.2%	Net Profit Margin	3.2%
50.0%	48.1%	54.3%	53.9%	50.2%	43.2%	57.7%	57.0%	52.0%	50.8%	50.0%	50.5%	Long-Term Debt Ratio	49.0%
50.0%	51.9%	45.7%	46.1%	49.8%	56.8%	42.3%	43.0%	48.0%	49.2%	50.0%	49.5%	Common Equity Ratio	51.0%
755.1	755.7	1276.3	1243.7	1721.4	1994.8	3785.5	3828.5	4092.1	4172.3	4345	4580	Total Capital ($mill)	5800
965.8	982.3	1335.4	1300.3	1516.0	1722.5	3374.4	3629.2	3836.8	4136.9	4440	4750	Net Plant ($mill)	5750
5.1%	6.5%	5.9%	6.8%	6.2%	5.8%	5.3%	6.1%	5.9%	5.9%	5.5%	6.0%	Return on Total Cap'l	6.0%
6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.5%	9.0%	Return on Shr. Equity	9.5%
6.6%	8.2%	9.6%	10.4%	9.3%	7.6%	8.5%	9.8%	8.7%	8.8%	8.5%	9.0%	Return on Com Equity	9.5%
NMF	NMF	2.1%	1.9%	2.8%	1.7%	2.3%	3.6%	3.0%	3.1%	2.5%	3.5%	Retained to Com Eq	4.0%
NMF	112%	79%	82%	70%	77%	73%	63%	65%	65%	68%	61%	All Div'ds to Net Prof	56%

CAPITAL STRUCTURE as of 6/30/09
Total Debt $2169.5 mill. **Due in 5 Yrs** $1360.0 mill.
LT Debt $2169.4 mill. **LT Interest** $115.0 mill.
(LT interest earned: 2.9x; total interest coverage: 2.8x)
Leases, Uncapitalized Annual rentals $18.4 mill.
Pfd Stock None
Pension Assets-9/08 $341.4 mill. **Oblig.** $337.6 mill.
Common Stock 92,272,478 shs. as of 7/31/09
MARKET CAP: $2.5 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	60.7	46.7	125.7
Other	1008.2	1238.4	670.3
Current Assets	1068.9	1285.1	796.0
Accts Payable	355.3	395.4	222.0
Debt Due	154.4	351.3	.1
Other	410.0	460.4	422.2
Current Liab.	919.7	1207.1	644.3
Fix. Chg. Cov.	405%	450%	446%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	9.5%	14.5%	1.0%
"Cash Flow"	3.5%	5.5%	2.5%
Earnings	2.5%	5.0%	4.0%
Dividends	2.5%	1.5%	1.5%
Book Value	6.5%	7.5%	4.0%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	2283.8	2033.8	863.2	971.6	6152.4
2007	1602.6	2075.6	1218.2	1002.0	5898.4
2008	1657.5	2484.0	1639.1	1440.7	7221.3
2009	1716.3	1821.4	780.8	650.6	4969.1
2010	1465	2435	1345	1155	6400

Fiscal Year Ends	EARNINGS PER SHARE A B E Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	.88	1.10	d.22	.25	2.00
2007	.97	1.20	d.15	d.05	1.94
2008	.82	1.24	d.07	.02	2.00
2009	.83	1.29	.02	d.17	1.97
2010	.90	1.35	d.04	d.01	2.20

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.31	.31	.31	.315	1.25
2006	.315	.315	.315	.32	1.27
2007	.32	.32	.32	.325	1.29
2008	.325	.325	.325	.33	1.31
2009	.33	.33	.33	.335	

BUSINESS: Atmos Energy Corporation is engaged primarily in the distribution and sale of natural gas to 3.2 million customers via six regulated natural gas utility operations: Louisiana Division, West Texas Division, Mid-Tex Division, Mississippi Division, Colorado-Kansas Division, and Kentucky/Mid-States Division. Combined 2008 gas volumes: 293 MMcf. Breakdown: 56%, residential; 32%, commercial; 7%, industrial; and 5% other. 2008 depreciation rate 3.5%. Has around 4,560 employees. Officers and directors own approximately 1.9% of common stock (12/08 Proxy). Chairman and Chief Executive Officer: Robert W. Best. Incorporated: Texas. Address: P.O. Box 650205, Dallas, Texas 75265. Telephone: 972-934-9227. Internet: www.atmosenergy.com.

Atmos Energy should generate healthy results in fiscal 2010, which began on October 1st. The natural gas utility stands to benefit from a rise in throughput, reflecting a pickup in consumption from residential, commercial, and industrial customers (assuming a better economic environment). Weather-normalized rates across much of the service territory are a big plus. Meanwhile, margins for the pipeline and storage segment may be boosted by gains from the settlement of financial positions associated with storage and trading activities. Finally, the regulated transmission and storage operation should enjoy higher transportation fees on through-system deliveries, if market conditions are generally favorable.

We believe that consolidated share net will increase more than 10%, to $2.20, this fiscal year. Assuming additional expansion in operating margins, the bottom line may reach $2.30 a share in fiscal 2011.

There are several rate cases pending. One of them is in Kentucky, where the company is seeking an increase in annual operating income of $9.5 million. Requests have also been filed in Georgia ($3.8 million) and Virginia ($1.7 million). Our presentation will include those amounts upon approval.

Steady, though unspectacular, earnings growth seems likely for the company out to 2012-2014. The utility is one of the country's biggest natural gas-only distributors, currently serving more than three million customers across 12 states. What is more, the unregulated segments, especially pipelines, possess healthy overall prospects. These factors ought to enable annual share-net gains to be in the mid-single-digit range over the 3- to 5-year horizon. It should be noted that future business combinations could render our projections conservative.

This good-quality stock offers a generous amount of current dividend income. Further increases in the payout, though moderate, seem likely. Earnings coverage should remain adequate.

Total return possibilities are decent, on a risk-adjusted basis. Meanwhile, these shares are ranked 3 (Average) for Timeliness.

Frederick L. Harris, III December 11, 2009

(A) Fiscal year ends Sept. 30th. (B) Diluted shrs. Excl. nonrec. items: '99, d23¢; '00, 12¢; '03, d17¢; '06, d18¢; '07, d2¢; Q2 '09, 12¢. Next egs. rpt. due early Feb. (C) Dividends historically paid in early March, June, Sept., and Dec. ■ Div. reinvestment plan. Direct stock purchase plan avail. (D) In millions. (E) Qtrs may not add due to change in shrs outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	90

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LACLEDE GROUP NYSE-LG

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
31.83	13.3	(Trailing: 10.9 Median: 15.0)	0.80	5.0%	VALUE LINE

TIMELINESS 4 Lowered 10/2/09
SAFETY 2 Raised 6/20/03
TECHNICAL 2 Raised 11/13/09
BETA .60 (1.00 = Market)

High:	27.9	27.0	24.8	25.5	25.0	30.0	32.5	34.3	37.5	36.0	55.8	48.3
Low:	22.4	20.0	17.5	21.3	19.0	21.8	26.0	26.9	29.1	28.8	31.9	29.3

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

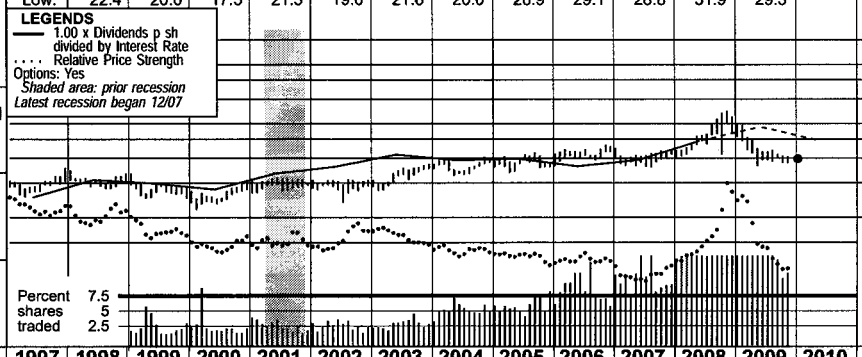
	Price	Gain	Ann'l Total Return
High	55	(+75%)	18%
Low	40	(+25%)	10%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	2	1	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	1	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	73	70	71
to Sell	86	81	81
Hld's(000)	11494	11043	10569



% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-38.0	60.4
3 yr.	-2.8	-4.1
5 yr.	20.7	22.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
32.33	33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	93.51	93.40	100.44	84.25	86.95	Revenues per sh	107.70
2.81	2.65	2.55	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	3.81	3.87	4.22	4.50	4.35	"Cash Flow" per sh	5.40
1.61	1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.37	2.31	2.64	2.92	2.60	Earnings per sh A B	3.00
1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.45	1.49	1.53	1.57	Div'ds Decl'd per sh C■	1.70
2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	2.97	2.72	2.57	2.55	2.60	Cap'l Spending per sh	3.30
12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.85	19.79	22.12	23.65	23.55	Book Value per sh D	28.05
15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	21.36	21.65	21.99	22.50	23.00	Common Shs Outst'g E	26.00
13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	13.6	14.2	14.3	13.4		Avg Ann'l P/E Ratio	16.0
.80	1.08	1.04	.75	.72	.81	.90	.97	.74	1.09	.78	.83	.86	.73	.75	.89	.92		Relative P/E Ratio	1.05
5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.4%	3.9%	3.9%		Avg Ann'l Div'd Yield	3.6%
						491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	1997.6	2021.6	2209.0	1895.2	2000	Revenues ($mill) A	2800
						26.9	26.0	30.5	22.4	34.6	36.1	40.1	50.5	49.8	57.6	64.2	60.0	Net Profit ($mill)	80.0
						35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	33.4%	31.3%	33.6%	31.5%	Income Tax Rate	35.0%
						5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	2.5%	2.6%	3.4%	3.0%	Net Profit Margin	2.8%
						41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	45.3%	44.4%	42.5%	45.0%	Long-Term Debt Ratio	47.0%
						57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	50.4%	54.6%	55.5%	57.5%	55.0%	Common Equity Ratio	53.0%
						488.6	519.2	574.1	546.6	605.0	737.4	707.9	798.9	784.5	876.1	925	985	Total Capital ($mill)	1375
						519.4	575.4	602.5	594.4	621.2	646.9	679.5	763.8	793.8	823.2	865	915	Net Plant ($mill)	1250
						7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.6%	8.4%	8.5%	8.1%	8.0%	7.5%	Return on Total Cap'l	7.0%
						9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	11.6%	11.8%	12.0%	11.0%	Return on Shr. Equity	11.0%
						9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	11.6%	11.8%	12.0%	11.0%	Return on Com Equity	11.0%
						1.0%	.2%	1.8%	NMF	3.1%	2.7%	3.1%	5.1%	4.3%	5.2%	5.5%	4.5%	Retained to Com Eq	5.0%
						89%	98%	83%	113%	74%	73%	72%	59%	63%	56%	54%	60%	All Div'ds to Net Prof	55%

CAPITAL STRUCTURE as of 6/30/09
Total Debt $522.2 mill. **Due in 5 Yrs** $90.0 mill.
LT Debt $389.2 mill. **LT Interest** $25.0 mill.
(Total interest coverage: 3.0x)

Leases, Uncapitalized Annual rentals $.9 mill.
Pension Assets-9/08 $248.3 mill.
Oblig. $308.7 mill.

Pfd Stock None
Common Stock 22,167,303 shs.
as of 7/31/09

MARKET CAP: $700 million (Small Cap)

CURRENT POSITION ($MILL.)	2007	2008	6/30/09
Cash Assets	52.7	14.9	89.1
Other	414.6	547.0	283.6
Current Assets	467.3	561.9	372.7
Accts Payable	106.8	159.6	79.3
Debt Due	251.6	216.1	133.0
Other	115.3	103.5	87.8
Current Liab.	473.7	479.2	300.1
Fix. Chg. Cov.	282%	377%	370%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	11.5%	14.0%	2.0%
"Cash Flow"	2.0%	6.5%	5.5%
Earnings	3.5%	9.5%	3.5%
Dividends	1.0%	1.5%	2.5%
Book Value	3.5%	5.5%	5.5%

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.)A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	689.2	708.8	330.6	269.0	1997.6
2007	539.6	700.8	457.9	323.3	2021.6
2008	504.0	747.7	505.5	451.8	2209.0
2009	674.3	659.1	309.9	251.9	1895.2
2010	505	545	495	455	2000

Fiscal Year Ends	EARNINGS PER SHARE A B F Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	1.23	1.05	.13	d.04	2.37
2007	.89	.97	.43	.03	2.31
2008	.99	1.39	.41	d.14	2.64
2009	1.42	1.40	.31	d.22	2.92
2010	1.03	1.21	.38	d.02	2.60

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.34	.345	.345	.345	1.38
2006	.345	.355	.355	.355	1.41
2007	.365	.365	.365	.365	1.46
2008	.375	.375	.375	.375	1.50
2009	.385	.385	.385	.385	

BUSINESS: Laclede Group, Inc., is a holding company for Laclede Gas, which distributes natural gas in eastern Missouri, including the city of St. Louis, St. Louis County, and parts of 10 other counties. Has roughly 630,000 customers. Purchased SM&P Utility Resources, 1/02; divested, 3/08. Therms sold and transported in fiscal 2008: 1.08 mill. Revenue mix for regulated operations: residential, 62%; commercial and industrial, 24%; transportation, 1%; other, 13%. Has around 1,807 employees. Officers and directors own approximately 7.2% of common shares (1/09 proxy). Chairman, Chief Executive Officer, and President: Douglas H. Yaeger. Incorporated: Missouri. Address: 720 Olive Street, St. Louis, Missouri 63101. Telephone: 314-342-0500. Internet: www.thelacledegroup.com.

We anticipate lower earnings per share for Laclede Group in fiscal 2010 (which began on October 1st), arising partly from the difficult year-over-year comparison. The non-regulated gas marketing unit, Laclede Energy Resources, may suffer from a reduction in margins, since it appears that the benefit of a substantial drop in natural gas prices won't be repeated for a while. What's more, escalating operational expenses could weigh down results at Laclede Gas, the utility. As always, there is no guarantee that the weather will cooperate. At this juncture, consolidated share net stands to decline more than 10%, to $2.60, in fiscal 2010. But assuming some improvement in the business climate, the bottom line may stage a partial recovery, perhaps to $2.70 a share, the following year.

Prospects out to 2012-2014 look unexciting. Expansion of the customer base has been moderate for some time, largely because the service territory (located in eastern Missouri) is in a mature phase. That being the case, internal growth here will probably remain quite a challenge. Laclede Energy Resources offers promising growth opportunities, but has contributed only a small portion to total profits on a historical basis. A major acquisition could help to offset this, but it appears that such a move will not occur anytime soon. All things considered, annual earnings-per-share advances could be only in the mid-single-digit range over the 3- to 5-year horizon.

The dividend yield compares favorably to those of other equities in our Natural Gas Utility universe. Note, also, that the payout is well covered by Laclede's earnings. We expect that relationship to continue.

But our projections indicate that additional increases in the distribution will be moderate. That is largely because of the utility's unspectacular expansion prospects.

Total return potential out to 2012-2014 is limited, based partly on the stock's unspectacular capital appreciation possibilities. Meanwhile, Laclede shares are a Below Average (4) selection for Timeliness. Even so, the stock is mainly suitable for income.

Frederick L. Harris, III December 11, 2009

(A) Fiscal year ends Sept. 30th.
(B) Based on average shares outstanding thru. '97, then diluted. Excludes nonrecurring loss: '06, 7¢. Excludes gain from discontinued operations: '08, 94¢. Next earnings report due late Jan. (C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available. (D) Incl. deferred charges. In '08: $340.4 mill., $15.48/sh.
(E) In millions.
(F) Qtly. egs. may not sum due to rounding or change in shares outstanding.

Company's Financial Strength	B+
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	85

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NEW JERSEY RES. NYSE-NJR

RECENT PRICE **36.15** | P/E RATIO **14.3** (Trailing: 15.1 / Median: 15.0) | RELATIVE P/E RATIO **0.88** | DIV'D YLD **3.8%** | VALUE LINE

TIMELINESS 4 Lowered 10/9/09
SAFETY 1 Raised 9/15/06
TECHNICAL 3 Raised 10/23/09
BETA .65 (1.00 = Market)

High:	17.9	18.3	19.8	21.7	22.4	26.4	29.7	32.9	35.4	37.6	41.1	42.4
Low:	14.0	14.9	16.1	16.6	16.2	20.0	24.3	27.1	27.7	30.3	24.6	30.0

Target Price Range 2012 | 2013 | 2014

2012-14 PROJECTIONS

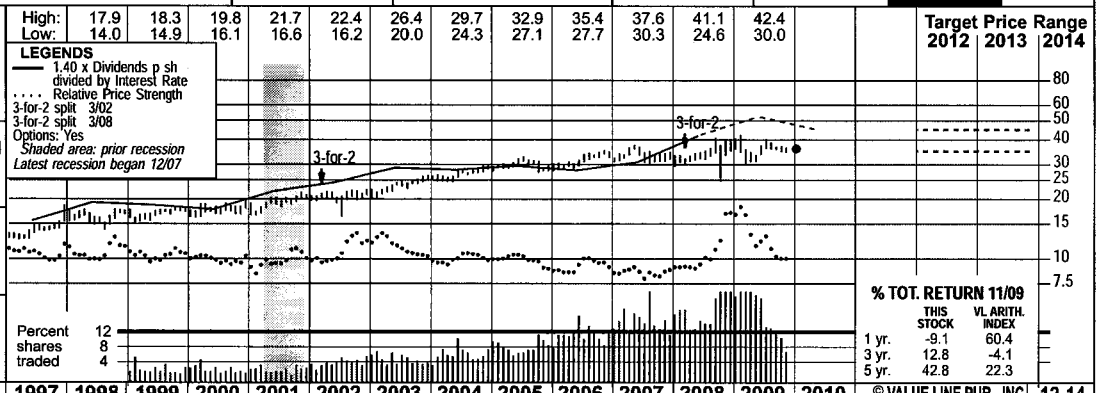
	Price	Gain	Ann'l Total Return
High	45	(+25%)	9%
Low	35	(-5%)	3%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	1	0	0	0	0
Options	0	0	1	0	0	0	0	3	0
to Sell	0	1	0	0	0	0	0	4	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	93	87	89
to Sell	73	88	88
Hld's(000)	24319	23324	24695



% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-9.1	60.4
3 yr.	12.8	-4.1
5 yr.	42.8	22.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
12.02	12.81	11.36	13.48	17.31	17.73	22.65	29.42	51.22	44.11	62.29	60.89	76.19	79.63	72.62	90.74	61.55	*75.60*	Revenues per sh A	*78.90*
1.42	1.54	1.42	1.48	1.63	1.74	1.86	1.99	2.12	2.14	2.38	2.50	2.62	2.73	2.44	3.62	3.16	*3.50*	"Cash Flow" per sh	*3.75*
.76	.84	.86	.92	.99	1.04	1.11	1.20	1.30	1.39	1.59	1.70	1.77	1.87	1.55	2.70	2.40	*2.60*	Earnings per sh B	*2.85*
.68	.68	.68	.69	.71	.73	.75	.76	.78	.80	.83	.87	.91	.96	1.01	1.11	1.24	*1.36*	Div'ds Decl'd per sh C■	*1.52*
1.54	1.40	1.18	1.19	1.15	1.07	1.21	1.23	1.10	1.02	1.14	1.45	1.28	1.28	1.46	1.72	1.78	*1.75*	Cap'l Spending per sh	*1.80*
6.54	6.43	6.47	6.73	6.92	7.26	7.57	8.29	8.80	8.71	10.26	11.25	10.60	15.00	15.50	17.28	16.38	*18.40*	Book Value per sh D	*25.10*
37.84	38.93	40.03	40.69	40.23	40.07	39.92	39.59	40.00	41.50	40.85	41.61	41.32	41.44	41.61	42.06	42.12	*43.00*	Common Shs Outst'g E	*45.00*
15.1	13.0	11.8	13.6	13.5	15.3	15.2	14.7	14.2	14.7	14.0	15.3	16.8	16.1	21.6	12.3	14.9		Avg Ann'l P/E Ratio	*14.0*
.89	.85	.79	.85	.78	.80	.87	.96	.73	.80	.80	.81	.89	.87	1.15	.77	.83		Relative P/E Ratio	*.95*
5.8%	6.2%	6.7%	5.6%	5.3%	4.6%	4.5%	4.4%	4.2%	3.9%	3.7%	3.3%	3.1%	3.2%	3.0%	3.3%	3.5%		Avg Ann'l Div'd Yield	*3.8%*

CAPITAL STRUCTURE as of 9/30/09
Total Debt $605.4 mill. **Due in 5 Yrs** $157.7 mill.
LT Debt $455.5 mill. **LT Interest** $15.8 mill.
Incl. $9.9 mill. capitalized leases.
(LT interest earned: 4.8x; total interest coverage: 4.8x)
Pension Assets-9/08 $100.6 mill. **Oblig.** $133.8 mill.
Pfd Stock None

Common Stock 41,585,243 shs.
as of 11/24/09
MARKET CAP: $1.5 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
904.3	1164.5	2048.4	1830.8	2544.4	2533.6	3148.3	3299.6	3021.8	3816.2	2592.5	*3250*	Revenues ($mill) A	*3550*
44.9	47.9	52.3	56.8	65.4	71.6	74.4	78.5	65.3	113.9	101.9	*110*	Net Profit ($mill)	*125*
36.2%	37.8%	38.0%	38.7%	39.4%	39.1%	39.1%	38.9%	38.8%	37.8%	*39.0%*	*39.0%*	Income Tax Rate	*40.0%*
5.0%	4.1%	2.6%	3.1%	2.6%	2.8%	2.4%	2.4%	2.2%	3.0%	*3.9%*	*3.6%*	Net Profit Margin	*3.6%*
48.7%	47.0%	50.1%	50.6%	38.1%	40.3%	42.0%	34.8%	37.3%	38.5%	39.8%	*40.0%*	Long-Term Debt Ratio	*33.5%*
51.2%	52.9%	49.9%	49.4%	61.9%	59.7%	58.0%	65.2%	62.7%	61.5%	60.2%	*60.0%*	Common Equity Ratio	*66.5%*
590.4	620.1	706.2	732.4	676.8	783.8	755.3	954.0	1028.0	1182.1	1145.2	*1315*	Total Capital ($mill)	*1705*
705.4	730.6	743.9	756.4	852.6	880.4	905.1	934.9	970.9	1017.3	1064.4	*1085*	Net Plant ($mill)	*1150*
9.0%	9.0%	8.5%	8.7%	10.7%	10.1%	11.2%	9.6%	7.7%	10.7%	*9.9%*	*9.5%*	Return on Total Cap'l	*8.5%*
14.8%	14.6%	14.8%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	*14.8%*	*14.0%*	Return on Shr. Equity	*11.5%*
14.8%	14.6%	14.9%	15.7%	15.6%	15.3%	17.0%	12.6%	10.1%	15.7%	*14.8%*	*14.0%*	Return on Com Equity	*11.5%*
5.0%	5.4%	6.1%	6.9%	7.7%	7.8%	8.5%	6.3%	3.6%	9.5%	*7.2%*	*6.5%*	Retained to Com Eq	*5.5%*
67%	63%	59%	56%	51%	49%	50%	50%	64%	40%	*51%*	*52%*	All Div'ds to Net Prof	*54%*

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	5.1	42.6	36.2
Other	794.8	1067.1	648.0
Current Assets	799.9	1109.7	684.2
Accts Payable	64.4	61.7	44.4
Debt Due	260.8	238.3	149.9
Other	378.1	594.0	361.9
Current Liab.	703.3	894.0	556.2
Fix. Chg. Cov.	461%	450%	450%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	17.5%	9.0%	*-.5%*
"Cash Flow"	6.0%	6.0%	*4.0%*
Earnings	7.5%	7.5%	*5.5%*
Dividends	4.0%	5.0%	*7.0%*
Book Value	8.5%	11.5%	*8.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	1164	1064	536.1	535.5	3299.6
2007	737.4	1029	662.2	593.2	3021.8
2008	811.1	1178	1000	827.1	3816.2
2009	801.3	937.5	441.1	412.6	2592.5
2010	*845*	*985*	*720*	*700*	*3250*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	.82	1.43	d.09	d.29	1.87
2007	.70	.19	.60	.06	1.55F
2008	1.31	1.86	d.10	d.39	2.70
2009	.77	1.71	.03	d.12	2.40
2010	*.85*	*1.75*	*.05*	*d.05*	*2.60*

Cal-endar	QUARTERLY DIVIDENDS PAID C E■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.24	.24	.24	.24	.96
2007	.253	.253	.253	.253	1.01
2008	.267	.28	.28	.28	1.11
2009	.31	.31	.31	.31	
2010	.34				

BUSINESS: New Jersey Resources Corp. is a holding company providing retail/wholesale energy svcs. to customers in New Jersey, and in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas had about 484,000 customers at 9/30/08 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2008 volume: 99.6 bill. cu. ft. (59% firm, 6% interruptible industrial and electric utility, 35% off-system and capacity release). N.J. Natural Energy subsidiary provides unregulated retail/wholesale natural gas and related energy svcs. 2008 dep. rate: 2.9%. Has 854 empls. Off./dir. own about 1.7% of common (12/09 Proxy). Chrmn., CEO, & Pres. : Laurence M. Downes. Inc.: NJ Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1480. Web: www.njresources.com.

New Jersey Resources performed well in fiscal 2009 (ended September 30th) despite the difficult economy. The top line declined 32% due to weak contributions from the NJR Energy Services unit. That segment was hit especially hard as a result of lower commodity pricing and consumer conservation efforts. On the upside, the New Jersey Natural Gas (NJNG) division managed to post incremental revenue gains. This stemmed from 5,850 new customers and the completion of more than 700 natural gas heat conversions. All told, share net declined roughly 11%, to $2.40.

We trimmed our 2010 earnings estimate by a dime, to $2.60 a share. This would still represent an 8% improvement on a year-to-year basis. Increased contributions from midstream assets, additional customers at the NJNG segment, and stabilization in the decline of top- and bottom-line contributions at the energy services division underpin our expectation.

The company's financial position is adequate. Cash and equivalents declined at a double-digit clip this year. However, those reserves still tallied more than $36 million, which should provide a nice safety net. Meantime, NJR's debt levels appear in check, and easily serviceable. Also, of note, management recently approved a 9.7% dividend hike to $0.34 a share payable January 1st. NJR's dividend yield is low, compared to other utilities we cover, but the increase helps sweeten the deal.

New Jersey Resources' midstream assets are starting to pick up steam. The Steckman Ridge storage facility began accepting natural gas injections this past spring. At this point, it is in service and ready for the winter heating season. In fact, that operation is expected to contribute $0.08-$0.12 to this year's bottom line.

These shares have fallen one notch on our Timeliness Ranking System. They are now ranked to lag the broader market averages in the coming six to 12 months (Timeliness: 4). Also, New Jersey Resources' appreciation potential for the pull to 2012-2014 is below par, even for a utility, which typically falls short on this measure, compared to all equities covered in the *Value Line* universe. **Still, solid dividend growth prospects may appeal to income-oriented investors.**

Bryan J. Fong *December 11, 2009*

(A) Fiscal year ends Sept. 30th.
(B) Diluted earnings. Qtly egs may not sum to total due to change in shares outstanding. Next earnings report due late Jan.
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.
(D) Includes regulatory assets in 2009: $391.0 million, $9.21/share.
(E) In millions, adjusted for splits.
(F) Restated.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	45

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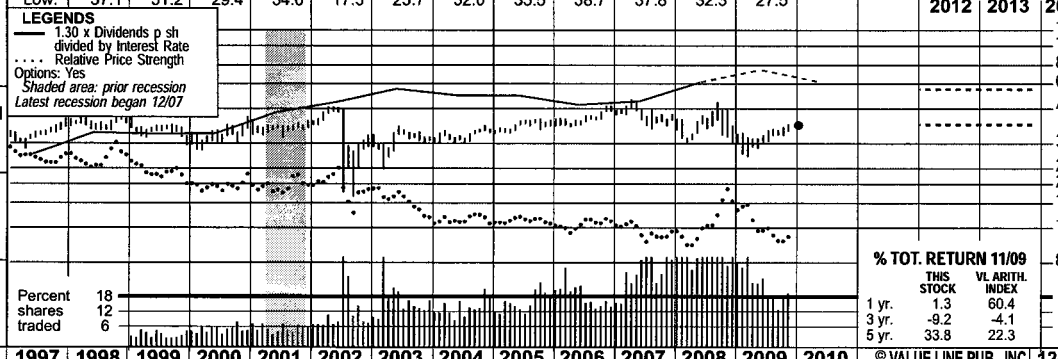
NICOR INC. NYSE-GAS

RECENT PRICE **39.74** | P/E RATIO **14.0** (Trailing: 14.1 Median: 15.0) | RELATIVE P/E RATIO **0.85** | DIV'D YLD **4.7%** | VALUE LINE

TIMELINESS 3 Raised 11/13/09
SAFETY 3 Lowered 6/17/05
TECHNICAL 3 Lowered 11/20/09
BETA .75 (1.00 = Market)

High:	44.4	42.9	43.9	42.4	49.0	39.3	39.7	43.0	49.9	53.7	52.0	40.2
Low:	37.1	31.2	29.4	34.0	17.3	23.7	32.0	35.5	38.7	37.8	32.3	27.5

Target Price Range 2012 | 2013 | 2014



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	60	(+50%)	14%
Low	40	(Nil)	5%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	1	2	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	114	92	105
to Sell	126	126	103
Hld's(000)	27287	25772	25968

% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	1.3	60.4
3 yr.	-9.2	-4.1
5 yr.	33.8	22.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
31.02	31.23	29.42	37.39	41.33	30.84	34.45	50.52	57.30	43.11	60.46	62.12	76.00	65.92	69.20	83.68	63.75	69.25	Revenues per sh	87.90
3.80	4.11	4.19	4.97	5.29	5.21	5.59	6.16	6.41	6.03	5.37	6.00	6.19	6.82	6.96	6.85	6.05	6.35	"Cash Flow" per sh	7.50
1.97	2.07	1.96	2.42	2.55	2.31	2.57	2.94	3.01	2.88	2.11	2.22	2.27	2.87	2.99	2.63	2.75	2.85	Earnings per sh A	3.10
1.22	1.25	1.28	1.32	1.40	1.48	1.54	1.66	1.76	1.84	1.86	1.86	1.86	1.86	1.86	1.86	1.86	1.86	Div'ds Decl'd per sh B■	1.86
2.62	3.34	3.12	2.42	2.34	2.87	3.28	3.48	4.18	4.37	4.12	4.32	4.57	4.17	3.77	5.54	5.50	5.80	Cap'l Spending per sh	6.80
13.05	13.26	13.67	14.74	15.43	15.97	16.80	15.56	16.39	16.55	17.13	16.99	18.36	19.43	20.58	21.55	22.30	23.30	Book Value per sh	26.45
53.96	51.54	50.30	49.49	48.22	47.51	46.89	45.49	44.40	44.01	44.04	44.10	44.18	44.90	45.90	45.13	45.50	45.50	Common Shs Outst'g C	45.50
14.1	12.5	13.1	12.5	14.2	17.6	14.6	11.9	12.8	13.1	15.8	15.9	17.3	15.0	15.0	15.1	Bold figures are		Avg Ann'l P/E Ratio	16.0
.83	.82	.88	.78	.82	.92	.83	.77	.66	.72	.90	.84	.92	.81	.80	.93	Value Line		Relative P/E Ratio	1.05
4.4%	4.8%	5.0%	4.4%	3.9%	3.6%	4.1%	4.7%	4.6%	4.9%	5.6%	5.3%	4.7%	4.3%	4.2%	4.7%	estimates		Avg Ann'l Div'd Yield	3.9%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $863.8 mill. **Due in 5 Yrs** $914.9 mill.
LT Debt $498.8 mill. **LT Interest** $5.0 mill.
(Total interest coverage: 5.1x)

Pension Assets-12/08 $306.6 mill. **Oblig.** $270.2 mill.

Pfd Stock $.6 mill. **Pfd Div'd** None

Common Stock 45,231,331 shares as of 10/23/09
MARKET CAP: $1.8 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
1615.2	2298.1	2544.1	1897.4	2662.7	2739.7	3357.8	2960.0	3176.3	3776.6	2900	3150	Revenues ($mill)	4000
121.9	136.4	136.3	128.0	93.1	98.1	101.1	128.3	135.2	119.5	125	130	Net Profit ($mill)	140
34.7%	34.8%	33.5%	31.0%	35.2%	31.8%	28.3%	26.3%	26.6%	27.0%	27.0%	27.0%	Income Tax Rate	27.0%
7.5%	5.9%	5.4%	6.7%	3.5%	3.6%	3.0%	4.3%	4.3%	3.2%	4.3%	4.1%	Net Profit Margin	3.5%
35.5%	32.7%	37.8%	35.1%	39.6%	39.8%	37.4%	36.3%	30.9%	31.5%	33%	32%	Long-Term Debt Ratio	26%
64.0%	66.7%	61.7%	64.5%	60.3%	60.1%	62.5%	63.7%	69.0%	68.4%	67%	68%	Common Equity Ratio	74%
1230.1	1061.2	1180.1	1128.9	1251.5	1246.0	1297.7	1370.7	1368.0	1421.1	1500	1500	Total Capital ($mill)	1650
1735.2	1729.6	1768.6	1796.8	2484.2	2549.8	2659.1	2714.1	2757.3	2858.6	3000	3100	Net Plant ($mill)	3550
10.9%	13.7%	12.3%	12.2%	8.3%	8.8%	9.4%	10.9%	11.2%	9.7%	9.5%	10.0%	Return on Total Cap'l	10.0%
15.4%	19.1%	18.6%	17.5%	12.3%	13.1%	12.5%	14.7%	14.3%	12.3%	12.5%	12.0%	Return on Shr. Equity	11.5%
15.4%	19.2%	18.7%	17.5%	12.3%	13.1%	12.5%	14.7%	14.3%	12.3%	12.5%	12.0%	Return on Com Equity	11.5%
6.2%	8.5%	7.9%	6.5%	1.5%	2.1%	2.3%	5.2%	5.4%	3.6%	4.0%	4.5%	Retained to Com Eq	4.5%
60%	56%	58%	63%	88%	84%	81%	65%	62%	71%	67%	65%	All Div'ds to Net Prof	60%

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	91.9	95.5	130.0
Other	931.9	1243.4	693.7
Current Assets	1023.8	1338.9	823.7
Accts Payable	564.5	411.3	263.4
Debt Due	350.0	789.9	365.0
Other	227.9	466.8	387.1
Current Liab.	1142.4	1668.0	1015.5
Fix. Chg. Cov.	543%	461%	301%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	7.0%	6.5%	3.0%
"Cash Flow"	3.0%	3.0%	1.5%
Earnings	1.5%	1.0%	1.5%
Dividends	3.0%	0.5%	Nil
Book Value	3.0%	4.0%	4.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1319.4	451.3	351.1	838.2	2960.0
2007	1334.7	556.9	365.2	919.5	3176.3
2008	1595.7	699.8	440.3	1040.8	3776.6
2009	1110.8	447.6	325.6	1016.0	2900
2010	1125	525	400	1100	3150

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	.99	.19	.39	1.30	2.87
2007	1.04	.40	.32	1.22	2.99
2008	.91	.64	.03	1.05	2.63
2009	.96	.50	.30	.99	2.75
2010	1.05	.50	.30	1.00	2.85

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.465	.465	.465	.465	1.86
2006	.465	.465	.465	.465	1.86
2007	.465	.465	.465	.465	1.86
2008	.465	.465	.465	.465	1.86
2009	.465	.465	.465	.465	

BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.2 million customers in northern and western Illinois. 2008 gas delivered: 498.1 Bcf, incl. 222.6 Bcf from transportation. 2008 gas sales (275.5 bcf): residential, 93%; commercial, 6%; industrial, 1%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested oil and gas E&P, 6/93. Has about 3,900 employees. Officers/directors own about 2.2% of common stock (3/09 proxy). Chairman and Chief Executive Officer: Russ Strobel. Incorporated: Illinois. Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.

Nicor posted better-than-expected third-quarter share net. Indeed, earnings of $0.30 a share easily topped our estimate by a quarter. Lower expenses were the primary reason for the strong showing. Moreover, the Gas Distribution business turned in a solid quarter, which also contributed to the performance. However,

The Shipping segment continues to struggle. Income in this division fell short of the prior year's mark yet again. The weak economy has pressured volume in this business in recent months. Also, of note, the company recently acquired Deluxe Freight, a non vessel operation common carrier. This acquisition should help Nicor expand its position in the Caribbean shipping market.

The company received its rehearing decision for its rate case. Earlier this year, Nicor was approved for a $69 million increase in base rates. The company appealed the decision and requested greater relief. In October, the Illinois Commerce Commission approved an additional $11 million increase to an $80 million base, which reflects an 8.09% return on rate base. This change went into effect on October 15th.

Earnings will likely be somewhat flat, year over year. Low usage and the aforementioned problems in the shipping business should weigh on the bottom line in the months ahead. Therefore, we look for earnings to decline slightly to $0.99 a share in the December period. For 2010, we estimate share net will advance modestly to $2.85.

This stock is ranked to perform in line with the market in the year ahead. Nicor has uninspiring near-term prospects. Despite the positive September-quarter results, we look for sales to continue to fall and earnings to change little in the near term. Looking further out, this issue has below-average total return potential over the 2012-2014 time frame. All told, we recommend most investors look elsewhere. However,

Income-oriented accounts may want to consider this issue. Shares of GAS offer a yield well above the average for a natural gas utility. Accordingly, the steady payout here may be of interest to investors seeking current income.

Richard Gallagher *December 11, 2009*

(A) Based on primary earnings thru. '96, then diluted. Excl. nonrecurring gains/(loss): '97, 6¢; '98, 11¢; '99, 5¢; '00, ($1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢); '07 (13¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Next egs. report due mid February. (B) Dividends historically paid mid February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	45
Earnings Predictability	80

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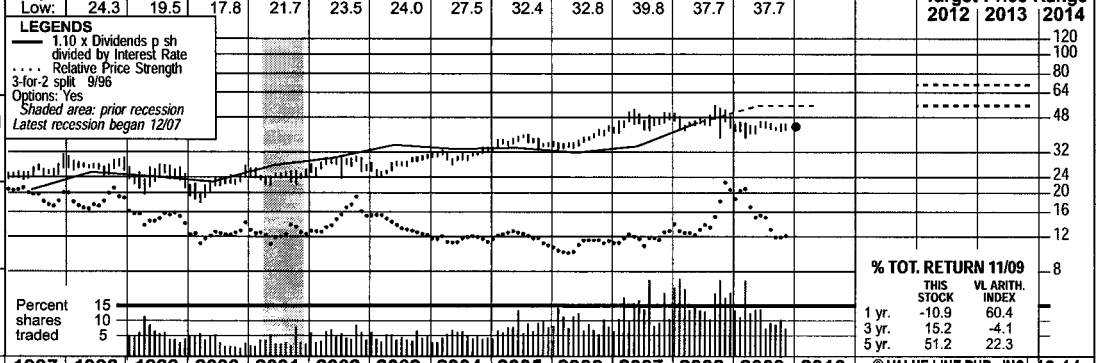
N.W. NAT'L GAS NYSE-NWN

RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
43.10	15.2	(Trailing: 15.2) (Median: 16.0)	0.92	3.9%	VALUE LINE

TIMELINESS 3 Lowered 7/24/09
SAFETY 1 Raised 3/18/05
TECHNICAL 3 Raised 10/23/09
BETA .60 (1.00 = Market)

High:	30.8	27.9	27.5	26.8	30.7	31.3	34.1	39.6	43.7	52.8	55.2	46.1
Low:	24.3	19.5	17.8	21.7	23.5	24.0	27.5	32.4	32.8	39.8	37.7	37.7

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
3-for-2 split 9/96
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



Target Price Range
2012 | 2013 | 2014

2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	70	(+60%)	16%
Low	55	(+30%)	10%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	2	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	1	0	0	0	1	1	1	2	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	82	67	78
to Sell	83	93	69
Hld's(000)	14907	15126	15387

Percent shares traded 15 10 5

% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-10.9	60.4
3 yr.	15.2	-4.1
5 yr.	51.2	22.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	37.20	39.13	39.16	*39.70*	*35.85*	Revenues per sh	*48.20*
3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.76	5.41	5.31	*5.20*	*5.30*	"Cash Flow" per sh	*6.75*
1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.35	2.76	2.57	*2.85*	*2.85*	Earnings per sh A	*3.45*
1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.39	1.44	1.52	*1.60*	*1.68*	Div'ds Decl'd per sh B■	*2.12*
3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.56	4.48	3.92	*4.50*	*5.00*	Cap'l Spending per sh	*4.50*
13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	22.01	22.52	23.71	*24.90*	*26.10*	Book Value per sh	*30.50*
19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	27.24	26.41	26.50	*26.50*	*26.50*	Common Shs Outst'g C	*28.00*
12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	15.9	16.7	18.1	*Bold figures are*		Avg Ann'l P/E Ratio	*18.0*
.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.86	.89	1.11	*Value Line*		Relative P/E Ratio	*1.20*
5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%	3.7%	3.1%	3.3%	*estimates*		Avg Ann'l Div'd Yield	*3.4%*

CAPITAL STRUCTURE as of 9/30/09
Total Debt $708.9 mill. **Due in 5 Yrs** $173.8 mill.
LT Debt $637.0 mill. **LT Interest** $37.0 mill.

(Total interest coverage: 4.0x)

Pension Assets-12/08 $163 mill.
Oblig. $281 mill.
Pfd Stock None

Common Stock 26,517,363 shares
as of 10/31/09
MARKET CAP $1.2 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
455.8	532.1	650.3	641.4	611.3	707.6	910.5	1013.2	1033.2	1037.9	*1025*	*950*	Revenues ($mill)	*1350*
44.9	47.8	50.2	43.8	46.0	50.6	58.1	65.2	74.5	68.5	*75.5*	*75.5*	Net Profit ($mill)	*96.5*
35.4%	35.9%	35.4%	34.9%	33.7%	34.4%	36.0%	36.3%	37.2%	36.9%	*37.0%*	*37.0%*	Income Tax Rate	*37.0%*
9.9%	9.0%	7.7%	6.8%	7.5%	7.1%	6.4%	6.4%	7.2%	6.6%	*7.4%*	*7.9%*	Net Profit Margin	*7.2%*
46.0%	45.1%	43.0%	47.6%	49.7%	46.0%	47.0%	46.3%	46.3%	44.9%	*47%*	*47%*	Long-Term Debt Ratio	*47%*
49.9%	50.9%	53.2%	51.5%	50.3%	54.0%	53.0%	53.7%	53.7%	55.1%	*53%*	*53%*	Common Equity Ratio	*53%*
861.5	887.8	880.5	937.3	1006.6	1052.5	1108.4	1116.5	1106.8	1140.4	*1275*	*1300*	Total Capital ($mill)	*1400*
895.9	934.0	965.0	995.6	1205.9	1318.4	1373.4	1425.1	1495.9	1549.1	*1625*	*1675*	Net Plant ($mill)	*1900*
6.8%	6.7%	6.9%	5.9%	5.7%	5.9%	6.5%	7.1%	8.5%	7.7%	*8.0%*	*8.0%*	Return on Total Cap'l	*8.0%*
9.7%	9.8%	10.0%	8.9%	9.1%	8.9%	9.9%	10.9%	12.5%	10.9%	*11.5%*	*11.0%*	Return on Shr. Equity	*11.0%*
9.9%	10.0%	10.2%	8.5%	9.0%	8.9%	9.9%	10.9%	12.5%	10.9%	*11.5%*	*11.0%*	Return on Com Equity	*11.0%*
2.8%	3.1%	3.5%	1.9%	2.6%	2.7%	3.7%	4.5%	6.0%	4.5%	*4.5%*	*4.5%*	Retained to Com Eq	*4.5%*
74%	70%	67%	79%	72%	69%	63%	59%	52%	59%	*56%*	*59%*	All Div'ds to Net Prof	*61%*

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	6.1	6.9	13.7
Other	268.8	474.1	277.9
Current Assets	274.9	481.0	291.6
Accts Payable	119.7	94.4	61.8
Debt Due	148.1	248.0	71.9
Other	122.1	208.9	149.0
Current Liab.	389.9	551.3	282.7
Fx. Chg. Cov.	408%	393%	NMF

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	9.0%	9.0%	*4.0%*
"Cash Flow"	3.5%	6.5%	*4.5%*
Earnings	5.0%	8.0%	*5.0%*
Dividends	2.0%	3.0%	*6.5%*
Book Value	3.5%	3.5%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	390.4	171.0	114.9	336.9	1013.2
2007	394.1	183.2	124.2	331.7	1033.2
2008	387.7	191.3	109.7	349.2	1037.9
2009	437.4	149.4	116.9	*321.3*	*1025*
2010	*375*	*125*	*100*	*350*	*950*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.48	.07	d.35	1.15	2.35
2007	1.77	.10	d.22	1.11	2.76
2008	1.62	.08	d.38	1.25	2.57
2009	1.72	.12	d.25	*1.26*	*2.85*
2010	*1.72*	*.11*	*d.30*	*1.32*	*2.85*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.325	.325	.325	.345	1.32
2006	.345	.345	.345	.355	1.39
2007	.355	.355	.355	.375	1.44
2008	.375	.375	.375	.395	1.52
2009	.395	.395	.395	.415	

BUSINESS: Northwest Natural Gas Co. distributes natural gas to 90 communities, 660,000 customers, in Oregon (90% of customers) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.5 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system. Owns local underground storage. Rev. breakdown: residential, 55%; commercial, 28%; industrial, gas transportation, and other, 17%. Employs 1,106. Barclays Global owns 6.6% of shares; officers and directors, 1.4% (4/09 proxy). CEO: Gregg S. Kantor. Inc.: Oregon. Address: 220 NW 2nd Ave., Portland, OR 97209. Telephone: 503-226-4211. Internet: www.nwnatural.com.

Northwest Natural continues to benefit from its gas cost-sharing arrangement. In Oregon (90% of customers), the company retains part of the difference between forecast and actual gas costs; this system was the main reason for the relatively large earnings swings between 2006 and 2009, though Northwest's customer roster grew at a better-than-2% annual rate until the recession. The gas cost-sharing rule accounted for most of the earnings growth in 2009 as the company added just 0.7% to its customer list in the last 12 months.

Lower rates will probably help garner new customers in 2010. Thanks to the plunge in natural gas costs over the past 15 months, Northwest has received approval to drop its rates about 16% in Oregon and 22% in Washington. Results in 2010 should also benefit from a new five-year union contract signed in July 2009, under which the company has more flexibility and the employees received a reasonable 2.3% more in 2009 plus a guaranteed 1% increase in each of the coming years. Moreover, Northwest is paring a further 50 to 100 positions, and a new automated meter-reading system should help keep costs down.

Steady growth from present operations is likely out to 2012-2014 . . . Northwest Natural had above-average customer growth for years before the recent crisis, and we think customer growth, from both new construction and conversions from oil and electricity, will resume next year. Toward the end of our horizon, an extension of high-density zoning southeast of Portland could add many thousands of new customers.

. . . and two large projects could add materially to our forecast. Northwest will soon start construction of the Gill Ranch gas storage project in California, investing around $160 million in the first stage, which could come on stream next August. And the Palomar pipeline, a planned joint venture with Trans Canada Gas, could start up by 2013. The full 800-mile pipeline would constitute a $400 million investment for Northwest's share.

These high-quality shares have worthwhile long-term risk-adjusted total return potential.

Sigourney B. Romaine December 11, 2009

(A) Diluted earnings per share. Excludes nonrecurring items: '98, $0.15; '00, $0.11; '06, ($0.06); '08, ($0.03); 1Q '09, 6¢. Next earnings report due early February.
(B) Dividends historically paid in mid-February, May, August, and November.
■ Dividend reinvestment plan available.
(C) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	70
Earnings Predictability	90

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PIEDMONT NAT'L. GAS NYSE-PNY

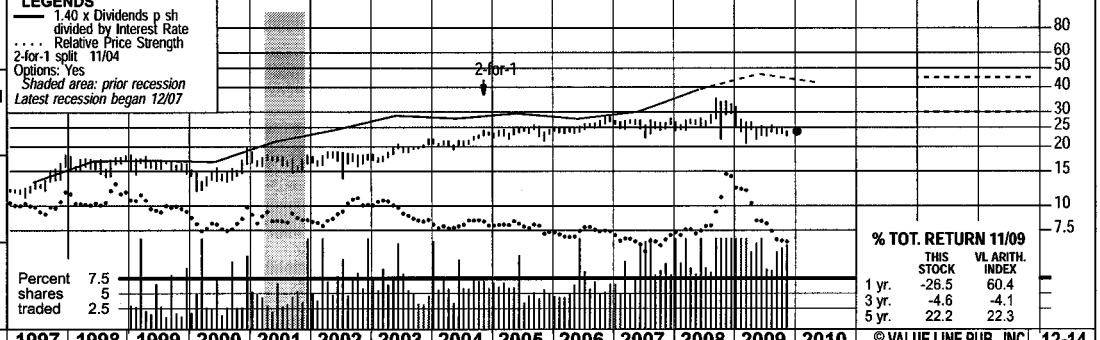
RECENT PRICE	P/E RATIO		RELATIVE P/E RATIO	DIV'D YLD	
23.93	13.4	(Trailing: 15.4 Median: 18.0)	0.81	4.5%	VALUE LINE

TIMELINESS 3 Raised 6/15/07
SAFETY 2 New 7/27/90
TECHNICAL 2 Raised 11/13/09
BETA .65 (1.00 = Market)

High:	18.1	18.3	19.7	19.0	19.0	22.0	24.3	25.8	28.4	28.0	35.3	32.0
Low:	13.9	14.3	11.8	14.6	13.7	16.6	19.2	21.3	23.2	22.0	21.7	20.7

Target Price Range 2012 | 2013 | 2014

LEGENDS
— 1.40 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 11/04
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+90%)	20%
Low	30	(+25%)	10%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	1	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	1	0	0	0	0	0	0	0	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	112	75	78
to Sell	93	123	96
Hld's(000)	33160	34611	33567

% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-26.5	60.4
3 yr.	-4.6	-4.1
5 yr.	22.2	22.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
10.57	10.82	8.76	11.59	12.84	12.45	10.97	13.01	17.06	12.57	18.14	19.95	22.96	25.80	23.37	28.52	*22.80*	*27.80*	Revenues per sh A	*31.20*
1.14	1.13	1.25	1.49	1.62	1.72	1.70	1.77	1.81	1.81	2.04	2.31	2.43	2.51	2.64	2.77	*2.85*	*3.10*	"Cash Flow" per sh	*3.45*
.73	.68	.73	.84	.93	.98	.93	1.01	1.01	.95	1.11	1.27	1.32	1.27	1.40	1.49	*1.60*	*1.85*	Earnings per sh B	*2.10*
.48	.51	.54	.57	.61	.64	.68	.72	.76	.80	.82	.85	.91	.95	.99	1.03	*1.07*	*1.11*	Div'ds Decl'd per sh C■	*1.23*
1.58	1.95	1.72	1.64	1.52	1.48	1.58	1.65	1.29	1.21	1.16	1.85	2.50	2.74	1.85	2.47	*2.40*	*2.15*	Cap'l Spending per sh	*2.35*
5.45	5.68	6.16	6.53	6.95	7.45	7.86	8.26	8.63	8.91	9.36	11.15	11.53	11.83	11.99	12.11	*12.60*	*13.15*	Book Value per sh D	*15.15*
52.30	53.15	57.67	59.10	60.39	61.48	62.59	63.83	64.93	66.18	67.31	76.67	76.70	74.61	73.23	73.26	*73.00*	*72.00*	Common Shs Outst'g E	*70.00*
15.4	15.7	13.8	13.9	13.6	16.3	17.7	14.3	16.7	18.4	16.7	16.6	17.9	19.2	18.7	18.2	*Bold figures are*		Avg Ann'l P/E Ratio	*18.0*
.91	1.03	.92	.87	.78	.85	1.01	.93	.86	1.01	.95	.88	.95	1.04	.99	1.15	*Value Line*		Relative P/E Ratio	*1.50*
4.3%	4.8%	5.4%	4.9%	4.8%	4.0%	4.1%	5.0%	4.5%	4.6%	4.4%	4.1%	3.8%	3.9%	3.8%	3.8%	*estimates*		Avg Ann'l Div'd Yield	*3.3%*
						686.5	830.4	1107.9	832.0	1220.8	1529.7	1761.1	1924.7	1711.3	2089.1	*1665*	*2000*	Revenues ($mill) A	*2185*
						58.2	64.0	65.5	62.2	74.4	95.2	101.3	97.2	104.4	110.0	*115*	*135*	Net Profit ($mill)	*150*
						39.7%	34.7%	34.6%	33.1%	34.8%	35.1%	33.7%	34.2%	33.0%	36.4%	*35.0%*	*35.0%*	Income Tax Rate	*35.0%*
						8.5%	7.7%	5.9%	7.5%	6.1%	6.2%	5.8%	5.0%	6.1%	5.3%	*7.0%*	*6.7%*	Net Profit Margin	*6.8%*
						46.2%	46.1%	47.6%	43.9%	42.2%	43.6%	41.4%	48.3%	48.4%	47.2%	*48.0%*	*48.7%*	Long-Term Debt Ratio	*48.0%*
						53.8%	53.9%	52.4%	56.1%	57.8%	56.4%	58.6%	51.7%	51.6%	52.8%	*52.0%*	*51.3%*	Common Equity Ratio	*52.0%*
						914.7	978.4	1069.4	1051.6	1090.2	1514.9	1509.2	1707.9	1703.3	1681.5	*1765*	*1845*	Total Capital ($mill)	*2035*
						1047.0	1072.0	1114.7	1158.5	1812.3	1849.8	1939.1	2075.3	2141.5	2240.8	*2250*	*2300*	Net Plant ($mill)	*2450*
						8.1%	8.3%	7.9%	7.8%	8.6%	7.8%	8.2%	7.2%	7.8%	8.2%	*8.0%*	*8.5%*	Return on Total Cap'l	*8.5%*
						11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	*12.5%*	*14.0%*	Return on Shr. Equity	*14.0%*
						11.8%	12.1%	11.7%	10.6%	11.8%	11.1%	11.5%	11.0%	11.9%	12.4%	*12.5%*	*14.0%*	Return on Com Equity	*14.0%*
						3.3%	3.5%	3.0%	1.7%	3.1%	3.7%	3.6%	2.8%	3.5%	3.9%	*4.0%*	*5.5%*	Retained to Com Eq	*6.0%*
						72%	71%	75%	83%	74%	66%	68%	74%	70%	69%	*67%*	*60%*	All Div'ds to Net Prof	*58%*

CAPITAL STRUCTURE as of 7/31/09
Total Debt $1080.3 mill. **Due in 5 Yrs** $150.0 mill.
LT Debt $792.8 mill. **LT Interest** $55.5 mill.
(LT interest earned: 4.0x; total interest coverage: 3.7x)

Pension Assets-10/08 $150.3 mill. **Oblig.** $143.5 mill.

Pfd Stock None

Common Stock 73,110,548 shs. as of 10/31/09
MARKET CAP: $1.8 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	7/31/09
Cash Assets	7.5	7.0	13.2
Other	427.8	593.8	481.2
Current Assets	435.3	600.8	494.4
Accts Payable	143.6	132.3	77.7
Debt Due	195.0	436.5	287.5
Other	85.9	112.7	136.4
Current Liab.	424.5	681.5	501.6
Fix. Chg. Cov.	309%	341%	350%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	7.5%	10.0%	*3.0%*
"Cash Flow"	5.0%	7.0%	*4.5%*
Earnings	4.5%	6.5%	*8.0%*
Dividends	5.0%	4.5%	*3.5%*
Book Value	5.5%	6.0%	*4.0%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2006	921.4	483.2	237.9	282.2	1924.7
2007	677.2	531.5	224.4	278.2	1711.3
2008	788.5	634.2	354.7	311.7	2089.1
2009	779.6	455.4	180.2	*249.8*	*1665*
2010	*840*	*535*	*275*	*350*	*2000*

Fiscal Year Ends	EARNINGS PER SHARE A B Jan.31	Apr.30	Jul.31	Oct.31	Full Fiscal Year
2006	.94	.57	d.16	d.08	1.27
2007	.94	.69	d.12	d.11	1.40
2008	1.12	.66	d.10	d.18	1.49
2009	1.10	.73	d.10	*d.13*	*1.60*
2010	*1.17*	*.80*	*d.05*	*d.07*	*1.85*

Cal-endar	QUARTERLY DIVIDENDS PAID C■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.215	.23	.23	.23	.91
2006	.23	.24	.24	.24	.95
2007	.24	.25	.25	.25	.99
2008	.25	.26	.26	.26	1.03
2009	.26	.27	.27	.27	

BUSINESS: Piedmont Natural Gas Company is primarily a regulated natural gas distributor, serving over 935,724 customers in North Carolina, South Carolina, and Tennessee. 2008 revenue mix: residential (39%), commercial (24%), industrial (12%), other (25%). Principal suppliers: Transco and Tennessee Pipeline. Gas costs: 73.5% of revenues. '08 deprec. rate: 3.2%. Estimated plant age: 8.7 years. Non-regulated operations: sale of gas-powered heating equipment; natural gas brokering; propane sales. Has about 1,833 employees. Officers & directors own about 1.1% of common stock (1/09 proxy). Chairman, CEO, & President: Thomas E. Skains. Inc.: NC. Address: 4720 Piedmont Row Drive, Charlotte, NC 28210. Telephone: 704-364-3120. Internet: www.piedmontng.com.

Piedmont Natural Gas posted mixed operating results for most of fiscal 2009 (ended October 31). Top-line volumes were on the decline as a result of lower commodity pricing, customer conservation efforts, and economic headwinds. However, tight cost controls, last year's rate case increase in North Carolina, and continued customer additions have helped to widen margins and boost the bottom line by 3% for the first nine months of 2009.

Meantime, the company plans to restructure its Southstar Energy unit. Piedmont currently owns a 30% stake in Southstar. The plan is to sell off 50% of that stake to AGL Resources for about $57.5 million. Thus, this would free up some cash for PNY to pump into its regulated business operations. At this point, the deal is expected to close sometime in the first quarter of fiscal 2010.

Piedmont's overall financial position appears to be improving. Its cash account rose about 89% compared to last year. That, coupled with the sale of a partial stake in Southstar, should leave it well funded to maintain its capital expansion agenda. Meantime, plans to repurchase one million shares of common stock in 2010 should also help boost share net.

We look for an almost 7.5% advance in the fiscal 2009 bottom line. At last tally, the company had added more than 9,000 new customer accounts this year. Coupling that with higher utility margins due to price hikes associated with the relatively recent rate-case approval should more than offset the lower volumes, and equate to the aforesaid earnings boost.

Fiscal 2010 prospects appear a bit rosier than previously expected. Higher-than-expected guidance has prompted us to lift our 2010 earnings estimate accordingly. We have raised that figure by 9%, to $1.85 a share.

All told, these shares have appeal as an income vehicle, as they offer a slightly higher dividend yield compared to the rest of the utilities covered in the *Value Line* universe. Furthermore, the stock's Above-Average Safety rank (2), and top mark for Price Stability should be comforting to conservative accounts. Meanwhile, PNY is ranked to keep pace with the broader market in the coming year.

Bryan J. Fong *December 11, 2009*

(A) Fiscal year ends October 31st.
(B) Diluted earnings. Excl. extraordinary item: '00, 8¢. Excl. nonrecurring charge: '97, 2¢. Next earnings report due early Feb. Quarters may not add to total due to change in shares outstanding.
(C) Dividends historically paid mid-January, April, July, October.
■ Div'd reinvest. plan available; 5% discount.
(D) Includes deferred charges. In 2008: $16.3 million, 22¢/share.
(E) In millions, adjusted for stock split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	60
Earnings Predictability	95

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SOUTH JERSEY INDS. NYSE-SJI

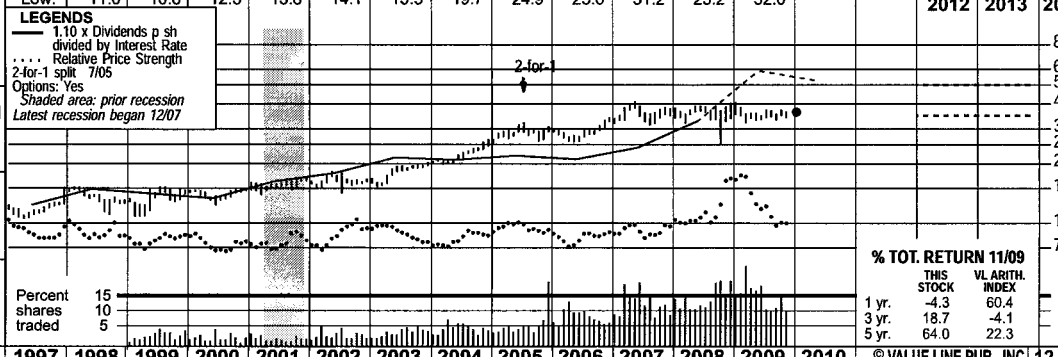
RECENT PRICE 36.55 | P/E RATIO 15.3 (Trailing: 16.5 Median: 14.0) | RELATIVE P/E RATIO 0.93 | DIV'D YLD 3.7% | VALUE LINE

TIMELINESS 3 Lowered 8/14/09
SAFETY 2 Lowered 1/4/91
TECHNICAL 3 Raised 10/23/09
BETA .65 (1.00 = Market)

High:	15.4	15.4	15.1	17.0	18.3	20.3	26.5	32.4	34.3	41.3	40.6	40.8
Low:	11.0	10.8	12.3	13.8	14.1	15.3	19.7	24.9	25.6	31.2	25.2	32.0

Target Price Range 2012 | 2013 | 2014

LEGENDS
— 1.10 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
2-for-1 split 7/05
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	50	(+35%)	11%
Low	35	(-5%)	3%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	1	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	4	0	1	2	0	2	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	75	73	70
to Sell	69	70	78
Hld's(000)	16545	16545	15858

% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-4.3	60.4
3 yr.	18.7	-4.1
5 yr.	64.0	22.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
17.03	17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	31.76	32.30	32.36	*29.85*	*31.65*	Revenues per sh	*37.50*
1.54	1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	3.51	3.20	3.48	*3.45*	*3.75*	"Cash Flow" per sh	*4.20*
.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	2.46	2.09	2.27	*2.35*	*2.60*	Earnings per sh A	*3.15*
.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	1.01	1.11	*1.22*	*1.34*	Div'ds Decl'd per sh B ■	*1.60*
1.87	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	2.51	1.88	2.08	*2.70*	*2.85*	Cap'l Spending per sh	*3.15*
7.17	7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	15.11	16.25	17.33	*18.65*	*20.00*	Book Value per sh C	*21.90*
19.61	21.43	21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.33	29.61	29.73	*29.50*	*30.00*	Common Shs Outst'g D	*32.00*
15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	11.9	17.2	15.9	*Bold figures are*		Avg Ann'l P/E Ratio	*14.0*
.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88	.64	.91	.95	*Value Line*		Relative P/E Ratio	*.95*
5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%	3.2%	2.8%	3.1%	*estimates*		Avg Ann'l Div'd Yield	*3.6%*

CAPITAL STRUCTURE as of 9/30/09
Total Debt $513.6 mill. **Due in 5 Yrs** $246.0 mill.
LT Debt $332.7 mill. **LT Interest** $15.0 mill.
(Total interest coverage: 5.1x)

Pension Assets-12/08 $88.3 mill.
Oblig. $142.7 mill.

Pfd Stock none

Common Stock 29,796,232 common shs.
as of 11/2/09

MARKET CAP: $1.1 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
392.5	515.9	837.3	505.1	696.8	819.1	921.0	931.4	956.4	962.0	*880*	*950*	Revenues ($mill)	*1200*
22.0	24.7	26.8	29.4	34.6	43.0	48.6	72.0	61.8	67.7	*70.0*	*80.0*	Net Profit ($mill)	*100*
42.8%	43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	41.3%	41.9%	47.7%	*36.0%*	*38.0%*	Income Tax Rate	*40.0%*
5.6%	4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	7.7%	6.5%	7.0%	*8.0%*	*8.4%*	Net Profit Margin	*8.3%*
53.8%	54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	44.7%	42.7%	39.2%	*37.5%*	*35.5%*	Long-Term Debt Ratio	*36.5%*
37.0%	37.6%	35.9%	46.1%	49.0%	51.0%	55.1%	55.3%	57.3%	60.8%	*62.5%*	*64.5%*	Common Equity Ratio	*63.5%*
405.9	443.5	516.2	512.5	608.4	675.0	710.3	801.1	839.0	848.0	*885*	*935*	Total Capital ($mill)	*1100*
533.3	562.2	607.0	666.6	748.3	799.9	877.3	920.0	948.9	982.6	*1030*	*1075*	Net Plant ($mill)	*1250*
7.4%	7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	10.1%	8.6%	8.5%	*9.0%*	*9.5%*	Return on Total Cap'l	*10.0%*
11.7%	12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	16.3%	12.8%	13.1%	*12.5%*	*13.5%*	Return on Shr. Equity	*14.5%*
14.6%	14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	16.3%	12.8%	13.1%	*12.5%*	*13.5%*	Return on Com Equity	*14.5%*
4.2%	4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	10.2%	6.7%	6.7%	*6.0%*	*6.5%*	Retained to Com Eq	*7.0%*
72%	67%	76%	62%	57%	52%	50%	37%	48%	49%	*51%*	*50%*	All Div'ds to Net Prof	*51%*

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	11.7	5.8	3.2
Other	316.6	429.3	328.5
Current Assets	328.3	435.1	331.7
Accts Payable	101.2	120.2	65.7
Debt Due	118.4	237.6	180.9
Other	108.7	142.1	130.1
Current Liab.	328.3	499.9	376.7
Fix. Chg. Cov.	476%	598%	502%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	6.0%	3.0%	*2.5%*
"Cash Flow"	8.5%	10.0%	*3.5%*
Earnings	11.5%	13.0%	*5.5%*
Dividends	3.5%	6.0%	*8.0%*
Book Value	9.0%	11.0%	*5.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	372.6	153.8	154.7	250.3	931.4
2007	368.4	171.7	156.2	260.1	956.4
2008	348.1	135.8	210.4	267.7	962.0
2009	362.2	134.5	127.1	*256.2*	*880*
2010	*350*	*160*	*160*	*280*	*950*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.06	.20	.51	.69	2.46
2007	1.30	.21	d.05	.63	2.09
2008	1.32	.26	.04	.67	2.27
2009	1.46	.15	d.06	*.80*	*2.35*
2010	*1.45*	*.20*	*.10*	*.85*	*2.60*

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	--	.213	.213	.438	.86
2006	--	.225	.225	.470	.92
2007	--	.245	.245	.515	1.01
2008	--	.270	.270	.568	1.11
2009	--	.298	.298	.628	

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 340,136 customers in New Jersey's southern counties, which covers about 2,500 square miles and includes Atlantic City. Gas revenue mix '08: residential, 46%; commercial, 23%; cogeneration and electric generation, 6%; industrial, 25%. Non-utility operations include: South Jersey Energy, South Jersey Resources Group, Marina Energy, and South Jersey Energy Service Plus. Has 602 employees. Off./dir. control 1.0% of com. shares; Barclays, 7.5%; Keeley Asset Management, 5.6% (3/09 proxy). Chrmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

South Jersey Industries reported lower revenues and a share loss of $0.06 for the third quarter. Softness in the economy, less favorable weather, and higher pension expense hurt results. Utility South Jersey Gas posted a slightly greater net loss. Losses are common for this business in the third quarter, though, due to a lack of heating demand. Meanwhile, the on-site energy production unit reported lower net income for the period. This was a result of lower air conditioning demand from SJI's energy facilities due to mild summer temperatures and reduced customer usage levels experienced at the facilities served. Moreover, the retail services and asset management & marketing businesses also posted unfavorable results in the recent period. Looking forward, we anticipate a positive earnings comparison for the fourth quarter, and higher share net for full-year 2009.

Long-term prospects appear favorable. South Jersey Gas continues to experience growth in its customer base. Natural gas remains the fuel of choice within SJG's service territory. Moreover, the utility continues to see considerable interest from customers looking to convert from other fuel sources to natural gas. Intensive marketing efforts should also pay off here. The filing of a base rate case in 2011 should benefit performance at this business in the coming years. We expect solid results from the company's nonutility operations, as well. Overall, we anticipate healthy growth in revenues and share earnings from 2010 onward.

The board of directors has approved a dividend increase. Starting with the December payout, the quarterly dividend is now $0.33 per share, an increase of 11%. The company has established an encouraging track record of dividend growth in recent years, and we expect this pattern to continue.

These shares remain neutrally ranked for Timeliness. We anticipate higher revenues and share earnings at the company by 2012-2014. In addition, SJI earns high marks for Safety, Price Stability, and Earnings Predictability. From the present quotation, this issue has subpar, although fairly well-defined, total return potential for the coming years.

Michael Napoli, CPA *December 11, 2009*

(A) Based on GAAP EPS through 2006, economic earnings thereafter. GAAP EPS: '07, $2.10; '08, $2.58. Excl. nonrecur. gain (loss): '01, $0.13; '08, $0.31. Excl gain (losses) from discont. ops.: '99, ($0.02); '00, ($0.04); '01, ($0.02); '02, ($0.04); '03, ($0.09); '05, ($0.02); '06, ($0.02); '07, $0.01. Earnings may not sum due to rounding. Next egs. report due in February. (B) Div'ds paid early Apr., Jul., Oct., and late Dec. ■ Div. reinvest. plan avail. (C) Incl. regulatory assets. In 2008: $270.4 mill., $9.10 per shr. (D) In millions, adj. for split.

Company's Financial Strength	B++
Stock's Price Stability	100
Price Growth Persistence	90
Earnings Predictability	85

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SOUTHWEST GAS NYSE-SWX

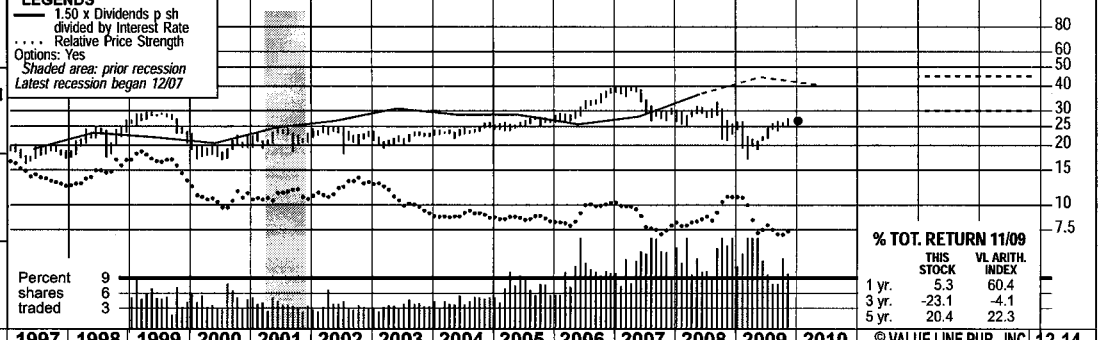
RECENT PRICE 26.73 | P/E RATIO 13.4 (Trailing: 16.0 Median: 19.0) | RELATIVE P/E RATIO 0.81 | DIV'D YLD 3.7% | VALUE LINE

TIMELINESS 3 Raised 5/23/08
SAFETY 3 Lowered 1/4/91
TECHNICAL 3 Raised 9/18/09
BETA .75 (1.00 = Market)

High:	26.9	29.5	23.0	24.7	25.3	23.6	26.2	28.1	39.4	39.9	33.3	27.4
Low:	17.3	20.4	16.9	18.6	18.1	19.3	21.5	23.5	26.0	26.5	21.1	17.1

Target Price Range 2012 | 2013 | 2014

LEGENDS
— 1.50 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+70%)	16%
Low	30	(+10%)	6%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	3	0	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	1	0	3	1

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	83	83	86
to Sell	75	71	71
Hld's(000)	32362	32859	32802

Percent shares traded 9 6 3

% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	5.3	60.4
3 yr.	-23.1	-4.1
5 yr.	20.4	22.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
25.68	28.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	48.47	50.28	48.53	*40.65*	*42.15*	Revenues per sh	*54.00*
3.24	5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	5.97	6.21	5.76	*6.05*	*6.30*	"Cash Flow" per sh	*7.50*
.63	1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.98	1.95	1.39	*1.90*	*2.05*	Earnings per sh A	*2.50*
.74	.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.86	.90	*.95*	*1.00*	Div'ds Decl'd per sh B■†	*1.15*
5.43	6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	8.27	7.96	6.79	*6.60*	*6.90*	Cap'l Spending per sh	*8.50*
15.96	16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	21.58	22.98	23.49	*25.95*	*26.05*	Book Value per sh	*29.00*
21.00	21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	41.77	42.81	44.19	*45.50*	*47.00*	Common Shs Outst'g C	*50.00*
26.5	14.0	NMF	69.3	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	15.9	17.3	20.3	*Bold figures are*		Avg Ann'l P/E Ratio	*15.0*
1.57	.92	NMF	4.34	1.39	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	.86	.92	1.22	*Value Line*		Relative P/E Ratio	*1.00*
4.4%	4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	2.6%	2.6%	3.2%	*estimates*		Avg Ann'l Div'd Yield	*3.1%*

CAPITAL STRUCTURE as of 9/30/09

Total Debt $1227.9 mill. **Due in 5 Yrs** $562.3 mill.
LT Debt $1226.6 mill. **LT Interest** $85.0 mill.
(Total interest coverage: 2.3x)
Leases, Uncapitalized Annual rentals $6.0 mill.
Pension Assets-12/08 $342.9 mill. **Oblig.** $558.9 mill.
Pfd Stock None

Common Stock 44,955,318 shs. as of 11/2/09

MARKET CAP: $1.2 billion (Mid Cap)

1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		12-14
936.9	1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	2024.7	2152.1	2144.7	*1850*	*1980*	Revenues ($mill)	*2700*
39.3	38.3	37.2	38.6	38.5	58.9	48.1	80.5	83.2	61.0	*85.0*	*95.0*	Net Profit ($mill)	*125*
35.5%	26.2%	34.5%	32.8%	30.5%	34.8%	29.7%	37.3%	36.5%	40.1%	*33.0%*	*35.0%*	Income Tax Rate	*36.0%*
4.2%	3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	4.0%	3.9%	2.8%	*4.6%*	*4.8%*	Net Profit Margin	*4.6%*
60.3%	60.2%	56.2%	62.5%	66.0%	64.2%	63.8%	60.6%	58.1%	55.3%	*50.5%*	*50.5%*	Long-Term Debt Ratio	*48.0%*
35.5%	35.8%	39.6%	34.1%	34.0%	35.8%	36.2%	39.4%	41.9%	44.7%	*49.5%*	*49.5%*	Common Equity Ratio	*52.0%*
1424.7	1489.9	1417.6	1748.3	1851.6	1968.6	2076.0	2287.8	2349.7	2323.3	*2280*	*2475*	Total Capital ($mill)	*2800*
1581.1	1686.1	1825.6	1979.5	2175.7	2336.0	2489.1	2668.1	2845.3	2983.3	*3050*	*3150*	Net Plant ($mill)	*3600*
4.8%	4.6%	5.1%	4.3%	4.2%	5.0%	4.3%	5.5%	5.5%	4.5%	*5.5%*	*5.5%*	Return on Total Cap'l	*6.5%*
7.0%	6.5%	6.0%	5.9%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	*8.0%*	*8.0%*	Return on Shr. Equity	*8.5%*
7.8%	7.2%	6.6%	6.5%	6.1%	8.3%	6.4%	8.9%	8.5%	5.9%	*8.0%*	*8.0%*	Return on Com Equity	*8.5%*
2.8%	2.4%	1.9%	1.9%	1.7%	4.3%	2.2%	5.2%	4.8%	2.1%	*4.0%*	*4.0%*	Retained to Com Eq	*4.5%*
64%	67%	71%	70%	72%	49%	65%	42%	44%	63%	*51%*	*49%*	All Div'ds to Net Prof	*46%*

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	32.0	26.4	32.8
Other	470.5	411.7	246.4
Current Assets	502.5	438.1	279.2
Accts Payable	220.7	191.4	66.8
Debt Due	47.1	62.8	1.3
Other	260.1	255.7	319.7
Current Liab.	527.9	509.9	387.8
Fix. Chg. Cov.	229%	224%	235%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	6.0%	4.5%	*1.5%*
"Cash Flow"	4.5%	3.5%	*4.0%*
Earnings	7.0%	9.0%	*6.0%*
Dividends	0.5%	1.0%	*5.0%*
Book Value	4.5%	5.0%	*4.0%*

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	676.9	430.9	351.8	565.1	2024.7
2007	793.7	426.6	371.5	560.3	2152.1
2008	813.6	447.3	374.4	509.4	2144.7
2009	689.9	387.6	317.5	*455*	*1850*
2010	*730*	*415*	*335*	*500*	*1980*

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	1.11	.02	d.26	1.11	1.98
2007	1.17	d.01	d.22	1.01	1.95
2008	1.14	d.06	d.38	.71	1.39
2009	1.12	d.01	d.18	*.97*	*1.90*
2010	*1.20*	*Nil*	*d.20*	*1.05*	*2.05*

Cal-endar	QUARTERLY DIVIDENDS PAID B■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.205	.205	.205	.205	.82
2006	.205	.205	.205	.205	.82
2007	.205	.215	.215	.215	.85
2008	.215	.225	.225	.225	.89
2009	.225	.238	.238	.238	

BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approximately 1.8 million customers in sections of Arizona, Nevada, and California. Comprised of two business segments: natural gas operations and construction services. 2008 margin mix: residential and small commercial, 86%; large commercial and industrial, 5%; transportation, 9%. Total throughput: 2.4 billion therms. Sold PriMerit Bank, 7/96. Has 4,732 employees. Off. & Dir. own 2.0% of common stock; T. Rowe Price Associates, Inc., 7.0%; Barclays Global Investors, 6.8%; GAMCO Investors, Inc., 6.4% (3/09 Proxy). Chairman: James J. Kropid. CEO: Jeffrey W. Shaw. Inc.: CA. Address: 5241 Spring Mountain Road, Las Vegas, Nevada 89193. Telephone: 702-876-7237. Internet: www.swgas.com.

Southwest Gas reported lower revenues for the third quarter. The company has been operating in an unfavorable environment in recent periods, characterized by anemic customer growth. That said, expenses also fell in the interim, thanks to the lower cost of gas sold, a decline in construction expenses, reduced depreciation expense, and the effective use of technology. Southwest Gas posted a share loss of $0.18, much improved from the prior-year tally. Due to the seasonal nature of the business, losses are common during the second and third quarters. Looking forward, we anticipate lower revenue but higher share earnings for the fourth quarter and full-year 2009. Moderate share-earnings growth will probably continue in 2010. The company has reduced its capital expenditures, given the current low-growth environment. Still, Southwest continues to upgrade and expand its distribution system.

The company recently received a $17.1 million annualized general rate increase in Nevada, effective in November. It also received authorization to establish a margin tracking (decoupling) mechanism. This is designed to encourage conservation efforts while insulating Southwest from the impact of lower customer usage. This follows prior rate case settlements in California and Arizona. The company's focus on procuring rate relief and improving rate design is important, as such approved revenue increases help it cope with higher operating expenses.

Investors should be aware of several caveats. Warmer-than-normal temperatures during the winter can hurt profitability at the company. Moreover, Southwest will probably incur greater operating costs as it continues to expand. In addition, insufficient, or lagging, rate relief may hurt performance.

These shares are ranked to track the broader market for the coming six to 12 months. Income-seeking investors may find this stock's prospects for dividend growth attractive. However, its total return potential is somewhat below average, for a utility. It may take a while for the overbuilding that occurred in the company's operating territory around mid-decade to be absorbed.

Michael Napoli, CPA *December 11, 2009*

(A) Based on avg. shares outstand. thru. '96, then diluted. Excl. nonrec. gains (losses): '93, 8¢; '97, 16¢; '02, (10¢); '05, (11¢); '06, 7¢. Incl. asset writedown: '93, 44¢. Excl. loss from disc. ops.: '95, 75¢. Totals may not sum due to rounding. Next egs. report due in February. (B) Dividends historically paid early March, June, September, December. ■† Div'd reinvestment and stock purchase plan avail. (C) In millions.

Company's Financial Strength	B
Stock's Price Stability	100
Price Growth Persistence	65
Earnings Predictability	70

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WGL HOLDINGS NYSE-WGL

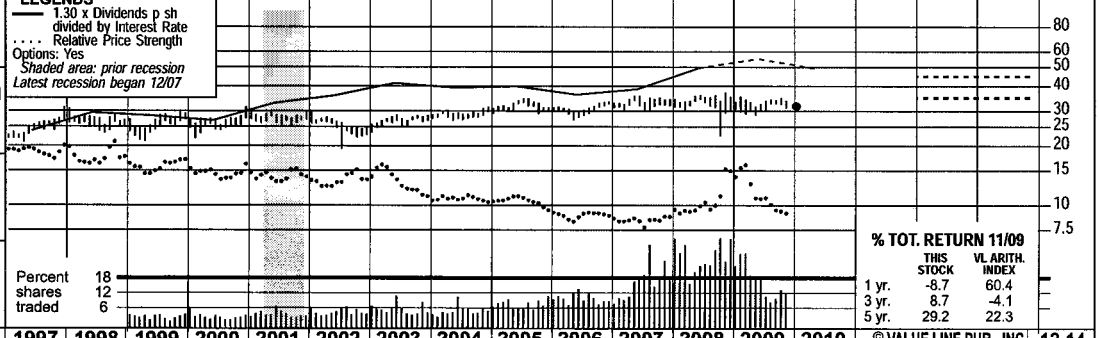
RECENT PRICE 31.81 | P/E RATIO 13.5 (Trailing: 12.5 Median: 15.0) | RELATIVE P/E RATIO 0.82 | DIV'D YLD 4.7% | VALUE LINE

TIMELINESS 4 Lowered 11/27/09
SAFETY 1 Raised 4/2/93
TECHNICAL 3 Raised 10/23/09
BETA .65 (1.00 = Market)

High:	30.8	29.4	31.5	30.5	29.5	28.8	31.4	34.8	33.6	35.9	37.1	35.5
Low:	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0	29.8	22.4	28.6

Target Price Range 2012 | 2013 | 2014

LEGENDS
— 1.30 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area: prior recession
Latest recession began 12/07



2012-14 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	45	(+40%)	12%
Low	35	(+10%)	7%

Insider Decisions

	J	F	M	A	M	J	J	A	S
to Buy	0	0	0	0	0	0	0	0	0
Options	0	1	0	0	0	0	0	0	0
to Sell	0	4	1	0	2	0	0	1	0

Institutional Decisions

	4Q2008	1Q2009	2Q2009
to Buy	94	97	85
to Sell	95	96	98
Hld's(000)	31580	30919	31333

% TOT. RETURN 11/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	-8.7	60.4
3 yr.	8.7	-4.1
5 yr.	29.2	22.3

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
21.55	21.69	19.30	22.19	24.16	23.74	20.92	22.19	29.80	32.63	42.45	42.93	44.94	53.96	53.51	52.65	**54.15**	**55.00**	Revenues per sh A	**58.40**
2.25	2.43	2.51	2.93	3.02	2.79	2.74	3.20	3.24	2.63	4.00	3.87	3.97	3.89	3.89	4.34	**4.40**	**4.20**	"Cash Flow" per sh	**4.75**
1.31	1.42	1.45	1.85	1.85	1.54	1.47	1.79	1.88	1.14	2.30	1.98	2.13	1.94	2.10	2.44	2.53	**2.30**	Earnings per sh B	**2.75**
1.09	1.11	1.12	1.14	1.17	1.20	1.22	1.24	1.26	1.27	1.28	1.30	1.32	1.35	1.37	1.41	1.47	**1.51**	Div'ds Decl'd per sh C■	**1.63**
2.43	2.84	2.63	2.85	3.20	3.62	3.42	2.67	2.68	3.34	2.65	2.33	2.32	3.27	3.33	2.70	**3.00**	**3.00**	Cap'l Spending per sh	**2.50**
11.04	11.51	11.95	12.79	13.48	13.86	14.72	15.31	16.24	15.78	16.25	16.95	17.80	18.86	19.83	20.99	**22.05**	**22.80**	Book Value per sh D	**25.95**
41.50	42.19	42.93	43.70	43.70	43.84	46.47	46.47	48.54	48.56	48.63	48.67	48.65	48.89	49.45	49.92	**50.00**	**50.00**	Common Shs Outst'g E	**50.00**
15.6	14.0	12.7	11.5	12.7	17.2	17.3	14.6	14.7	23.1	11.1	14.2	14.7	15.5	15.6	13.7	*Bold figures are*		Avg Ann'l P/E Ratio	**15.0**
.92	.92	.85	.72	.73	.89	.99	.95	.75	1.26	.63	.75	.78	.84	.82	.85	*Value Line*		Relative P/E Ratio	**1.00**
5.3%	5.6%	6.1%	5.4%	5.0%	4.5%	4.8%	4.8%	4.6%	4.8%	5.0%	4.6%	4.2%	4.5%	4.2%	4.2%	*estimates*		Avg Ann'l Div'd Yield	**4.0%**

CAPITAL STRUCTURE as of 9/30/09
Total Debt $828.3 mill. **Due in 5 Yrs** $256.7 mill.
LT Debt $561.8 mill. **LT Interest** $40.4 mill.
(LT interest earned: 5.9x; total interest coverage: 5.2x)
Pension Assets-9/09 $550.0 mill. **Oblig.** $678.1 mill.
Preferred Stock $28.2 mill. **Pfd. Div'd** $1.3 mill.

Common Stock 50,264,447 shs. **as of 10/31/09**

MARKET CAP: $1.6 billion (Mid Cap)

2004	2005	2006	2007	2008	2009	2010		12-14
972.1	1031.1	1446.5	1584.8	2064.2	2089.6	2186.3	2637.9	2646.0	2628.2	2706.9	**2750**	Revenues ($mill) A	**2920**
68.8	84.6	89.9	55.7	112.3	98.0	104.8	96.0	102.9	122.9	127.0	**115**	Net Profit ($mill)	**140**
36.0%	36.1%	39.6%	34.0%	38.0%	38.2%	37.4%	39.0%	39.1%	37.1%	**37.0%**	**37.0%**	Income Tax Rate	**38.0%**
7.1%	8.2%	6.2%	3.5%	5.4%	4.7%	4.8%	3.6%	3.9%	4.7%	**4.7%**	**4.2%**	Net Profit Margin	**4.8%**
41.5%	43.1%	41.7%	45.7%	43.8%	40.9%	39.5%	37.8%	37.9%	35.9%	**36.5%**	**35.5%**	Long-Term Debt Ratio	**34.5%**
56.1%	54.8%	56.3%	52.4%	54.3%	57.2%	58.6%	60.4%	60.3%	62.4%	**61.9%**	**62.5%**	Common Equity Ratio	**64.0%**
1218.5	1299.2	1400.8	1462.5	1454.9	1443.6	1478.1	1526.1	1625.4	1679.5	**1780**	**1820**	Total Capital ($mill)	**2025**
1402.7	1460.3	1519.7	1606.8	1874.9	1915.6	1969.7	2067.9	2150.4	2208.3	**2325**	**2420**	Net Plant ($mill)	**2720**
7.1%	7.9%	7.9%	5.3%	9.1%	8.2%	8.5%	7.6%	7.6%	8.5%	**8.3%**	**7.5%**	Return on Total Cap'l	**8.0%**
9.7%	11.4%	11.0%	7.0%	13.7%	11.5%	11.7%	10.1%	10.2%	11.4%	**11.5%**	**10.0%**	Return on Shr. Equity	**10.5%**
9.9%	11.7%	11.2%	7.2%	14.0%	11.7%	12.0%	10.3%	10.4%	11.6%	**12.0%**	**10.5%**	Return on Com Equity	**11.0%**
1.8%	3.7%	3.8%	NMF	6.2%	4.1%	4.6%	3.2%	3.5%	5.0%	**4.7%**	**3.5%**	Retained to Com Eq	**4.5%**
82%	69%	67%	112%	56%	65%	62%	69%	66%	57%	**58%**	**65%**	All Div'ds to Net Prof	**59%**

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	4.9	6.2	7.9
Other	568.8	736.1	675.6
Current Assets	573.7	742.3	683.5
Accts Payable	216.9	243.1	213.5
Debt Due	205.4	347.0	266.5
Other	134.8	158.4	154.6
Current Liab.	557.1	748.5	634.6
Fix. Chg. Cov.	432%	490%	500%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	8.5%	9.0%	*1.5%*
"Cash Flow"	3.5%	4.0%	*3.0%*
Earnings	2.0%	4.0%	*4.0%*
Dividends	1.5%	1.5%	*3.0%*
Book Value	4.0%	4.5%	*4.5%*

Fiscal Year Ends	QUARTERLY REVENUES ($ mill.) A Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	902.9	1064.5	346.9	323.6	2637.9
2007	732.9	1119.9	467.5	325.7	2646.0
2008	751.6	1020.0	464.7	391.9	2628.2
2009	826.2	1040.9	427.0	412.8	2706.9
2010	*830*	*1050*	*455*	*415*	*2750*

Fiscal Year Ends	EARNINGS PER SHARE A B Dec.31	Mar.31	Jun.30	Sep.30	Full Fiscal Year
2006	.93	1.17	d.01	d.15	1.94
2007	.92	1.27	.22	d.31	2.10
2008	.96	1.66	.06	d.24	2.44
2009	1.03	1.65	.11	d.25	2.53
2010	*.95*	*1.58*	*.07*	*d.30*	*2.30*

Cal-endar	QUARTERLY DIVIDENDS PAID C ■ Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.325	.333	.333	.333	1.32
2006	.333	.338	.338	.338	1.34
2007	.34	.34	.34	.34	1.36
2008	.34	.36	.36	.36	1.42
2009	.36	.37	.37	.37	1.47

BUSINESS: WGL Holdings, Inc. is the parent of Washington Gas Light, a natural gas distributor in Washington, D.C. and adjacent areas of VA and MD to resident'l and comm'l users (1,053,032 meters). Hampshire Gas, a federally regulated sub., operates an underground gas-storage facility in WV. Non-regulated subs.: Wash. Gas Energy Svcs. sells and delivers natural gas and provides energy related products in the D.C. metro area; Wash. Gas Energy Sys. designs/installs comm'l heating, ventilating, and air cond. systems. American Century Inv. own 7.1% of common stock; Off./dir. less than 1% (1/09 proxy). Chmn. & CEO: Terry D. McCallister. Inc.: D.C. and VA. Addr.: 1100 H St., N.W., Washington, D.C. 20080. Tel.: 202-624-6410. Internet: www.wglholdings.com.

WGL Holdings finished fiscal 2009 (ended September 30th) with decent top- and bottom-line results. Revenues advanced roughly 3% as WGL's retail energy marketing segment and design-build energy systems unit contributed increased volumes. This was partially offset by year-to-year declines in the company's utility operations due to reduced natural gas consumption patterns. Meantime, lower gas costs and a decrease in overall operating expenses helped to widen margins and lift the annual bottom line 3.7%.

However, we look for earnings to decline in 2010. Plans to expand the retail energy segment's geographic footprint into Pennsylvania should help to boost volumes. Meanwhile, the design build unit has roughly $45 million in current order backlog for committed projects. However, costs associated with the aforesaid PA expansion, as well as higher pension and retiree medical costs, will likely weigh on margins, and result in a year-to-year decline in the bottom line.

Multiple rate cases, expense recouping initiatives, and new offerings augur well for longer-term prospects. An application for a rate decoupler in Virginia should help reduce earnings volatility. The recent request for the recovery of costs associated with use of chemicals to treat gas in DC, which allows for the smooth flow-through on WGL's system, should widen margins. Meanwhile, new solar projects like the 1,000 solar panel system to be installed in Washington, DC's metro area could afford valuable alternative energy experience and a possible avenue for expansion in the future.

The overall financial position appears solid. Cash and equivalents rose more than 27% compared to last year, and management looks to be slowly but steadily reducing the debt load. But,

The company is now ranked to lag the broader market averages in the coming six to 12 months. At the same time, WGL's price has declined about 5% since our September review. This move may offer an attractive entry point into these good dividend-yielding shares, especially when the stock's Highest Safety rank (1), top Financial Strength (A), and top mark for Price Stability (100) are factored in.

Bryan J. Fong *December 11, 2009*

(A) Fiscal years end Sept. 30th.
(B) Based on diluted shares. Excludes nonrecurring losses: '01, (13¢); '02, (34¢); '07, (4¢) discontinued operations: '06, (15¢). Qtly egs. may not sum to total, due to change in shares outstanding. Next earnings report due late Jan.
(C) Dividends historically paid early February, May, August, and November. ■ Dividend reinvestment plan available.
(D) Includes deferred charges and intangibles. '08: $291.3 million, $5.81/sh.
(E) In millions, adjusted for stock split.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	50
Earnings Predictability	80

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Scottrade

AWR	33.29	-0.26	(-0.77%)	Vol. 52,276	16:01 ET

American States is a public utility company engaged principally in thepurchase, production, distribution and sale of water. The company alsodistributes electricity in some communities. In the customer service areas for both water and electric, rates and operations are subject to the jurisdiction of the California Public Utilities Commission.

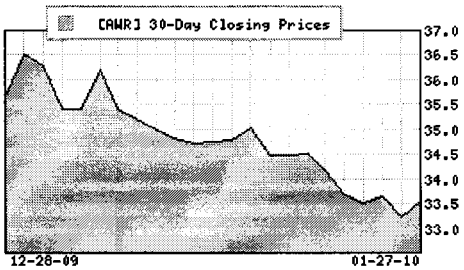
General Information

AMER STATES WTR
630 East Foothill Boulevard
San Dimas, CA 91773-1212
Phone: 909 394-3600
Fax: 909 394-0711
Web: www.gswater.com
Email: investorinfo@aswater.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	03/11/2010

Price and Volume Information

Zacks Rank	2
Yesterday's Close	33.55
52 Week High	38.79
52 Week Low	29.76
Beta	0.36
20 Day Moving Average	62,000.20
Target Price Consensus	42



% Price Change		% Price Change Relative to S&P 500	
4 Week	-7.50	4 Week	-5.06
12 Week	2.16	12 Week	-2.59
YTD	-5.25	YTD	-3.31

Share Information		Dividend Information	
Shares Outstanding (millions)	18.51	Dividend Yield	3.10%
		Annual Dividend	$1.04
Market Capitalization (millions)	621.08	Payout Ratio	0.00
Short Ratio	7.67	Change in Payout Ratio	0.00
Last Split Date	06/10/2002	Last Dividend Payout / Amount	11/09/2009 / $0.26

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.39	Current (1=Strong Buy, 5=Strong Sell)	1.80
Current Year EPS Consensus Estimate	1.82	30 Days Ago	1.80
Estimated Long-Term EPS Growth Rate	4.00	60 Days Ago	1.80
Next EPS Report Date	03/11/2010	90 Days Ago	1.80

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	16.18	vs. Previous Year	38.46%	vs. Previous Year	19.05%
Trailing 12 Months:	18.04	vs. Previous Quarter	-15.62%	vs. Previous Quarter:	8.50%
PEG Ratio	4.04				

Price Ratios		ROE		ROA	
Price/Book	1.73	12/31/09	-	12/31/09	-

Price/Cash Flow	8.92	09/30/09	10.03	09/30/09	3.06
Price / Sales	-	06/30/09	9.40	06/30/09	2.83
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	1.01	09/30/09	0.99	09/30/09	9.34
06/30/09	1.10	06/30/09	1.08	06/30/09	8.83
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	12.57	09/30/09	12.57	09/30/09	19.45
06/30/09	10.59	06/30/09	10.59	06/30/09	19.31
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	49.80	09/30/09	0.85	09/30/09	45.99
06/30/09	51.08	06/30/09	0.87	06/30/09	46.39

Zacks.com Quotes and Research

CALIFORNIA WTR SVC GROUP (NYSE)

Scottrade

CWT	35.99	▼-0.25	(-0.69%)	Vol. 121,950	16:02 ET

California Water Service Company's business, which is carried on through its operating subsidiaries, consists of the production, purchase, storage, purification, distribution and sale of water for domestic, industrial, public and irrigation uses, and for fire protection. It also provides water related services under agreements with municipalities and other private companies. The nonregulated services include full water system operation, and billing and meter reading services.

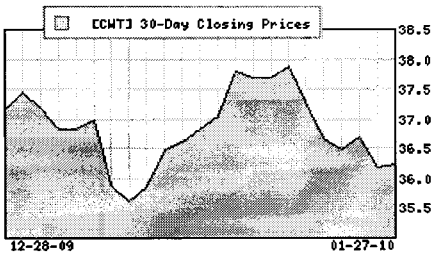
General Information

CALIF WATER SVC
1720 North First Street
San Jose, CA 95112
Phone: 408 367-8200
Fax: 408 437-9185
Web: www.calwatergroup.com
Email: klichtenberg@calwater.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	02/24/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	36.24
52 Week High	46.19
52 Week Low	33.49
Beta	0.40
20 Day Moving Average	102,273.35
Target Price Consensus	45.67



% Price Change		% Price Change Relative to S&P 500	
4 Week	-2.53	4 Week	0.04
12 Week	1.37	12 Week	-3.34
YTD	-1.58	YTD	1.17

Share Information		Dividend Information	
Shares Outstanding (millions)	20.75	Dividend Yield	3.26%
		Annual Dividend	$1.18
Market Capitalization (millions)	751.80	Payout Ratio	0.00
Short Ratio	6.90	Change in Payout Ratio	0.00
Last Split Date	01/26/1998	Last Dividend Payout / Amount	11/05/2009 / $0.29

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.35	Current (1=Strong Buy, 5=Strong Sell)	1.50
Current Year EPS Consensus Estimate	1.99	30 Days Ago	1.50
Estimated Long-Term EPS Growth Rate	6.70	60 Days Ago	1.50
Next EPS Report Date	02/24/2010	90 Days Ago	1.78

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	17.19	vs. Previous Year	-11.32%	vs. Previous Year	5.67%
Trailing 12 Months:	18.21	vs. Previous Quarter	62.07%	vs. Previous Quarter:	19.29%
PEG Ratio	2.58				

Price Ratios		ROE		ROA	
Price/Book	1.79	12/31/09	-	12/31/09	-
Price/Cash Flow	9.39	09/30/09	10.18	09/30/09	2.81
Price / Sales	-	06/30/09	10.94	06/30/09	3.12
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	1.07	09/30/09	1.03	09/30/09	9.36
06/30/09	1.23	06/30/09	1.18	06/30/09	10.12
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	15.31	09/30/09	15.31	09/30/09	20.22
06/30/09	16.26	06/30/09	16.26	06/30/09	19.56
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	38.77	09/30/09	0.89	09/30/09	47.10
06/30/09	38.87	06/30/09	0.95	06/30/09	48.59

Zacks.com Quotes and Research

SOUTHWEST WATER CO (NASD)

Scottrade

SWWC	6.15	-0.13	(-2.07%)	Vol. 72,838	16:00 ET

Southwest Water Company provides a broad range of utility and utility management services and serves people from coast to coast. Through its various subsidiaries, Southwest operates and manages water and wastewater treatment facilities along with providing utility submetering and billing and collection services.

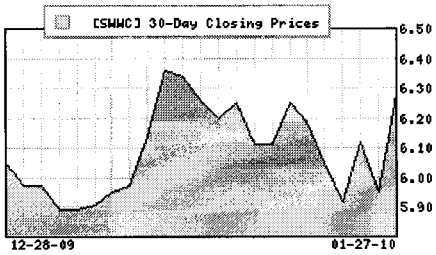
General Information

SOUTHWEST WATER
One Wilshire Building 624 South Grand Avenue
Suite 2900
Los Angeles, CA 90017-3782
Phone: 213 929-1800
Fax: 626-915-1558
Web: www.southwestwater.com
Email: swwc@swwc.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	07/08/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	6.28
52 Week High	6.48
52 Week Low	3.67
Beta	0.56
20 Day Moving Average	90,115.00
Target Price Consensus	8.25



% Price Change		% Price Change Relative to S&P 500	
4 Week	5.19	4 Week	7.96
12 Week	10.56	12 Week	5.43
YTD	6.62	YTD	2.66

Share Information		Dividend Information	
Shares Outstanding (millions)	24.88	Dividend Yield	3.18%
		Annual Dividend	$0.20
Market Capitalization (millions)	156.21	Payout Ratio	0.00
Short Ratio	8.18	Change in Payout Ratio	0.00
Last Split Date	12/28/2005	Last Dividend Payout / Amount	11/02/2009 / $0.05

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.05	Current (1=Strong Buy, 5=Strong Sell)	2.20
Current Year EPS Consensus Estimate	0.16	30 Days Ago	2.20
Estimated Long-Term EPS Growth Rate	-	60 Days Ago	2.20
Next EPS Report Date	07/08/2010	90 Days Ago	2.33

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	17.61	vs. Previous Year	-%	vs. Previous Year	-2.28%
Trailing 12 Months:	-	vs. Previous Quarter	100.00%	vs. Previous Quarter:	12.53%
PEG Ratio	-				

Price Ratios	ROE	ROA

Price/Book	1.40	12/31/09	-	12/31/09	-
Price/Cash Flow	3.57	09/30/09	-28.88	09/30/09	-6.11
Price / Sales	-	06/30/09	-27.86	06/30/09	-6.36
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	-	09/30/09	-	09/30/09	-14.90
06/30/09	-	06/30/09	-	06/30/09	-15.64
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	-	06/30/09	-	06/30/09	-
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	-	09/30/09	-	09/30/09	-
06/30/09	-	06/30/09	-	06/30/09	-

Zacks.com Quotes and Research

AQUA AMERICA INC (NYSE)

Scottrade

WTR	16.64	▼-0.20	(-1.19%)	Vol. 566,471	16:04 ET

Aqua America is the largest publicly-traded U.S.-based water utility serving residents in Pennsylvania, Ohio, Illinois, Texas, New Jersey, Indiana, Virginia, Florida, North Carolina, Maine, Missouri, New York, South Carolina and Kentucky. The company has been committed to the preservation and improvement of the environment throughout its history, which spans more than 100 years.

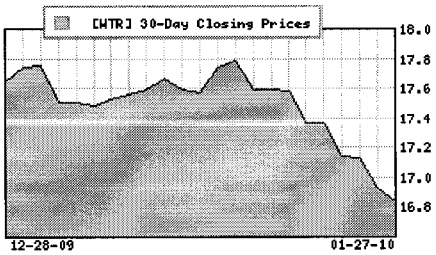
General Information

AQUA AMER INC
762 W Lancaster Avenue
Bryn Mawr, PA 19010-3489
Phone: 610 527-8000
Fax: 610-645-1061
Web: www.suburbanwater.com
Email: ir.aquaamerica.com

Industry	UTIL-WATER SPLY
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	02/25/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	16.84
52 Week High	21.50
52 Week Low	15.39
Beta	0.17
20 Day Moving Average	700,890.06
Target Price Consensus	22



% Price Change		% Price Change Relative to S&P 500	
4 Week	-5.13	4 Week	-2.63
12 Week	7.19	12 Week	2.21
YTD	-3.83	YTD	-0.02

Share Information		Dividend Information	
Shares Outstanding (millions)	136.27	Dividend Yield	3.44%
		Annual Dividend	$0.58
Market Capitalization (millions)	2,294.80	Payout Ratio	0.00
Short Ratio	9.45	Change in Payout Ratio	0.00
Last Split Date	12/02/2005	Last Dividend Payout / Amount	11/12/2009 / $0.14

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.22	Current (1=Strong Buy, 5=Strong Sell)	1.62
Current Year EPS Consensus Estimate	0.80	30 Days Ago	1.62
Estimated Long-Term EPS Growth Rate	7.70	60 Days Ago	1.62
Next EPS Report Date	02/25/2010	90 Days Ago	1.71

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	18.54	vs. Previous Year	-3.85%	vs. Previous Year	2.11%
Trailing 12 Months:	21.87	vs. Previous Quarter	31.58%	vs. Previous Quarter:	8.06%
PEG Ratio	2.42				

Price Ratios	ROE	ROA

Price/Book	2.12	12/31/09	-	12/31/09	-
Price/Cash Flow	11.81	09/30/09	9.66	09/30/09	2.93
Price / Sales	-	06/30/09	9.95	06/30/09	3.04
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	0.54	09/30/09	0.50	09/30/09	15.60
06/30/09	0.60	06/30/09	0.55	06/30/09	15.97
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	25.72	09/30/09	25.72	09/30/09	7.93
06/30/09	26.47	06/30/09	26.47	06/30/09	7.94
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	40.79	09/30/09	1.17	09/30/09	54.00
06/30/09	39.75	06/30/09	1.14	06/30/09	53.25

Zacks.com Quotes and Research

AGL RESOURCES INC (NYSE)

Scottrade

AGL	35.25	▼-0.01	(-0.03%)	Vol. 194,551	16:01 ET

AGL Resources principal business is the distribution of natural gas to customers in central, northwest, northeast and southeast Georgia and the Chattanooga, Tennessee area through its natural gas distribution subsidiary. AGL's major service area is the ten county metropolitan Atlanta area.

General Information

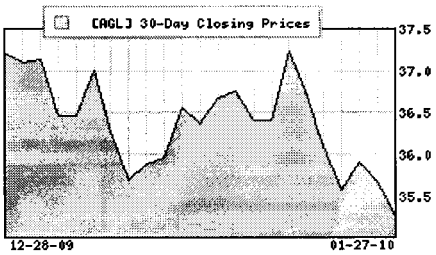
AGL RESOURCES
Ten Peachtree Place NE
Atlanta, GA 30309
Phone: 404 584-4000
Fax: 404 584-3945
Web: www.aglresources.com
Email: scave@aglresources.com

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	02/04/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	35.26
52 Week High	37.52
52 Week Low	24.02
Beta	0.39
20 Day Moving Average	211,124.45
Target Price Consensus	38.29



% Price Change		% Price Change Relative to S&P 500	
4 Week	-5.04	4 Week	-2.53
12 Week	0.71	12 Week	-3.97
YTD	-3.32	YTD	-0.35

Share Information		Dividend Information	
Shares Outstanding (millions)	77.40	Dividend Yield	4.88%
		Annual Dividend	$1.72
Market Capitalization (millions)	2,729.09	Payout Ratio	0.00
Short Ratio	3.83	Change in Payout Ratio	0.00
Last Split Date	12/04/1995	Last Dividend Payout / Amount	11/10/2009 / $0.43

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.86	Current (1=Strong Buy, 5=Strong Sell)	2.11
Current Year EPS Consensus Estimate	2.75	30 Days Ago	2.11
Estimated Long-Term EPS Growth Rate	4.50	60 Days Ago	2.11
Next EPS Report Date	02/04/2010	90 Days Ago	2.11

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	12.15	vs. Previous Year	-42.86%	vs. Previous Year	-43.04%
Trailing 12 Months:	11.99	vs. Previous Quarter	-38.46%	vs. Previous Quarter:	-18.57%
PEG Ratio	2.70				

Price Ratios		ROE		ROA	
Price/Book	1.56	12/31/09	-	12/31/09	-
Price/Cash Flow		09/30/09		09/30/09	

	7.53		13.05		3.56
Price / Sales	-	06/30/09	13.60	06/30/09	3.68
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	1.26	09/30/09	0.64	09/30/09	9.06
06/30/09	1.03	06/30/09	0.61	06/30/09	8.63
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	15.30	09/30/09	15.30	09/30/09	22.61
06/30/09	17.12	06/30/09	17.12	06/30/09	22.79
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	3.70	09/30/09	1.13	09/30/09	53.06
06/30/09	3.70	06/30/09	0.95	06/30/09	48.78

Zacks.com Quotes and Research

ATMOS ENERGY CORP (NYSE)

Scottrade

ATO	28.02	▼-0.02	(-0.07%)	Vol. 260,377	16:01 ET

Atmos Energy Corporation distributes and sells natural gas to residential, commercial, industrial, agricultural and other customers. Atmos operates through five divisions in cities, towns and communities in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, South Carolina, Tennessee, Texas and Virginia. The Company has entered into an agreement to sell all of its natural gas utility operations in South Carolina. The Company also transports natural gas for others through its distribution system.

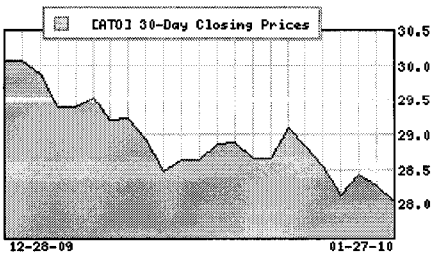
General Information

ATMOS ENERGY CP
Three Lincoln Centre 5430 Lbj Freeway
Suite 1800
Dallas, TX 75240
Phone: 972-934-9227
Fax: 972-855-3040
Web: www.atmosenergy.com
Email: InvestorRelations@atmosenergy.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	12/31/09
Next EPS Date	02/02/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	28.04
52 Week High	30.32
52 Week Low	20.07
Beta	0.50
20 Day Moving Average	300,966.69
Target Price Consensus	29.67



% Price Change		% Price Change Relative to S&P 500	
4 Week	-6.16	4 Week	-3.69
12 Week	-0.32	12 Week	-4.95
YTD	-4.63	YTD	-2.27

Share Information		Dividend Information	
Shares Outstanding (millions)	92.93	Dividend Yield	4.78%
		Annual Dividend	$1.34
Market Capitalization (millions)	2,605.81	Payout Ratio	0.00
Short Ratio	3.58	Change in Payout Ratio	0.00
Last Split Date	05/17/1994	Last Dividend Payout / Amount	11/23/2009 / $0.34

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.90	Current (1=Strong Buy, 5=Strong Sell)	2.50
Current Year EPS Consensus Estimate	2.20	30 Days Ago	2.67
Estimated Long-Term EPS Growth Rate	5.00	60 Days Ago	2.67
Next EPS Report Date	02/02/2010	90 Days Ago	2.67

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	12.76	vs. Previous Year	-500.00%	vs. Previous Year	-54.84%
Trailing 12 Months:	13.88	vs. Previous Quarter	-33.33%	vs. Previous Quarter:	-16.67%
PEG Ratio	2.55				

Price Ratios		ROE		ROA	
Price/Book	1.19	12/31/09	-	12/31/09	-
Price/Cash Flow	6.28	09/30/09	8.58	09/30/09	2.85
Price / Sales	-	06/30/09	9.14	06/30/09	2.99
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	1.12	09/30/09	0.65	09/30/09	3.72
06/30/09	1.24	06/30/09	0.74	06/30/09	3.37
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	5.86	09/30/09	5.86	09/30/09	23.59
06/30/09	5.55	06/30/09	5.55	06/30/09	23.82
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	10.42	09/30/09	1.00	09/30/09	49.92
06/30/09	11.62	06/30/09	0.99	06/30/09	49.75

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Zacks.com Quotes and Research

LACLEDE GROUP INC (NYSE)

Scottrade

LG	32.32	N/A	(N/A%)	Vol. 133,963	16:03 ET

The Laclede Group, Inc. is a public utility engaged in the retail distribution and transportation of natural gas. The Company, which is subject to the jurisdiction of the Missouri Public Service Commission, serves the City of St. Louis, St. Louis County, the City of St. Charles, St. Charles County, the town of Arnold, and parts of Franklin, Jefferson, St. Francois, Ste. Genevieve, Iron, Madison and Butler Counties, all in Missouri.

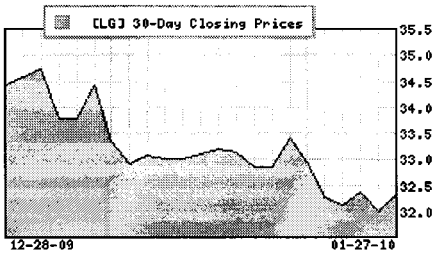
General Information

LACLEDE GRP INC
720 Olive Street
St. Louis, MO 63101
Phone: 314-342-0500
Fax: 314-421-1979
Web: www.thelacledegroup.com
Email: mkullman@lacledegas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	12/31/09
Next EPS Date	01/28/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	32.32
52 Week High	47.51
52 Week Low	29.26
Beta	0.03
20 Day Moving Average	92,742.95
Target Price Consensus	35



% Price Change		% Price Change Relative to S&P 500	
4 Week	-6.94	4 Week	-4.49
12 Week	6.53	12 Week	1.58
YTD	-4.29	YTD	-2.82

Share Information		Dividend Information	
Shares Outstanding (millions)	22.25	Dividend Yield	4.89%
		Annual Dividend	$1.58
Market Capitalization (millions)	719.12	Payout Ratio	0.00
Short Ratio	3.89	Change in Payout Ratio	0.00
Last Split Date	03/08/1994	Last Dividend Payout / Amount	12/09/2009 / $0.40

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.02	Current (1=Strong Buy, 5=Strong Sell)	2.80
Current Year EPS Consensus Estimate	2.47	30 Days Ago	2.80
Estimated Long-Term EPS Growth Rate	3.00	60 Days Ago	2.80
Next EPS Report Date	01/28/2010	90 Days Ago	2.80

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.09	vs. Previous Year	-57.14%	vs. Previous Year	-44.24%
Trailing 12 Months:	11.11	vs. Previous Quarter	-170.97%	vs. Previous Quarter:	-18.72%
PEG Ratio	4.36				

Price Ratios		ROE		ROA	
Price/Book	1.39	12/31/09	-	12/31/09	-

Price/Cash Flow	7.07	09/30/09	12.30	09/30/09	3.63
Price / Sales	-	06/30/09	12.78	06/30/09	3.71
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	1.23	09/30/09	0.84	09/30/09	3.39
06/30/09	1.24	06/30/09	0.98	06/30/09	3.14
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	5.11	09/30/09	5.11	09/30/09	23.32
06/30/09	4.81	06/30/09	4.81	06/30/09	23.97
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	11.80	09/30/09	0.75	09/30/09	42.95
06/30/09	10.65	06/30/09	0.73	06/30/09	42.30

Zacks.com Quotes and Research

NEW JERSEY RES (NYSE)

Scottrade

NJR	36.56	-0.25	(-0.68%)	Vol. 231,500	16:01 ET

NJ RESOURCES is an exempt energy svcs holding company providing retail & wholesale natural gas & related energy services to customers from the Gulf Coast to New England. Subsidiaries include: (1) N J Natural Gas Co, a natural gas distribution company that provides regulated energy & appliance services to residential, commercial & industrial customers in central & northern N J. (2) NJR Energy Holdings Corp formerly NJR Energy Svcs Corp & (3) NJR Development Corp, a sub-holding company of NJR, which includes the Company's remaining unregulated operating subsidiaries.

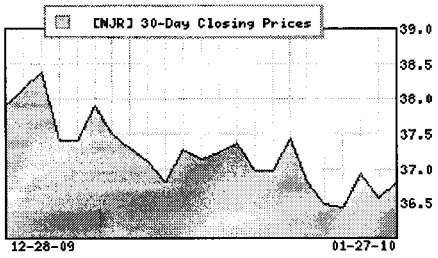
General Information

NJ RESOURCES
1415 Wyckoff Road
Wall, NJ 07719
Phone: 732-938-1489
Fax: 732 938-3154
Web: www.njresources.com
Email: investcont@njresources.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	12/31/09
Next EPS Date	02/03/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	36.81
52 Week High	42.37
52 Week Low	29.95
Beta	0.13
20 Day Moving Average	240,792.45
Target Price Consensus	42.8



% Price Change		% Price Change Relative to S&P 500	
4 Week	-4.07	4 Week	-1.54
12 Week	4.93	12 Week	0.06
YTD	-1.58	YTD	-0.48

Share Information		Dividend Information	
Shares Outstanding (millions)	41.58	Dividend Yield	3.69%
		Annual Dividend	$1.36
Market Capitalization (millions)	1,530.56	Payout Ratio	0.00
Short Ratio	11.18	Change in Payout Ratio	0.00
Last Split Date	03/04/2008	Last Dividend Payout / Amount	12/11/2009 / $0.34

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.83	Current (1=Strong Buy, 5=Strong Sell)	1.67
Current Year EPS Consensus Estimate	2.56	30 Days Ago	1.67
Estimated Long-Term EPS Growth Rate	7.00	60 Days Ago	2.14
Next EPS Report Date	02/03/2010	90 Days Ago	2.14

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.38	vs. Previous Year	69.23%	vs. Previous Year	-50.12%
Trailing 12 Months:	15.53	vs. Previous Quarter	-500.00%	vs. Previous Quarter:	-6.45%
PEG Ratio	2.05				

Price Ratios		ROE		ROA	
Price/Book	2.24	12/31/09	-	12/31/09	-
Price/Cash Flow	11.71	09/30/09	13.90	09/30/09	4.15
Price / Sales	-	06/30/09	12.20	06/30/09	3.58
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	1.23	09/30/09	0.68	09/30/09	3.89
06/30/09	1.23	06/30/09	0.88	06/30/09	2.98
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	1.21	09/30/09	1.21	09/30/09	16.42
06/30/09	5.66	06/30/09	5.66	06/30/09	17.11
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	10.06	09/30/09	0.66	09/30/09	39.77
06/30/09	9.78	06/30/09	0.63	06/30/09	38.82

Zacks.com Quotes and Research

NICOR INC (NYSE)

Scottrade

GAS	40.49	▼-0.11	(-0.27%)	Vol. 364,972	16:01 ET

Nicor Inc. is a holding company and is a member of the Standard & Poor's 500 Index. Its primary business is Nicor Gas, one of the nation's largest natural gas distribution companies. Nicor owns Tropical Shipping, a containerized shipping business serving the Caribbean region and the Bahamas. In addition, the company owns and has an equity interest in several energy-related businesses.

General Information

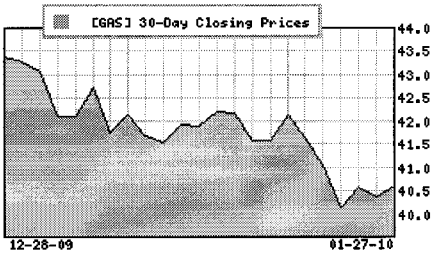
NICOR INC
1844 Ferry Road
Naperville, IL 60563-9600
Phone: 630-305-9500
Fax: 630-983-9328
Web: www.nicor.com
Email: None

Industry	UTIL-GAS DISTR
Sector:	Utilities

Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	02/26/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	40.60
52 Week High	43.39
52 Week Low	27.50
Beta	0.37
20 Day Moving Average	318,307.44
Target Price Consensus	41



% Price Change		% Price Change Relative to S&P 500	
4 Week	-5.71	4 Week	-3.23
12 Week	8.15	12 Week	3.13
YTD	-3.56	YTD	-2.67

Share Information		Dividend Information	
Shares Outstanding (millions)	45.23	Dividend Yield	4.58%
		Annual Dividend	$1.86
Market Capitalization (millions)	1,836.38	Payout Ratio	0.00
		Change in Payout Ratio	0.00
Short Ratio	7.70		
Last Split Date	04/27/1993	Last Dividend Payout / Amount	12/29/2009 / $0.47

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.01	Current (1=Strong Buy, 5=Strong Sell)	3.13
Current Year EPS Consensus Estimate	2.70	30 Days Ago	2.86
Estimated Long-Term EPS Growth Rate	4.20	60 Days Ago	2.83
Next EPS Report Date	02/26/2010	90 Days Ago	2.83

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.10	vs. Previous Year	900.00%	vs. Previous Year	-26.05%
Trailing 12 Months:	14.45	vs. Previous Quarter	-40.00%	vs. Previous Quarter:	-27.26%
PEG Ratio	3.33				

Price Ratios		ROE		ROA	
Price/Book	1.83	12/31/09	-	12/31/09	-

Price/Cash Flow	5.93	09/30/09	12.88	09/30/09	2.88
Price / Sales	-	06/30/09	11.78	06/30/09	2.59
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	0.81	09/30/09	0.62	09/30/09	4.38
06/30/09	0.76	06/30/09	0.73	06/30/09	3.81
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	6.32	09/30/09	6.32	09/30/09	22.13
06/30/09	5.46	06/30/09	5.46	06/30/09	22.25
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	15.60	09/30/09	0.50	09/30/09	33.24
06/30/09	14.05	06/30/09	0.50	06/30/09	33.12

Zacks.com Quotes and Research

NORTHWEST NAT GAS CO (NYSE)

Scottrade

NWN	43.37	▼-0.12	(-0.28%)	Vol. 73,157	16:05 ET

NW Natural is principally engaged in the distribution of natural gas.The Oregon Public Utility Commission (OPUC) has allocated to NW Natural as its exclusive service area a major portion of western Oregon, including the Portland metropolitan area, most of the fertile Willamette Valley and the coastal area from Astoria to Coos Bay. NW Natural also holds certificates from the Washington Utilities and Transportation Commission (WUTC) granting it exclusive rights to serve portions of three Washington counties bordering the Columbia River.

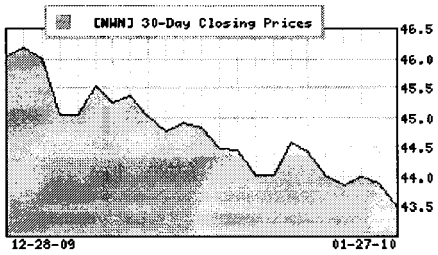
General Information

NORTHWEST NAT G
220 NW Second Avenue
Portland, OR 97209
Phone: 503 226-4211
Fax: 503 273-4824
Web: www.nwnatural.com
Email: Bob.Hess@nwnatural.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	02/26/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	43.49
52 Week High	46.47
52 Week Low	37.71
Beta	0.24
20 Day Moving Average	77,501.70
Target Price Consensus	49.5



% Price Change		% Price Change Relative to S&P 500	
4 Week	-5.44	4 Week	-2.94
12 Week	3.89	12 Week	-0.93
YTD	-3.44	YTD	-0.56

Share Information		Dividend Information	
Shares Outstanding (millions)	26.52	Dividend Yield	3.82%
		Annual Dividend	$1.66
Market Capitalization (millions)	1,153.22	Payout Ratio	0.00
Short Ratio	15.60	Change in Payout Ratio	0.00
Last Split Date	09/09/1996	Last Dividend Payout / Amount	10/28/2009 / $0.41

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.18	Current (1=Strong Buy, 5=Strong Sell)	1.86
Current Year EPS Consensus Estimate	2.76	30 Days Ago	1.86
Estimated Long-Term EPS Growth Rate	5.70	60 Days Ago	1.75
Next EPS Report Date	02/26/2010	90 Days Ago	1.57

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	15.69	vs. Previous Year	34.21%	vs. Previous Year	6.52%
Trailing 12 Months:	14.94	vs. Previous Quarter	-308.33%	vs. Previous Quarter:	-21.61%
PEG Ratio	2.77				

Price Ratios	ROE	ROA

Price/Book	1.80	12/31/09	-	12/31/09	-
Price/Cash Flow	8.11	09/30/09	11.87	09/30/09	3.33
Price / Sales	-	06/30/09	11.51	06/30/09	3.26
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	1.03	09/30/09	0.69	09/30/09	7.31
06/30/09	0.94	06/30/09	0.67	06/30/09	7.03
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	11.71	09/30/09	11.71	09/30/09	24.17
06/30/09	11.19	06/30/09	11.19	06/30/09	24.80
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	9.12	09/30/09	0.99	09/30/09	49.85
06/30/09	8.96	06/30/09	0.89	06/30/09	47.18

Zacks.com Quotes and Research

PIEDMONT NAT GAS INC (NYSE)

Scottrade

PNY	25.70	▼-0.23	(-0.89%)	Vol. 456,211	16:02 ET

Piedmont Natural Gas Co, Inc., is an energy and services company engaged in the transportation and sale of natural gas and the sale of propane to residential, commercial and industrial customers in North Carolina, South Carolina and Tennessee. The Company is the second-largest natural gas utility in the southeast. The Company and its non-utility subsidiaries and divisions are also engaged in acquiring, marketing and arranging for the transportation and storage of natural gas for large-volume purchasers, and in the sale of propane to customers in the Company's three-state service area.

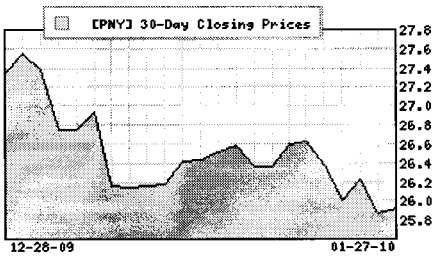
General Information

PIEDMONT NAT GA
4720 Piedmont Row Drive
Charlotte, NC 28210
Phone: 704 364-3120
Fax: 704-365-3849
Web: www.piedmontng.com
Email: investorrelations@piedmontng.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	October
Last Reported Quarter	10/31/09
Next EPS Date	03/08/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	25.93
52 Week High	27.84
52 Week Low	20.68
Beta	0.20
20 Day Moving Average	409,235.66
Target Price Consensus	26.61



% Price Change		% Price Change Relative to S&P 500	
4 Week	-5.30	4 Week	-2.80
12 Week	13.78	12 Week	8.49
YTD	-3.07	YTD	-0.69

Share Information		Dividend Information	
Shares Outstanding (millions)	73.38	Dividend Yield	4.17%
		Annual Dividend	$1.08
Market Capitalization (millions)	1,902.74	Payout Ratio	0.65
Short Ratio	9.29	Change in Payout Ratio	-0.06
Last Split Date	11/01/2004	Last Dividend Payout / Amount	12/23/2009 / $0.27

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.20	Current (1=Strong Buy, 5=Strong Sell)	2.88
Current Year EPS Consensus Estimate	1.61	30 Days Ago	2.57
Estimated Long-Term EPS Growth Rate	6.30	60 Days Ago	2.57
Next EPS Report Date	03/08/2010	90 Days Ago	2.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	16.16	vs. Previous Year	-%	vs. Previous Year	-28.52%
Trailing 12 Months:	15.53	vs. Previous Quarter	40.00%	vs. Previous Quarter:	23.66%
PEG Ratio	2.58				

Price Ratios		ROE		ROA	
Price/Book	2.00	10/31/09	12.84	10/31/09	3.91
Price/Cash Flow	9.17	07/31/09	12.13	07/31/09	3.64
Price / Sales	1.16	04/30/09	12.17	04/30/09	3.66
Current Ratio		**Quick Ratio**		**Operating Margin**	
10/31/09	-	10/31/09	-	10/31/09	7.50
07/31/09	0.99	07/31/09	0.76	07/31/09	6.59
04/30/09	1.07	04/30/09	0.88	04/30/09	5.97
Net Margin		**Pre-Tax Margin**		**Book Value**	
10/31/09	-	10/31/09	-	10/31/09	-
07/31/09	12.89	07/31/09	12.89	07/31/09	12.99
04/30/09	11.58	04/30/09	11.58	04/30/09	13.20
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
10/31/09	-	10/31/09	-	10/31/09	-
07/31/09	10.20	07/31/09	0.84	07/31/09	45.54
04/30/09	10.05	04/30/09	0.82	04/30/09	45.00

Zacks.com Quotes and Research

SOUTH JERSEY INDS INC (NYSE)

Scottrade

SJI	38.36	▼-0.12	(-0.31%)	Vol. 172,593	16:05 ET

South Jersey Inds Inc. is engaged in the business of operating, through subsidiaries, various business enterprises. The company's most significant subsidiary is South Jersey Gas Company (SJG). SJG is a public utility company engaged in the purchase, transmission and sale of natural gas for residential, commercial and industrial use. SJG also makes off-system sales of natural gas on a wholesale basis to various customers on the interstate pipeline system and transports natural gas.

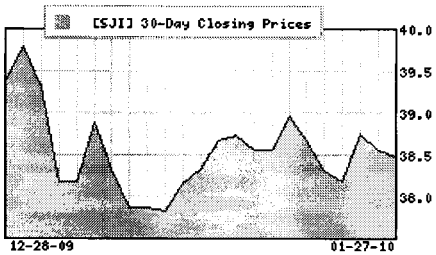
General Information

SOUTH JERSEY IN
1 South Jersey Plaza
Folsom, NJ 08037
Phone: 609 561-9000
Fax: 609 561-8225
Web: www.sjindustries.com
Email: investorrelations@sjindustries.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	02/24/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	38.48
52 Week High	40.24
52 Week Low	31.98
Beta	0.21
20 Day Moving Average	160,182.41
Target Price Consensus	46.5



% Price Change		% Price Change Relative to S&P 500	
4 Week	-2.11	4 Week	0.47
12 Week	10.38	12 Week	5.25
YTD	0.79	YTD	2.11

Share Information		Dividend Information	
Shares Outstanding (millions)	29.80	Dividend Yield	3.43%
		Annual Dividend	$1.32
Market Capitalization (millions)	1,146.55	Payout Ratio	0.00
Short Ratio	8.94	Change in Payout Ratio	0.00
Last Split Date	07/01/2005	Last Dividend Payout / Amount	12/08/2009 / $0.33

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.82	Current (1=Strong Buy, 5=Strong Sell)	1.43
Current Year EPS Consensus Estimate	2.39	30 Days Ago	1.43
Estimated Long-Term EPS Growth Rate	12.40	60 Days Ago	1.43
Next EPS Report Date	02/24/2010	90 Days Ago	1.43

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.38	vs. Previous Year	-250.00%	vs. Previous Year	-39.60%
Trailing 12 Months:	17.33	vs. Previous Quarter	-140.00%	vs. Previous Quarter:	-5.50%
PEG Ratio	1.16				

Price Ratios	ROE	ROA

Price/Book	2.17	12/31/09	-	12/31/09	-
Price/Cash Flow	11.07	09/30/09	12.53	09/30/09	3.86
Price / Sales	-	06/30/09	13.17	06/30/09	4.06
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	0.88	09/30/09	0.54	09/30/09	7.47
06/30/09	0.92	06/30/09	0.64	06/30/09	7.13
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	10.32	09/30/09	10.32	09/30/09	17.74
06/30/09	17.54	06/30/09	17.54	06/30/09	18.11
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	6.37	09/30/09	0.63	09/30/09	38.63
06/30/09	5.74	06/30/09	0.62	06/30/09	38.14

Zacks.com Quotes and Research

SOUTHWEST GAS CORP (NYSE)

Scottrade

SWX	27.81	▼-0.17	(-0.61%)	Vol. 143,519	16:04 ET

SOUTHWEST GAS CORP. is principally engaged in the business of purchasing,transporting, and distributing natural gas in portions of Arizona, Nevada,and California. The Company also engaged in financial services activities,through PriMerit Bank, Federal Savings Bank (PriMerit or the Bank), a wholly owned subsidiary.

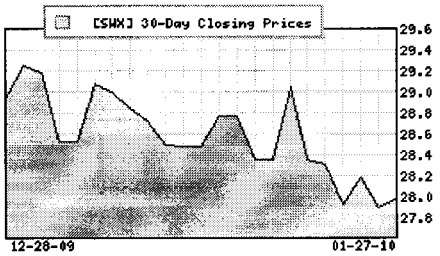
General Information

SOUTHWEST GAS
5241 Spring Mountain Road
P.O. Box 98510
Las Vegas, NV 89193-8510
Phone: 702 876-7237
Fax: 702-876-7037
Web: www.swgas.com
Email: None

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	December
Last Reported Quarter	12/31/09
Next EPS Date	02/25/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	27.98
52 Week High	29.48
52 Week Low	17.08
Beta	0.71
20 Day Moving Average	155,326.59
Target Price Consensus	30



% Price Change		% Price Change Relative to S&P 500	
4 Week	-4.11	4 Week	-1.59
12 Week	11.25	12 Week	6.08
YTD	-1.93	YTD	-0.01

Share Information		Dividend Information	
Shares Outstanding (millions)	44.96	Dividend Yield	3.40%
		Annual Dividend	$0.95
Market Capitalization (millions)	1,257.84	Payout Ratio	0.00
Short Ratio	5.58	Change in Payout Ratio	0.00
Last Split Date	N/A	Last Dividend Payout / Amount	11/12/2009 / $0.24

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	1.08	Current (1=Strong Buy, 5=Strong Sell)	2.43
Current Year EPS Consensus Estimate	1.96	30 Days Ago	2.43
Estimated Long-Term EPS Growth Rate	7.00	60 Days Ago	2.43
Next EPS Report Date	02/25/2010	90 Days Ago	2.50

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	13.02	vs. Previous Year	147.37%	vs. Previous Year	-15.20%
Trailing 12 Months:	13.85	vs. Previous Quarter	1,700.00%	vs. Previous Quarter:	-18.09%
PEG Ratio	1.86				

Price Ratios		ROE		ROA	
Price/Book	1.18	12/31/09	-	12/31/09	-

Price/Cash Flow	4.74	09/30/09	7.97	09/30/09	2.28
Price / Sales	-	06/30/09	5.70	06/30/09	1.63
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	0.72	09/30/09	0.72	09/30/09	4.47
06/30/09	0.69	06/30/09	0.69	06/30/09	3.07
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	5.93	09/30/09	5.93	09/30/09	23.76
06/30/09	5.35	06/30/09	5.35	06/30/09	24.16
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	-	09/30/09	1.06	09/30/09	49.16
06/30/09	-	06/30/09	1.04	06/30/09	50.97

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WGL HLDGS INC (NYSE)

Scottrade

WGL	31.90	▼-0.32	(-0.99%)	Vol. 272,135	16:01 ET

WASHINGTON GAS LIGHT CO is a public utility that delivers and sells natural gas to metropolitan Washington, D.C. and adjoining areas in Maryland and Virginia. A distribution subsidiary serves portions of Virginia and West Virginia. The Company has four wholly-owned active subsidiaries that include: Shenandoah Gas Company (Shenandoah) is engaged in the delivery and sale of natural gas at retail in the Shenandoah Valley, including Winchester, Middletown, Strasburg, Stephens City and New Market, Virginia, and Martinsburg, West Virginia.

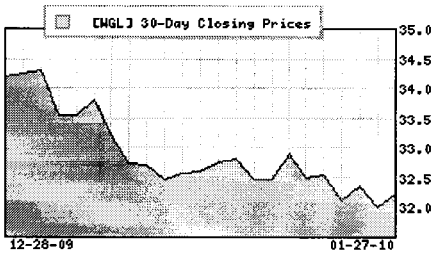
General Information

WGL HLDGS INC
101 Constitution Avenue NW
Washington, DC 20080
Phone: 703 750-2000
Fax: 703 750-4828
Web: www.wglholdings.com
Email: madams@washgas.com

Industry	UTIL-GAS DISTR
Sector:	Utilities
Fiscal Year End	September
Last Reported Quarter	12/31/09
Next EPS Date	02/03/2010

Price and Volume Information

Zacks Rank	
Yesterday's Close	32.22
52 Week High	35.52
52 Week Low	28.59
Beta	0.16
20 Day Moving Average	214,922.91
Target Price Consensus	34.67



% Price Change		% Price Change Relative to S&P 500	
4 Week	-6.06	4 Week	-3.59
12 Week	-2.30	12 Week	-6.84
YTD	-3.94	YTD	-2.16

Share Information		Dividend Information	
Shares Outstanding (millions)	50.26	Dividend Yield	4.56%
		Annual Dividend	$1.47
Market Capitalization (millions)	1,619.51	Payout Ratio	0.00
Short Ratio	12.05	Change in Payout Ratio	0.00
Last Split Date	05/02/1995	Last Dividend Payout / Amount	01/06/2010 / $0.37

EPS Information		Consensus Recommendations	
Current Quarter EPS Consensus Estimate	0.98	Current (1=Strong Buy, 5=Strong Sell)	2.67
Current Year EPS Consensus Estimate	2.27	30 Days Ago	2.67
Estimated Long-Term EPS Growth Rate	-	60 Days Ago	2.67
Next EPS Report Date	02/03/2010	90 Days Ago	2.67

Fundamental Ratios

P/E		EPS Growth		Sales Growth	
Current FY Estimate:	14.18	vs. Previous Year	-13.64%	vs. Previous Year	155.45%
Trailing 12 Months:	12.69	vs. Previous Quarter	-327.27%	vs. Previous Quarter:	-3.32%
PEG Ratio	-				

Price Ratios	ROE	ROA

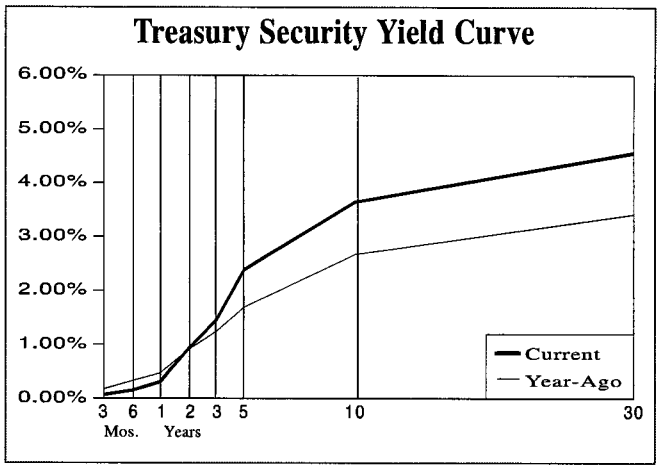
Price/Book	1.47	12/31/09	-	12/31/09	-
Price/Cash Flow	7.11	09/30/09	11.44	09/30/09	3.78
Price / Sales	-	06/30/09	11.67	06/30/09	3.84
Current Ratio		**Quick Ratio**		**Operating Margin**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	1.08	09/30/09	0.67	09/30/09	4.72
06/30/09	1.17	06/30/09	0.82	06/30/09	5.26
Net Margin		**Pre-Tax Margin**		**Book Value**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	7.30	09/30/09	7.30	09/30/09	21.89
06/30/09	7.81	06/30/09	7.81	06/30/09	22.56
Inventory Turnover		**Debt-to-Equity**		**Debt to Capital**	
12/31/09	-	12/31/09	-	12/31/09	-
09/30/09	9.89	09/30/09	0.51	09/30/09	33.29
06/30/09	9.10	06/30/09	0.55	06/30/09	34.99

ATTACHMENT D

Selected Yields

	Recent (1/27/10)	3 Months Ago (10/28/09)	Year Ago (1/28/09)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.16	0.17	0.45
3-month LIBOR	0.25	0.28	1.17
Bank CDs			
6-month	0.25	0.38	0.88
1-year	0.46	0.62	1.25
5-year	2.00	2.22	2.39
U.S. Treasury Securities			
3-month	0.07	0.06	0.18
6-month	0.15	0.15	0.33
1-year	0.31	0.36	0.47
5-year	2.39	2.33	1.69
10-year	3.65	3.42	2.67
10-year (inflation-protected)	1.24	1.44	1.78
30-year	4.56	4.26	3.42
30-year Zero	4.80	4.39	3.29

	Recent (1/27/10)	3 Months Ago (10/28/09)	Year Ago (1/28/09)
Mortgage-Backed Securities			
GNMA 6.5%	3.05	3.69	3.90
FHLMC 6.5% (Gold)	2.24	2.26	3.50
FNMA 6.5%	2.14	2.44	3.50
FNMA ARM	3.24	2.56	4.27
Corporate Bonds			
Financial (10-year) A	5.49	5.45	7.96
Industrial (25/30-year) A	5.69	5.44	6.18
Utility (25/30-year) A	5.72	5.53	6.10
Utility (25/30-year) Baa/BBB	6.32	6.20	7.04
Foreign Bonds (10-Year)			
Canada	3.35	3.46	2.96
Germany	3.20	3.26	3.23
Japan	1.32	1.43	1.27
United Kingdom	3.88	3.61	3.64
Preferred Stocks			
Utility A	5.58	5.58	5.98
Financial A	6.68	7.12	8.89
Financial Adjustable A	5.50	5.50	5.50



	Recent (1/27/10)	3 Months Ago (10/28/09)	Year Ago (1/28/09)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.30	4.31	5.13
25-Bond Index (Revs)	4.91	4.87	5.82
General Obligation Bonds (GOs)			
1-year Aaa	0.30	0.45	0.55
1-year A	1.23	1.45	0.65
5-year Aaa	1.64	2.07	1.84
5-year A	2.73	3.18	2.14
10-year Aaa	3.25	3.35	3.00
10-year A	4.18	4.33	3.50
25/30-year Aaa	4.43	4.50	5.05
25/30-year A	5.43	5.55	6.05
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.81	4.69	6.05
Electric AA	4.74	4.77	6.10
Housing AA	5.65	5.85	6.40
Hospital AA	5.01	5.15	6.45
Toll Road Aaa	4.86	4.80	6.15

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/13/10	12/30/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1004700	1059954	-55254	1052310	924156	847856
Borrowed Reserves	164979	163525	1454	205393	268367	401995
Net Free/Borrowed Reserves	839721	896429	-56708	846916	655789	445861

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	1/11/10	1/4/10	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1655.3	1704.6	-49.3	-4.0%	0.3%	3.8%
M2 (M1+savings+small time deposits)	8452.3	8461.7	-9.4	-0.8%	0.5%	2.0%

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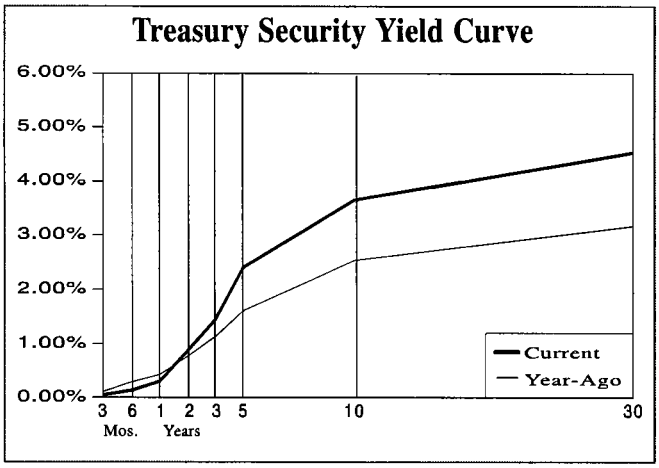
Selected Yields

	Recent (1/20/10)	3 Months Ago (10/21/09)	Year Ago (1/21/09)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.15	0.18	0.55
3-month LIBOR	0.25	0.28	1.13
Bank CDs			
6-month	0.25	0.38	1.03
1-year	0.47	0.62	1.34
5-year	2.00	2.22	2.38
U.S. Treasury Securities			
3-month	0.05	0.06	0.11
6-month	0.13	0.17	0.29
1-year	0.30	0.37	0.43
5-year	2.41	2.34	1.61
10-year	3.65	3.39	2.54
10-year (inflation-protected)	1.21	1.38	1.95
30-year	4.53	4.21	3.16
30-year Zero	4.76	4.32	2.94

	Recent (1/20/10)	3 Months Ago (10/21/09)	Year Ago (1/21/09)
Mortgage-Backed Securities			
GNMA 6.5%	3.17	3.69	3.78
FHLMC 6.5% (Gold)	2.32	2.35	3.53
FNMA 6.5%	2.28	2.47	3.47
FNMA ARM	3.24	2.56	4.25
Corporate Bonds			
Financial (10-year) A	5.44	5.48	7.97
Industrial (25/30-year) A	5.64	5.42	6.05
Utility (25/30-year) A	5.72	5.53	6.03
Utility (25/30-year) Baa/BBB	6.32	6.16	6.66
Foreign Bonds (10-Year)			
Canada	3.43	3.45	2.73
Germany	3.22	3.32	3.00
Japan	1.34	1.36	1.23
United Kingdom	4.01	3.71	3.44
Preferred Stocks			
Utility A	5.57	6.29	6.05
Financial A	6.61	7.01	8.58
Financial Adjustable A	5.49	5.49	5.49



	Recent (1/20/10)	3 Months Ago (10/21/09)	Year Ago (1/21/09)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.31	4.32	4.80
25-Bond Index (Revs)	4.93	4.86	5.72
General Obligation Bonds (GOs)			
1-year Aaa	0.33	0.37	0.48
1-year A	1.26	0.87	0.58
5-year Aaa	1.68	1.88	1.71
5-year A	2.76	3.08	2.00
10-year Aaa	3.29	3.03	2.82
10-year A	4.20	4.23	3.32
25/30-year Aaa	4.44	4.08	4.76
25/30-year A	5.43	5.28	5.76
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.81	5.10	5.80
Electric AA	4.74	5.15	5.90
Housing AA	5.67	5.50	6.15
Hospital AA	5.04	5.50	6.10
Toll Road Aaa	4.79	5.10	5.95

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/13/10	12/30/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1004686	1059958	-55272	1052309	924155	847856
Borrowed Reserves	164979	163525	1454	205393	268367	401995
Net Free/Borrowed Reserves	839707	896433	-56726	846915	655788	445861

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	1/4/10	12/28/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1724.3	1688.2	36.1	14.6%	8.9%	5.2%
M2 (M1+savings+small time deposits)	8366.7	8413.2	-46.5	1.3%	0.2%	1.9%

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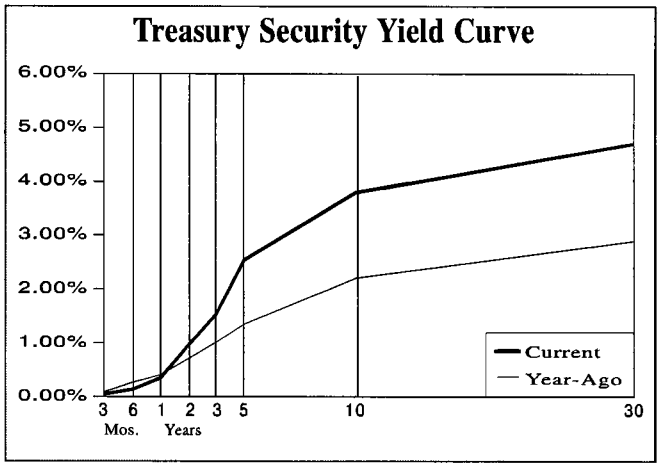
Selected Yields

	Recent (1/13/10)	3 Months Ago (10/14/09)	Year Ago (1/14/09)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.16	0.16	0.49
3-month LIBOR	0.25	0.28	1.08
Bank CDs			
6-month	0.26	0.39	1.03
1-year	0.47	0.63	1.34
5-year	2.02	2.24	2.38
U.S. Treasury Securities			
3-month	0.05	0.07	0.09
6-month	0.14	0.15	0.27
1-year	0.35	0.32	0.41
5-year	2.54	2.33	1.35
10-year	3.79	3.41	2.20
10-year (inflation-protected)	1.31	1.46	1.73
30-year	4.71	4.26	2.89
30-year Zero	4.95	4.39	2.75

	Recent (1/13/10)	3 Months Ago (10/14/09)	Year Ago (1/14/09)
Mortgage-Backed Securities			
GNMA 6.5%	3.63	3.65	3.93
FHLMC 6.5% (Gold)	2.41	2.47	3.25
FNMA 6.5%	2.54	2.21	3.30
FNMA ARM	3.24	2.56	4.26
Corporate Bonds			
Financial (10-year) A	5.65	5.45	7.15
Industrial (25/30-year) A	5.87	5.48	5.84
Utility (25/30-year) A	5.89	5.65	5.88
Utility (25/30-year) Baa/BBB	6.49	6.22	6.60
Foreign Bonds (10-Year)			
Canada	3.60	3.53	2.56
Germany	3.30	3.23	2.93
Japan	1.34	1.31	1.27
United Kingdom	3.96	3.50	3.12
Preferred Stocks			
Utility A	5.57	5.96	6.05
Financial A	5.83	7.00	7.76
Financial Adjustable A	5.49	5.49	5.49



	Recent (1/13/10)	3 Months Ago (10/14/09)	Year Ago (1/14/09)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.31	4.06	5.02
25-Bond Index (Revs)	4.96	4.69	5.90
General Obligation Bonds (GOs)			
1-year Aaa	0.31	0.37	0.48
1-year A	1.27	0.80	0.58
5-year Aaa	1.68	1.90	1.76
5-year A	2.77	2.10	2.06
10-year Aaa	3.28	3.05	2.82
10-year A	4.20	3.45	3.32
25/30-year Aaa	4.47	4.10	4.75
25/30-year A	5.41	4.65	5.75
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.83	4.90	5.75
Electric AA	4.74	4.95	5.80
Housing AA	5.70	5.40	6.10
Hospital AA	5.04	5.60	6.15
Toll Road Aaa	4.80	5.00	5.85

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/30/09	12/16/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1059958	1089692	-29734	1039985	901516	840218
Borrowed Reserves	163525	171457	-7932	223048	285447	419138
Net Free/Borrowed Reserves	896433	918235	-21802	816937	616069	421080

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	12/28/09	12/21/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1687.9	1686.2	1.7	8.1%	4.6%	5.8%
M2 (M1+savings+small time deposits)	8413.2	8396.8	16.4	2.4%	1.4%	2.7%

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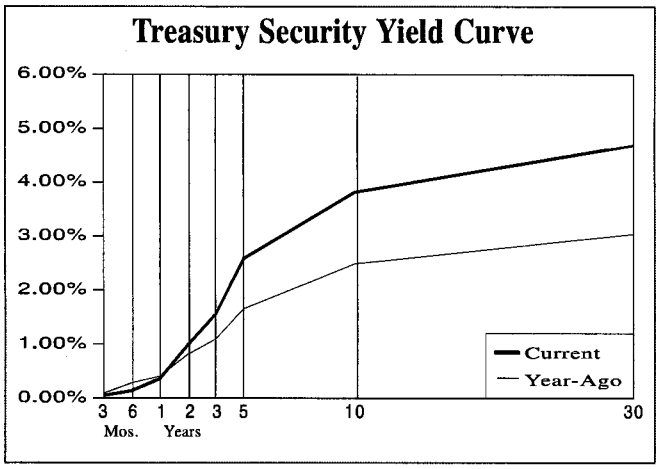
Selected Yields

	Recent (1/06/10)	3 Months Ago (10/07/09)	Year Ago (1/07/09)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.14	0.16	0.65
3-month LIBOR	0.25	0.28	1.40
Bank CDs			
6-month	0.29	0.40	1.10
1-year	0.54	0.64	1.41
5-year	2.02	2.24	2.38
U.S. Treasury Securities			
3-month	0.05	0.06	0.09
6-month	0.14	0.14	0.28
1-year	0.36	0.32	0.41
5-year	2.59	2.17	1.66
10-year	3.82	3.18	2.49
10-year (inflation-protected)	1.37	1.42	2.44
30-year	4.69	4.00	3.04
30-year Zero	4.88	4.10	2.87



	Recent (1/06/10)	3 Months Ago (10/07/09)	Year Ago (1/07/09)
Mortgage-Backed Securities			
GNMA 6.5%	3.70	3.44	4.30
FHLMC 6.5% (Gold)	2.72	2.38	3.95
FNMA 6.5%	2.81	2.33	3.75
FNMA ARM	3.24	2.56	4.26
Corporate Bonds			
Financial (10-year) A	5.60	5.46	7.56
Industrial (25/30-year) A	5.83	5.28	6.26
Utility (25/30-year) A	5.86	5.44	6.07
Utility (25/30-year) Baa/BBB	6.50	5.95	6.72
Foreign Bonds (10-Year)			
Canada	3.62	3.29	2.93
Germany	3.38	3.12	3.20
Japan	1.34	1.27	1.26
United Kingdom	4.05	3.39	3.29
Preferred Stocks			
Utility A	5.94	6.29	6.11
Financial A	6.80	6.89	7.28
Financial Adjustable A	5.48	5.48	5.48
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.25	3.94	5.24
25-Bond Index (Revs)	4.95	4.69	6.00
General Obligation Bonds (GOs)			
1-year Aaa	0.28	0.37	0.85
1-year A	1.25	0.87	0.95
5-year Aaa	1.68	1.57	2.48
5-year A	2.79	2.77	2.77
10-year Aaa	3.29	2.57	3.53
10-year A	4.20	3.77	4.03
25/30-year Aaa	4.47	3.81	5.04
25/30-year A	5.41	5.01	6.04
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.83	4.85	6.10
Electric AA	4.74	4.90	6.25
Housing AA	5.76	5.20	6.55
Hospital AA	5.04	5.20	6.50
Toll Road Aaa	4.80	4.85	6.25

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/30/09	12/16/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1059958	1089691	-29733	1039985	901516	840218
Borrowed Reserves	163525	171457	-7932	223048	285447	419138
Net Free/Borrowed Reserves	896433	918234	-21801	816937	616069	421080

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	12/21/09	12/14/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1685.1	1683.0	2.1	11.1%	2.3%	5.5%
M2 (M1+savings+small time deposits)	8396.1	8405.4	-9.3	3.9%	0.1%	2.7%

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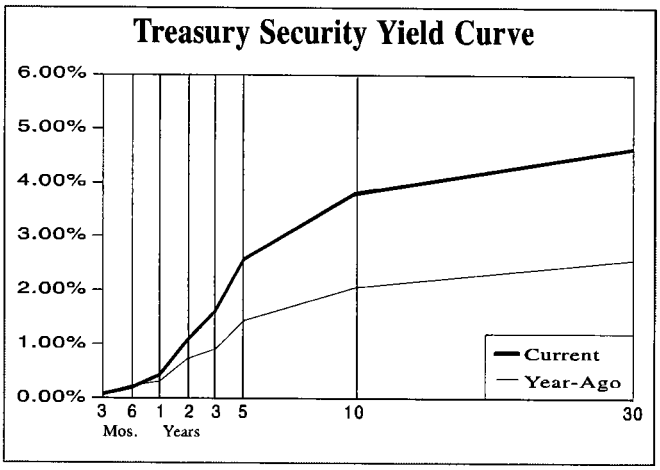
Selected Yields

	Recent (12/29/09)	3 Months Ago (9/30/09)	Year Ago (12/30/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.11	0.18	0.06
3-month LIBOR	0.25	0.29	1.44
Bank CDs			
6-month	0.29	0.40	1.16
1-year	0.54	0.64	1.43
5-year	1.97	2.27	2.51
U.S. Treasury Securities			
3-month	0.08	0.11	0.09
6-month	0.20	0.17	0.24
1-year	0.43	0.38	0.31
5-year	2.57	2.31	1.44
10-year	3.80	3.31	2.05
10-year (inflation-protected)	1.36	1.53	2.33
30-year	4.64	4.05	2.56
30-year Zero	4.81	4.13	2.42

	Recent (12/29/09)	3 Months Ago (9/30/09)	Year Ago (12/30/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.72	3.63	4.11
FHLMC 6.5% (Gold)	2.56	2.82	4.03
FNMA 6.5%	2.47	2.60	3.89
FNMA ARM	2.41	2.62	4.22
Corporate Bonds			
Financial (10-year) A	5.52	5.61	7.08
Industrial (25/30-year) A	5.80	5.31	5.90
Utility (25/30-year) A	5.98	5.40	5.85
Utility (25/30-year) Baa/BBB	6.53	5.73	6.58
Foreign Bonds (10-Year)			
Canada	3.62	3.31	2.66
Germany	3.37	3.22	2.95
Japan	1.31	1.30	1.17
United Kingdom	4.08	3.59	3.09
Preferred Stocks			
Utility A	5.98	5.77	6.00
Financial A	6.82	6.61	7.89
Financial Adjustable A	5.48	5.48	5.48



	Recent (12/29/09)	3 Months Ago (9/30/09)	Year Ago (12/30/08)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.21	4.04	5.46
25-Bond Index (Revs)	4.94	4.86	6.22
General Obligation Bonds (GOs)			
1-year Aaa	0.28	0.37	0.85
1-year A	1.22	0.80	0.95
5-year Aaa	1.65	1.57	2.57
5-year A	2.77	2.00	2.87
10-year Aaa	3.25	2.57	3.70
10-year A	4.19	2.95	4.20
25/30-year Aaa	4.48	3.92	5.17
25/30-year A	5.42	4.45	6.15
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.77	4.70	6.15
Electric AA	4.72	4.75	6.20
Housing AA	5.81	5.10	6.50
Hospital AA	5.18	5.25	6.55
Toll Road Aaa	4.80	4.75	6.25

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/16/09	12/2/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1089691	1119560	-29869	1010650	882362	829643
Borrowed Reserves	171457	206509	-35052	243588	306498	438064
Net Free/Borrowed Reserves	918234	913051	5183	767063	575864	391580

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	12/14/09	12/7/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1683.0	1684.7	-1.7	2.6%	3.5%	5.2%
M2 (M1+savings+small time deposits)	8405.5	8402.0	3.5	3.9%	0.4%	3.2%

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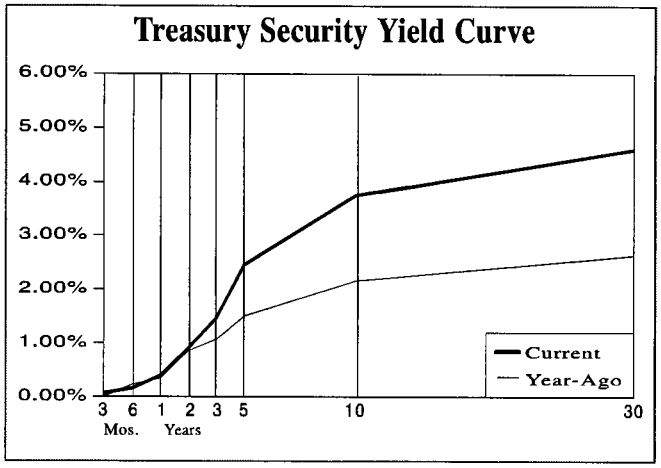
Selected Yields

	Recent (12/22/09)	3 Months Ago (9/23/09)	Year Ago (12/23/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.12	0.21	0.10
3-month LIBOR	0.25	0.29	1.47
Bank CDs			
6-month	0.31	0.40	1.17
1-year	0.54	0.64	1.56
5-year	1.95	2.27	2.72
U.S. Treasury Securities			
3-month	0.07	0.09	0.01
6-month	0.16	0.19	0.23
1-year	0.40	0.40	0.35
5-year	2.46	2.37	1.50
10-year	3.75	3.42	2.16
10-year (inflation-protected)	1.35	1.60	2.36
30-year	4.61	4.20	2.63
30-year Zero	4.80	4.30	2.67

	Recent (12/22/09)	3 Months Ago (9/23/09)	Year Ago (12/23/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.38	3.77	4.43
FHLMC 6.5% (Gold)	1.94	2.57	4.38
FNMA 6.5%	1.91	2.36	4.16
FNMA ARM	2.41	2.62	4.23
Corporate Bonds			
Financial (10-year) A	5.50	5.68	7.08
Industrial (25/30-year) A	5.80	5.47	6.02
Utility (25/30-year) A	5.86	5.58	5.90
Utility (25/30-year) Baa/BBB	6.59	6.14	7.07
Foreign Bonds (10-Year)			
Canada	3.60	3.42	2.80
Germany	3.26	3.37	2.95
Japan	1.26	1.35	1.22
United Kingdom	3.91	3.75	3.12
Preferred Stocks			
Utility A	5.63	6.08	6.25
Financial A	6.35	6.55	11.45
Financial Adjustable A	5.47	5.47	5.47



	Recent (12/22/09)	3 Months Ago (9/23/09)	Year Ago (12/23/08)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.18	4.20	5.46
25-Bond Index (Revs)	4.92	4.98	6.22
General Obligation Bonds (GOs)			
1-year Aaa	0.30	0.40	0.85
1-year A	1.23	0.90	0.95
5-year Aaa	1.58	1.61	2.57
5-year A	2.75	3.01	2.87
10-year Aaa	3.17	2.65	3.70
10-year A	4.13	4.15	4.20
25/30-year Aaa	4.48	4.03	5.17
25/30-year A	5.42	5.60	6.15
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.75	5.35	6.15
Electric AA	4.70	5.40	6.20
Housing AA	5.66	5.80	6.50
Hospital AA	5.21	5.80	6.55
Toll Road Aaa	4.79	5.35	6.25

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/16/09	12/2/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1089690	1119559	-29869	1010650	882362	829643
Borrowed Reserves	171457	206509	-35052	243588	306498	438064
Net Free/Borrowed Reserves	918233	913050	5183	767062	575864	391579

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	12/7/09	11/30/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1684.8	1691.0	-6.2	4.1%	7.0%	6.8%
M2 (M1+savings+small time deposits)	8401.6	8414.4	-12.8	4.2%	0.7%	3.7%

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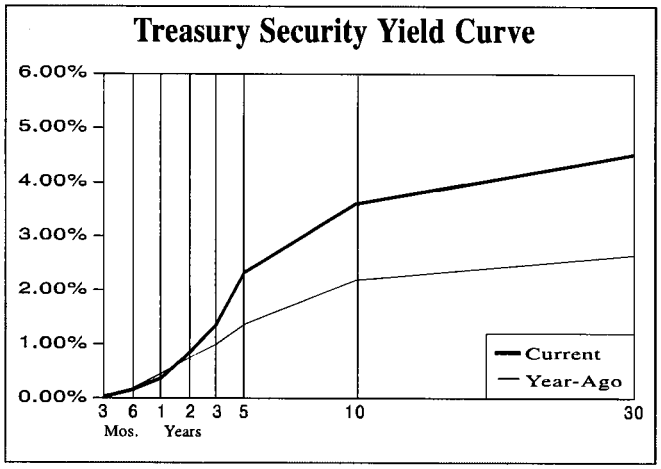
Selected Yields

	Recent (12/16/09)	3 Months Ago (9/16/09)	Year Ago (12/17/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	0.50
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25
Prime Rate	3.25	3.25	3.25
30-day CP (A1/P1)	0.12	0.21	0.27
3-month LIBOR	0.25	0.29	1.58
Bank CDs			
6-month	0.31	0.40	1.46
1-year	0.54	0.65	1.89
5-year	1.95	2.30	2.96
U.S. Treasury Securities			
3-month	0.03	0.10	0.01
6-month	0.16	0.19	0.18
1-year	0.37	0.35	0.45
5-year	2.33	2.44	1.37
10-year	3.60	3.47	2.19
10-year (inflation-protected)	1.26	1.60	2.39
30-year	4.52	4.26	2.65
30-year Zero	4.74	4.37	2.69

	Recent (12/16/09)	3 Months Ago (9/16/09)	Year Ago (12/17/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.33	3.57	4.40
FHLMC 6.5% (Gold)	1.85	2.71	4.40
FNMA 6.5%	1.81	2.47	4.04
FNMA ARM	2.41	2.62	4.23
Corporate Bonds			
Financial (10-year) A	5.32	5.74	7.50
Industrial (25/30-year) A	5.73	5.55	6.18
Utility (25/30-year) A	5.74	5.59	6.26
Utility (25/30-year) Baa/BBB	6.45	6.21	7.09
Foreign Bonds (10-Year)			
Canada	3.41	3.38	2.87
Germany	3.20	3.34	2.99
Japan	1.27	1.33	1.30
United Kingdom	3.89	3.69	3.23
Preferred Stocks			
Utility A	5.71	6.29	6.50
Financial A	6.67	6.73	8.23
Financial Adjustable A	5.47	5.47	5.47



	Recent (12/16/09)	3 Months Ago (9/16/09)	Year Ago (12/17/08)
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.19	4.33	5.85
25-Bond Index (Revs)	4.93	5.33	6.39
General Obligation Bonds (GOs)			
1-year Aaa	0.29	0.40	0.95
1-year A	1.24	0.90	1.05
5-year Aaa	1.56	1.71	2.86
5-year A	2.73	2.15	2.96
10-year Aaa	3.12	2.78	4.03
10-year A	4.14	3.15	4.23
25/30-year Aaa	4.47	4.10	5.51
25/30-year A	5.41	4.56	5.91
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.74	4.85	6.10
Electric AA	4.72	4.90	6.15
Housing AA	5.58	5.30	6.30
Hospital AA	5.13	5.35	6.25
Toll Road Aaa	4.77	4.90	6.20

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/2/09	11/18/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1119503	1046212	73291	972570	864416	811124
Borrowed Reserves	206509	217690	-11181	264850	329800	456746
Net Free/Borrowed Reserves	912994	828522	84472	707720	534616	354378

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	11/30/09	11/23/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1691.0	1684.3	6.7	14.1%	12.4%	10.5%
M2 (M1+savings+small time deposits)	8414.4	8391.8	22.6	5.6%	1.2%	4.5%

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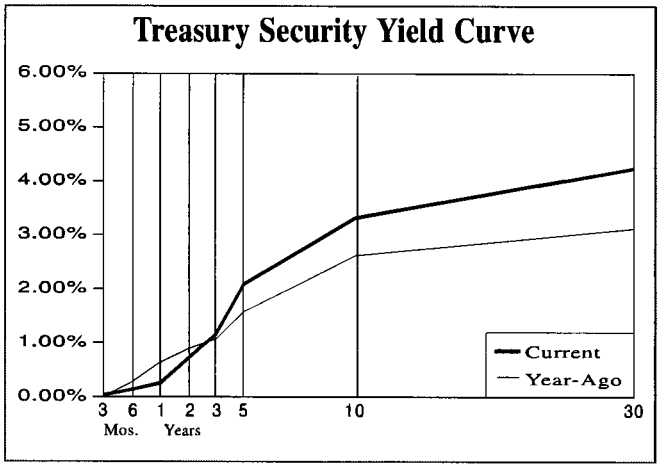
Selected Yields

	Recent (12/02/09)	3 Months Ago (9/09/09)	Year Ago (12/10/08)
TAXABLE			
Market Rates			
Discount Rate	0.50	0.50	1.25
Federal Funds	0.00-0.25	0.00-0.25	1.00
Prime Rate	3.25	3.25	4.00
30-day CP (A1/P1)	0.12	0.21	0.86
3-month LIBOR	0.26	0.30	2.10
Bank CDs			
6-month	0.31	0.42	1.57
1-year	0.54	0.72	1.95
5-year	1.95	2.30	3.32
U.S. Treasury Securities			
3-month	0.02	0.14	0.01
6-month	0.14	0.20	0.20
1-year	0.27	0.38	0.47
5-year	2.15	2.37	1.61
10-year	3.43	3.47	2.68
10-year (inflation-protected)	1.27	1.63	3.11
30-year	4.42	4.33	3.09
30-year Zero	4.63	4.46	2.90



	Recent (12/02/09)	3 Months Ago (9/09/09)	Year Ago (12/10/08)
Mortgage-Backed Securities			
GNMA 6.5%	3.22	3.77	5.17
FHLMC 6.5% (Gold)	1.94	2.90	4.92
FNMA 6.5%	1.95	2.72	4.75
FNMA ARM	2.41	2.62	4.24
Corporate Bonds			
Financial (10-year) A	5.34	6.04	8.29
Industrial (25/30-year) A	5.68	5.63	6.63
Utility (25/30-year) A	5.71	5.65	6.79
Utility (25/30-year) Baa/BBB	6.32	6.40	7.55
Foreign Bonds (10-Year)			
Canada	3.31	3.42	3.09
Germany	3.14	3.42	3.21
Japan	1.25	1.33	1.42
United Kingdom	3.67	3.76	3.57
Preferred Stocks			
Utility A	6.08	5.84	6.47
Financial A	7.17	6.62	7.38
Financial Adjustable A	5.54	5.54	5.46
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.24	4.37	5.58
25-Bond Index (Revs)	4.98	5.43	6.17
General Obligation Bonds (GOs)			
1-year Aaa	0.33	0.40	0.95
1-year A	1.25	1.10	1.05
5-year Aaa	1.47	1.76	2.95
5-year A	2.67	3.16	3.00
10-year Aaa	3.07	2.88	4.20
10-year A	4.04	4.40	4.40
25/30-year Aaa	4.47	4.21	5.79
25/30-year A	5.41	5.75	6.17
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.74	5.50	6.00
Electric AA	4.61	5.55	5.95
Housing AA	5.65	6.05	6.75
Hospital AA	5.17	6.05	6.65
Toll Road Aaa	4.77	5.50	6.10

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	12/2/09	11/18/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1119503	1046181	73322	972566	864414	811123
Borrowed Reserves	206509	217690	-11181	264850	329800	456746
Net Free/Borrowed Reserves	912994	828491	84503	707715	534614	354376

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	11/23/09	11/16/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1684.4	1691.3	-6.9	11.4%	10.6%	10.8%
M2 (M1+savings+small time deposits)	8391.3	8392.1	-0.8	5.0%	0.4%	4.9%

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ATTACHMENT E

AMERICAN WATER NYSE-AWK

RECENT PRICE 23.12 | P/E RATIO 17.5 (Trailing: 18.3 Median: NMF) | RELATIVE P/E RATIO 1.01 | DIV'D YLD 3.6% | VALUE LINE

TIMELINESS – E
SAFETY 3 New 7/25/08
TECHNICAL – E
BETA NMF (1.00 = Market)

2012-14 PROJECTIONS

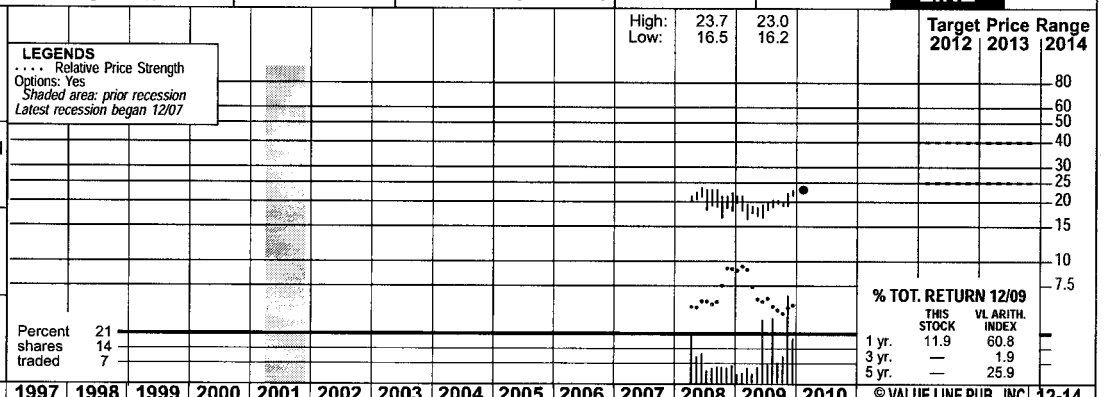
	Price	Gain	Ann'l Total Return
High	40	(+75%)	17%
Low	25	(+10%)	6%

Insider Decisions

	F	M	A	M	J	J	A	S	O
to Buy	0	0	0	3	0	0	0	0	0
Options	0	0	0	0	0	0	0	0	0
to Sell	0	0	0	0	0	0	0	0	0

Institutional Decisions

	1Q2009	2Q2009	3Q2009
to Buy	100	137	152
to Sell	69	66	72
Hld's(000)	56342	82903	119774



% TOT. RETURN 12/09

	THIS STOCK	VL ARITH. INDEX
1 yr.	11.9	60.8
3 yr.	—	1.9
5 yr.	—	25.9

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	© VALUE LINE PUB., INC.	12-14
--	--	--	--	--	--	--	--	--	--	--	--	--	13.08	13.84	14.61	13.95	13.85	Revenues per sh	15.10
--	--	--	--	--	--	--	--	--	--	--	--	--	.65	d.47	2.87	2.90	2.95	"Cash Flow" per sh	3.25
--	--	--	--	--	--	--	--	--	--	--	--	--	d.97	d2.14	1.10	1.28	1.40	Earnings per sh A	1.60
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	.40	.82	.86	Div'd Decl'd per sh B	.96
--	--	--	--	--	--	--	--	--	--	--	--	--	4.31	4.74	6.31	4.50	4.35	Cap'l Spending per sh	4.30
--	--	--	--	--	--	--	--	--	--	--	--	--	23.86	28.39	25.64	24.30	22.95	Book Value per sh D	24.25
--	--	--	--	--	--	--	--	--	--	--	--	--	160.00	160.00	160.00	175.00	190.00	Common Shs Outst'g C	215.00
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	18.9	15.3		Avg Ann'l P/E Ratio	20.0
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1.15	1.00		Relative P/E Ratio	1.35
--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	1.9%	4.2%		Avg Ann'l Div'd Yield	3.0%
						--	--	--	--	--	--	--	2093.1	2214.2	2336.9	2445	2635	Revenues ($mill)	3250
						--	--	--	--	--	--	--	d155.8	d342.3	187.2	215	255	Net Profit ($mill)	325
						--	--	--	--	--	--	--	--	35.0%	37.4%	39.0%	39.5%	Income Tax Rate	40.0%
						--	--	--	--	--	--	--	--	12.5%	11.0%	10.0%	10.0%	AFUDC % to Net Profit	15.0%
						--	--	--	--	--	--	--	56.1%	50.9%	53.1%	56.0%	54.5%	Long-Term Debt Ratio	52.0%
						--	--	--	--	--	--	--	43.9%	49.1%	46.9%	43.5%	45.0%	Common Equity Ratio	48.0%
						--	--	--	--	--	--	--	8692.8	9245.7	8750.2	9325	9650	Total Capital ($mill)	10875
						--	--	--	--	--	--	--	8720.6	9318.0	9991.8	10500	11050	Net Plant ($mill)	12600
						--	--	--	--	--	--	--	NMF	NMF	3.7%	4.0%	4.5%	Return on Total Cap'l	4.5%
						--	--	--	--	--	--	--	NMF	NMF	4.6%	5.0%	6.0%	Return on Shr. Equity	6.0%
						--	--	--	--	--	--	--	NMF	NMF	4.6%	5.0%	6.0%	Return on Com Equity	6.0%
						--	--	--	--	--	--	--	NMF	NMF	3.0%	1.5%	2.0%	Retained to Com Eq	2.0%
						--	--	--	--	--	--	--	--	--	34%	67%	67%	All Div'ds to Net Prof	64%

CAPITAL STRUCTURE as of 9/30/09
Total Debt $5328.6 mill. **Due in 5 Yrs** $765.0 mill.
LT Debt $5197.7 mill. **LT Interest** $295.0 mill.
(Total interest coverage: 2.9x) (56% of Cap'l)

Leases, Uncapitalized: Annual rentals $36.2 mill.
Pension Assets-12/08 $513.3 mill
Oblig. $1016.9 mill.
Pfd Stock $28.6 mill. **Pfd Div'd** $.23 mill.

Common Stock 174,600,300 shs.
as of 11/6/09

MARKET CAP: $4.0 billion (Mid Cap)

CURRENT POSITION ($MILL.)	2007	2008	9/30/09
Cash Assets	13.5	9.5	7.8
Other	416.9	408.2	508.6
Current Assets	430.4	417.7	516.4
Accts Payable	168.9	149.8	119.3
Debt Due	316.8	654.8	130.9
Other	288.8	300.2	350.4
Current Liab.	774.5	1104.8	600.6
Fix. Chg. Cov.	228%	198%	225%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '06-'08 to '12-'14
Revenues	--	--	1.0%
"Cash Flow"	--	--	21.0%
Earnings	--	--	NMF
Dividends	--	--	39.0%
Book Value	--	--	-1.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	483.0	524.7	592.7	492.7	2093.1
2007	468.6	558.7	633.1	553.8	2214.2
2008	506.8	589.4	672.2	568.5	2336.9
2009	550.2	612.7	680.0	602.1	2445
2010	580	655	730	670	2635

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun. 30	Sep. 30	Dec. 31	Full Year
2006	.02	.15	.27	d1.42	d.97
2007	.02	.31	d1.00	d1.47	d2.14
2008	.04	.28	.55	.23	1.10
2009	.19	.32	.52	.25	1.28
2010	.20	.35	.56	.29	1.40

Cal-endar	QUARTERLY DIVIDENDS PAID B Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2006	--	--	--	--	--
2007	--	--	--	--	--
2008	--	--	.20	.20	.40
2009	.20	.20	.21	.21	.82
2010					

BUSINESS: American Water Works Company, Inc. is the largest investor-owned water and wastewater utility in the U.S., providing services to over 15 million people in 32 states and Canada. Its non-regulated business assists municipalities and military bases with the maintenance and upkeep as well. Regulated operations made up almost 90% of 2008 revenues. New Jersey is its biggest market accounting for nearly 20% of revenues. Has roughly 7,300 employees. Depreciation rate, 2.1% in '08. RWE AG owns roughly 49% of common stock outstanding. Capital World Investors, 8%. Off. & dir. own less than 1%. President & CEO; Donald L. Correl. Chairman; George Mackenzie Jr. Address: 1025 Laurel Oak Road, Vorhees, NJ 08043. Telephone: 856-346-8200. Internet: www.amwater.com.

American Water Works finally appears to be on its own. After numerous equity offerings, majority owner RWE AG has fully divested its stake in the water provider. It had owned nearly 50% of shares outstanding as of the beginning of 2009 and slightly south of 25% as of our October report. Following the final sale, the remaining board members appointed by RWE announced their resignations.

Some concerns have been lifted . . . RWE's exit from the business removes a significant concern regarding its true intentions. Meanwhile, we believe the company will now have a better posture with state regulators, something it was sorely lacking with RWE in the fold. Rulings have improved considerably since RWE began shedding its interest, but there is still room to improve. This augurs well for American, given there is still $200-plus million in rate cases outstanding.

. . . but the stock still remains somewhat speculative. It has only been trading for about three years and has not yet been assigned a Timeliness rank or other trading indicators due to its short history. These marks help to give investors a better understanding of past trends and therefore provide insight when assessing future trading habits. Predicting share-price growth prospects is a bit risky absent these measures.

Plus, the company's finances appear to be a bit lacking. Many water infrastructures have seen better days and are in need of significant repair. Maintenance expenses are expected to climb, erasing much of the benefits from the improving regulatory environment that we anticipate. Meanwhile, increased capital investments require a great deal of financing that AWK cannot meet on its own. The costs of funding the improvements will dilute gains and the issue's appeal as a growth vehicle.

That said, the stock's dividend yield cannot be ignored. It is well above average and worthwhile even when compared to others in the utility sector. We suspect that increases will remain a priority, regardless of the infrastructure requirements. Thus, the issue may well interest the risk-tolerant seeking total return with a bias for a steady dose of income.

Andre J. Costanza *January 22, 2010*

(A) Diluted earnings. Excludes nonrecurring gains (losses): '08, ($4.62); '09, ($2.77). Discontinued operations: '06, (4¢).
Next earnings report due late Feb. Quarterly earnings may not sum due to rounding.
(B) Dividends to be paid in January, April, July, and October.
(C) In millions.
(D) Includes intangibles. In 2008: $1.699 billion, $10.62/share.
(E) The stock has not been trading long enough to generate a Timeliness rank.

Company's Financial Strength	B
Stock's Price Stability	NMF
Price Growth Persistence	NMF
Earnings Predictability	NMF

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ARIZONA-AMERICAN WATER COMPANY
DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
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ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
COST OF CAPITAL SUMMARY

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 1

WEIGHTED AVERAGE COST OF CAPITAL - WATER AND WASTEWATER DISTRICTS

LINE NO.	DESCRIPTION	(A) DOLLAR AMOUNT	(B) RUCO ADJUSTMENT	(C) RUCO ADJUSTED	(D) CAPITAL RATIO	(E) WEIGHTED COST RATE	COST RATE
1	Short-Term Debt	$ 52,584,000	$ -	$ 52,584,000	13.29%	3.41%	0.45%
2	Long-Term Debt	188,208,140	-	188,208,140	47.56%	5.47%	2.60%
3	Common Equity	154,949,595	-	154,949,595	39.15%	9.50%	3.72%
4	Total Capitalization	$ 395,741,735	$ -	$ 395,741,735	100.00%		
5	**WEIGHTED AVERAGE COST OF CAPITAL**						**6.77%**

REFERENCES:
COLUMN (A): COMPANY, SCHEDULE D
COLUMN (B): TESTIMONY, WAR
COLUMN (C): COLUMN (A) + COLUMN (B)
COLUMN (D): COLUMN (C) LINES 1 THRU 3 ÷ LINE 4
COLUMN (E): LINES 1 & 2; SCHEDULE WAR-1, PAGE 2, LINE 3; TESTIMONY WAR
COLUMN (F): COLUMN (D) x COLUMN (E)

WEIGHTED COST OF LONG-TERM DEBT

LINE NO.	(A) DESCRIPTION	(B) AMOUNT OUTSTANDING	(C) ANNUAL INTEREST	(D) INTEREST RATE	(E) BALANCE RATIOS	(F) WEIGHTED COST OF DEBT
1	SEPTEMBER 2012 PILR - MONTEREY	$ 32,726	$ 2,049	6.261%	0.02%	0.001%
2	AUGUST 2013 PILR - MONTEX/LINCOLN	19,220	1,107	5.760%	0.01%	0.001%
3	AUGUST 2015 PILR - ROSALEE	38,347	2,753	7.179%	0.02%	0.001%
4	AUGUST 2015 PILR - T.O. DEVELOPMENT	32,847	2,358	7.179%	0.02%	0.001%
5	SEPTEMBER 2028 LONG-TERM NOTE - MARICOPA	10,635,000	340,320	3.200%	5.65%	0.181%
6	DECEMBER 2013 LONG-TERM PROMISSORY NOTE	24,700,000	1,331,330	5.390%	13.12%	0.707%
7	DECEMBER 2016 LONG-TERM PROMISSORY NOTE	11,200,000	618,240	5.520%	5.95%	0.328%
8	DECEMBER 2018 LONG-TERM PROMISSORY NOTE	123,100,000	6,918,220	5.620%	65.41%	3.676%
9	OCTOBER 2037 PROMISSORY NOTE	10,000,000	650,000	6.500%	5.31%	0.345%
10	OCTOBER 2037 PROMISSORY NOTE	6,450,000	425,249	6.593%	3.43%	0.226%
11	PHOENIX AGREEMENT	2,000,000	-	0.000%	1.06%	0.000%
12	TOTALS	$ 188,208,140	$ 10,291,626		100.00%	
13	**WEIGHTED COST OF DEBT**					5.468%

REFERENCES:
COLUMN (A) LINES 1 THRU 11: COMPANY APPLICATION SCHEDULE D-2
COLUMN (B) LINES 1 THRU 11: COMPANY APPLICATION SCHEDULE D-2
COLUMN (C) LINES 1 THRU 11: COLUMN (B) x COLUMN (D)
COLUMN (D) LINES 1 THRU 11: COMPANY APPLICATION SCHEDULE D-2
COLUMN (E): COLUMN (B) LINES 1 THRU 11 ÷ COLUMN (B) LINE 12
COLUMN (F): COLUMN (D) x COLUMN (E)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
COST OF CAPITAL SUMMARY

DOCKET NO. W-01303A-09-0343
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SCHEDULE WAR-1, PAGE 3 OF 3

COST OF COMMON EQUITY CALCULATION

LINE NO.			
1	**DCF METHODOLOGY**		
2	DCF - WATER COMPANY SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.75%	SCHEDULE WAR-2, COLUMN (C), LINE 5
3	DCF - NATURAL GAS LDC SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	9.55%	SCHEDULE WAR-2, COLUMN (C), LINE 13
4	**AVERAGE OF DCF ESTIMATES**	**9.65%**	(LINE 2 + LINE 3) ÷ 2
5	**CAPM METHODOLOGY**		
6	CAPM - WATER COMPANY GEOMETRIC MEAN ESTIMATE	5.90%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 5
7	CAPM - NATURAL GAS LDC GEOMETRIC MEAN ESTIMATE	5.24%	SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 13
8	CAPM - WATER COMPANY ARITHMETIC MEAN ESTIMATE	7.46%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 5
9	CAPM - NATURAL GAS LDC ARITHMETIC MEAN ESTIMATE	6.52%	SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 13
10	**AVERAGE OF CAPM ESTIMATES**	**6.28%**	(SUM OF LINES 6 THRU 9) ÷ 4
11	**AVERAGE OF DCF AND CAPM ESTIMATES**	**7.96%**	(SUM OF LINES 4 AND 10) ÷ 2
12	**FINAL COST OF COMMON EQUITY ESTIMATE**	**9.50%**	TESTIMONY WAR

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
DCF COST OF EQUITY CAPITAL

DOCKET NO. W-01303A-09-0343
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SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	AWR	AMERICAN STATES WATER CO.	2.99%	+	8.19%	=	11.18%
2	CWT	CALIFORNIA WATER SERVICE GROUP	3.19%	+	6.74%	=	9.93%
3	SWWC	SOUTHWEST WATER COMPANY	3.29%	+	5.94%	=	9.23%
4	WTR	AQUA AMERICA, INC.	3.34%	+	5.33%	=	8.67%
5	**WATER COMPANY AVERAGE**						**9.75%**
6	AGL	AGL RESOURCES, INC.	4.72%	+	5.81%	=	10.53%
7	ATO	ATMOS ENERGY CORP.	4.62%	+	4.53%	=	9.16%
8	LG	LACLEDE GROUP, INC.	4.62%	+	5.17%	=	9.78%
9	NJR	NEW JERSEY RESOURCES CORPORATION	3.66%	+	6.04%	=	9.70%
10	GAS	NICOR, INC.	4.45%	+	4.61%	=	9.06%
11	NWN	NORTHWEST NATURAL GAS CO.	3.74%	+	4.64%	=	8.39%
12	PNY	PIEDMONT NATURAL GAS COMPANY	4.14%	+	5.76%	=	9.90%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	4.27%	+	7.79%	=	12.06%
14	SWX	SOUTHWEST GAS CORPORATION	3.33%	+	4.63%	=	7.96%
15	WGL	WGL HOLDINGS, INC.	4.51%	+	4.42%	=	8.93%
16	**NATURAL GAS LDC AVERAGE**						**9.55%**

REFERENCES:
COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
DIVIDEND YIELD CALCULATION

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE)	÷	(B) AVERAGE STOCK PRICE (PER SHARE)	=	(C) DIVIDEND YIELD
1	AWR	AMERICAN STATES WATER CO.	$1.04	÷	$34.81	=	2.99%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.18	÷	36.97	=	3.19%
3	SWWC	SOUTHWEST WATER COMPANY	0.20	÷	6.08	=	3.29%
4	WTR	AQUA AMERICA, INC.	0.58	÷	17.35	=	3.34%
5	**WATER COMPANY AVERAGE**						**3.20%**
6	AGL	AGL RESOURCES, INC.	$1.72	÷	$36.44	=	4.72%
7	ATO	ATMOS ENERGY CORP.	1.34	÷	28.98	=	4.62%
8	LG	LACLEDE GROUP, INC.	1.54	÷	33.37	=	4.62%
9	NJR	NEW JERSEY RESOURCES CORPORATION	1.36	÷	37.21	=	3.66%
10	GAS	NICOR, INC.	1.86	÷	41.78	=	4.45%
11	NWN	NORTHWEST NATURAL GAS CO.	1.66	÷	44.33	=	3.74%
12	PNY	PIEDMONT NATURAL GAS COMPANY	1.08	÷	26.08	=	4.14%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	1.63	÷	38.22	=	4.27%
14	SWX	SOUTHWEST GAS CORPORATION	0.95	÷	28.57	=	3.33%
15	WGL	WGL HOLDINGS, INC.	1.48	÷	32.84	=	4.51%
16	**NATURAL GAS LDC AVERAGE**						**4.21%**

REFERENCES:
COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/22/2010 (WATER COMPANIES) AND 12/11/2009 (NATURAL GAS LDC's).
COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 12/07/2009 TO 01/29/2010
STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) ÷ COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01303A-09-0343
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SCHEDULE WAR - 4, PAGE 1 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	AWR	AMERICAN STATES WATER CO.	6.25%	+	1.94%	=	8.19%
2	CWT	CALIFORNIA WATER SERVICE GROUP	6.00%	+	0.74%	=	6.74%
3	SWWC	SOUTHWEST WATER COMPANY	5.75%	+	0.19%	=	5.94%
4	WTR	AQUA AMERICA, INC.	5.00%	+	0.33%	=	5.33%
5	**WATER COMPANY AVERAGE**						**6.55%**
6	AGL	AGL RESOURCES, INC.	5.50%	+	0.31%	=	5.81%
7	ATO	ATMOS ENERGY CORP.	4.10%	+	0.43%	=	4.53%
8	LG	LACLEDE GROUP, INC.	4.50%	+	0.67%	=	5.17%
9	NJR	NEW JERSEY RESOURCES CORPORATION	5.25%	+	0.79%	=	6.04%
10	GAS	NICOR, INC.	4.50%	+	0.11%	=	4.61%
11	NWN	NORTHWEST NATURAL GAS CO.	4.25%	+	0.39%	=	4.64%
12	PNY	PIEDMONT NATURAL GAS COMPANY	5.75%	+	0.01%	=	5.76%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	7.00%	+	0.79%	=	7.79%
14	SWX	SOUTHWEST GAS CORPORATION	4.50%	+	0.13%	=	4.63%
15	WGL	WGL HOLDINGS, INC.	4.40%	+	0.02%	=	4.42%
16	**NATURAL GAS LDC AVERAGE**						**5.34%**

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 4, PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	x	(B) { [((M ÷ B) + 1) ÷ 2] - 1 }	=	(C) EXTERNAL GROWTH (sv)
1	AWR	AMERICAN STATES WATER CO.	5.00%	x	{ [((1.78) + 1) ÷ 2] - 1 }	=	1.94%
2	CWT	CALIFORNIA WATER SERVICE GROUP	1.75%	x	{ [((1.85) + 1) ÷ 2] - 1 }	=	0.74%
3	SWWC	SOUTHWEST WATER COMPANY	1.10%	x	{ [((1.35) + 1) ÷ 2] - 1 }	=	0.19%
4	WTR	AQUA AMERICA, INC.	0.55%	x	{ [((2.20) + 1) ÷ 2] - 1 }	=	0.33%
5	**WATER COMPANY AVERAGE**						**0.80%**
6	AGL	AGL RESOURCES, INC.	1.00%	x	{ [((1.62) + 1) ÷ 2] - 1 }	=	0.31%
7	ATO	ATMOS ENERGY CORP.	3.75%	x	{ [((1.23) + 1) ÷ 2] - 1 }	=	0.43%
8	LG	LACLEDE GROUP, INC.	3.25%	x	{ [((1.41) + 1) ÷ 2] - 1 }	=	0.67%
9	NJR	NEW JERSEY RESOURCES CORPORATION	1.25%	x	{ [((2.27) + 1) ÷ 2] - 1 }	=	0.79%
10	GAS	NICOR, INC.	0.25%	x	{ [((1.87) + 1) ÷ 2] - 1 }	=	0.11%
11	NWN	NORTHWEST NATURAL GAS CO.	1.00%	x	{ [((1.78) + 1) ÷ 2] - 1 }	=	0.39%
12	PNY	PIEDMONT NATURAL GAS COMPANY	0.01%	x	{ [((2.07) + 1) ÷ 2] - 1 }	=	0.01%
13	SJI	SOUTH JERSEY INDUSTIES, INC.	1.50%	x	{ [((2.05) + 1) ÷ 2] - 1 }	=	0.79%
14	SWX	SOUTHWEST GAS CORPORATION	2.50%	x	{ [((1.10) + 1) ÷ 2] - 1 }	=	0.13%
15	WGL	WGL HOLDINGS, INC.	0.10%	x	{ [((1.49) + 1) ÷ 2] - 1 }	=	0.02%
16	**NATURAL GAS LDC AVERAGE**						**0.36%**

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/22/2010 (WATER COMPANIES) AND 12/11/2009 (NATURAL GAS LDC's)
COLUMN (C): COLUMN (A) x COLUMN (B)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01303A-09-0343
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SCHEDULE WAR - 5, PAGE 1 OF 4

LINE NO.	STOCK SYMBOL	WATER COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AWR	AMERICAN STATES WATER CO.	2004	0.1524		6.60%		1.01%	15.01	16.75	
2			2005	0.3182		8.50%		2.70%	15.72	16.80	
3			2006	0.3158		8.10%		2.56%	16.64	17.05	
4			2007	0.4074		9.30%		3.79%	17.53	17.23	
5			2008	0.3548		8.60%		3.05%	17.95	17.30	
6			GROWTH 2004 - 2008					2.62%	5.00%		0.81%
7			2009	0.4541		9.50%		4.31%		18.60	7.51%
8			2010	0.4750		10.50%		4.99%		19.00	4.80%
9			2012-14	0.5308		12.00%		6.37%	4.00%	20.00	2.94%
10											
11	CWT	CALIFORNIA WATER SERVICE GROUP	2004	0.2260		9.00%		2.03%	15.66	18.37	
12			2005	0.2245		9.30%		2.09%	15.79	18.39	
13			2006	0.1418		6.80%		0.96%	18.15	20.66	
14			2007	0.2267		8.10%		1.84%	18.50	20.67	
15			2008	0.3842		9.90%		3.80%	19.44	20.72	
16			GROWTH 2004 - 2008					2.15%	6.50%		3.06%
17			2009	0.4070		10.00%		4.07%		21.00	1.35%
18			2010	0.4333		10.50%		4.55%		21.25	1.27%
19			2012-14	0.5192		12.00%		6.23%	2.00%	23.00	2.11%
20											
21	SWWC	SOUTHWEST WATER COMPANY	2004	0.2174		3.60%		0.78%	6.17	20.36	
22			2005	0.4118		5.00%		2.06%	6.49	22.33	
23			2006	0.4750		5.60%		2.66%	6.98	23.80	
24			2007	0.2581		3.20%		0.83%	6.54	24.27	
25			2008	-5.0000		0.80%		NMF	4.55	24.90	
26			GROWTH 2004 - 2008					1.58%	7.00%		5.16%
27			2009	0.1875		3.50%		0.66%		25.00	0.40%
28			2010	0.3333		6.50%		2.17%		25.50	1.20%
29			2012-14	0.6000		10.00%		6.00%	-2.50%	26.50	1.25%
30											
31	WTR	AQUA AMERICA, INC.	2004	0.4219		10.70%		4.51%	5.89	127.18	
32			2005	0.4366		11.20%		4.89%	6.30	128.97	
33			2006	0.3714		10.00%		3.71%	6.96	132.33	
34			2007	0.3239		9.70%		3.14%	7.32	133.40	
35			2008	0.3014		9.30%		2.80%	7.82	135.37	
36			GROWTH 2004 - 2008					3.81%	10.00%		1.57%
37			2009	-5.8750		10.00%		NMF		136.30	0.69%
38			2010	0.3444		10.50%		3.62%		137.00	0.60%
39			2012-14	0.4400		12.00%		5.28%	6.00%	139.00	0.53%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/22/2010
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2004 - 2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 5, PAGE 2 OF 4

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	AGL	AGL RESOURCES, INC.	2004	0.4956		11.00%		5.45%	18.06	76.70	
2			2005	0.4758		12.90%		6.14%	19.29	77.70	
3			2006	0.4559		13.20%		6.02%	20.71	77.70	
4			2007	0.3971		12.70%		5.04%	21.74	76.40	
5			2008	0.3801		12.60%		4.79%	21.48	76.90	
6			GROWTH 2004 - 2008					5.49%	10.00%		0.07%
7			2009	0.3745		12.00%		4.49%		77.50	0.78%
8			2010	0.3931		12.50%		4.91%		78.50	1.03%
9			2012-14	0.4303		13.00%		5.59%	2.50%	80.00	0.79%
10											
11	ATO	ATMOS ENERGY CORP.	2004	0.2278		7.60%		1.73%	18.05	62.80	
12			2005	0.2791		8.50%		2.37%	19.90	80.54	
13			2006	0.3700		9.80%		3.63%	20.16	81.74	
14			2007	0.3402		8.70%		2.96%	22.01	89.33	
15			2008	0.3500		8.80%		3.08%	22.60	90.81	
16			GROWTH 2004 - 2008					2.75%	7.50%		9.66%
17			2009	0.3299		8.50%		2.80%		92.50	1.86%
18			2010	0.3909		9.00%		3.52%		93.50	1.47%
19			2012-14	0.4400		9.50%		4.18%	4.00%	110.00	3.91%
20											
21	LG	LACLEDE GROUP, INC.	2004	0.2582		10.10%		2.61%	16.96	20.98	
22			2005	0.2789		10.90%		3.04%	17.31	21.17	
23			2006	0.4093		12.50%		5.12%	18.85	21.36	
24			2007	0.3723		11.60%		4.32%	19.79	21.65	
25			2008	0.4356		11.80%		5.14%	22.12	21.99	
26			GROWTH 2004 - 2008					4.04%	5.50%		1.18%
27			2009	0.4760		12.00%		5.71%		22.50	2.32%
28			2010	0.3962		11.00%		4.36%		23.00	2.27%
29			2012-14	0.4333		11.00%		4.77%	5.50%	26.00	3.41%
30											
31	NJR	NEW JERSEY RESOURCES CORPORATION	2004	0.4882		15.30%		7.47%	11.25	41.61	
32			2005	0.4859		17.00%		8.26%	10.60	41.32	
33			2006	0.4866		12.60%		6.13%	15.00	41.44	
34			2007	0.3484		10.10%		3.52%	15.50	41.61	
35			2008	0.5889		15.70%		9.25%	17.28	42.06	
36			GROWTH 2004 - 2008					6.93%	11.50%		0.27%
37			2009	0.4833		14.80%		7.15%		42.12	0.14%
38			2010	0.4769		14.00%		6.68%		43.00	1.11%
39			2012-14	0.4667		11.50%		5.37%	8.00%	45.00	1.36%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 12/11/2009
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2004 - 2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 5, PAGE 3 OF 4

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	NICOR, INC.	2004	0.1622		13.10%		2.12%	16.99	44.10	
2			2005	0.1806		12.50%		2.26%	18.36	44.18	
3			2006	0.3519		14.70%		5.17%	19.43	44.90	
4			2007	0.3779		14.30%		5.40%	20.58	45.90	
5			2008	0.2928		12.30%		3.60%	21.55	45.13	
6			GROWTH 2004 - 2008					3.71%	4.00%		0.58%
7			2009	0.3236		12.50%		4.05%		45.50	0.82%
8			2010	0.3474		12.00%		4.17%		45.50	0.41%
9			2012-14	0.4000		11.50%		4.60%	4.50%	45.50	0.16%
10											
11	NWN	NORTHWEST NATURAL GAS CO.	2004	0.3011		8.90%		2.68%	20.64	27.55	
12			2005	0.3744		9.90%		3.71%	21.28	27.58	
13			2006	0.4085		10.90%		4.45%	22.01	27.24	
14			2007	0.4783		12.50%		5.98%	22.52	26.41	
15			2008	0.4086		10.90%		4.45%	23.71	26.50	
16			GROWTH 2004 - 2008					4.25%	3.50%		-0.97%
17			2009	0.4386		11.50%		5.04%		26.50	0.00%
18			2010	0.4105		11.00%		4.52%		26.50	0.00%
19			2012-14	0.3855		11.00%		4.24%	5.00%	28.00	1.11%
20											
21	PNY	PIEDMONT NATURAL GAS COMPANY	2004	0.3307		11.10%		3.67%	11.15	76.67	
22			2005	0.3106		11.50%		3.57%	11.53	76.70	
23			2006	0.2520		11.00%		2.77%	11.83	74.61	
24			2007	0.2929		11.90%		3.49%	11.99	73.23	
25			2008	0.3087		12.40%		3.83%	12.11	73.26	
26			GROWTH 2004 - 2008					3.47%	6.00%		-1.13%
27			2009	0.3313		12.50%		4.14%		73.00	-0.35%
28			2010	0.4000		14.00%		5.60%		72.00	-0.86%
29			2012-14	0.4143		14.00%		5.80%	4.00%	70.00	-0.91%
30											
31	SJI	SOUTH JERSEY INDUSTIES, INC.	2004	0.4810		12.50%		6.01%	12.41	27.76	
32			2005	0.4971		12.40%		6.16%	13.50	28.98	
33			2006	0.6260		16.30%		10.20%	15.11	29.33	
34			2007	0.5167		12.80%		6.61%	16.25	29.61	
35			2008	0.5110		13.10%		6.69%	17.33	29.73	
36			GROWTH 2004 - 2008					7.14%	11.00%		1.73%
37			2009	0.4809		12.50%		6.01%		29.50	-0.77%
38			2010	0.4846		13.50%		6.54%		30.00	0.45%
39			2012-14	0.4921		14.50%		7.13%	5.00%	32.00	1.48%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
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COLUMN (C): LINES 6, 16, 26 & 36, SIMPLE AVERAGE GROWTH, 2004 - 2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16, 26 & 36, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
DIVIDEND GROWTH COMPONENTS

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 5, PAGE 4 OF 4

LINE NO.	STOCK SYMBOL	NATURAL GAS LDC NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	x	(B) RETURN ON BOOK EQUITY (r)	=	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE ($/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	SWX	SOUTHWEST GAS CORPORATION	2004	0.5060		8.30%		4.20%	19.18	36.79	
2			2005	0.3440		6.40%		2.20%	19.10	39.33	
3			2006	0.5859		8.90%		5.21%	21.58	41.77	
4			2007	0.5590		8.50%		4.75%	22.98	42.81	
5			2008	0.3525		5.90%		2.08%	23.49	44.19	
6			GROWTH 2004 - 2008					3.69%	5.00%		4.69%
7			2009	0.5000		8.00%		4.00%		45.50	2.96%
8			2010	0.5122		8.00%		4.10%		47.00	3.13%
9			2012-14	0.5400		8.50%		4.59%	4.00%	50.00	2.50%
10											
11	WGL	WGL HOLDINGS, INC.	2004	0.3434		11.70%		4.02%	16.95	48.67	
12			2004	0.3803		11.70%		4.45%	17.80	48.65	
13			2004	0.3041		10.30%		3.13%	18.86	48.89	
14			2004	0.3476		10.40%		3.62%	19.83	49.45	
15			2004	0.4221		11.60%		4.90%	20.99	49.92	
16			GROWTH 2004 - 2008					4.02%	4.50%		0.64%
17			2009	0.4190		12.00%		5.03%		50.00	0.16%
18			2010	0.3435		10.50%		3.61%		50.00	0.08%
19			2012-14	0.4073		11.00%		4.48%	4.50%	50.00	0.03%

REFERENCES:
COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 12/11/2009
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (C): LINES 6 & 16, SIMPLE AVERAGE GROWTH, 2004 - 2008

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6 & 16, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
GROWTH RATE COMPARISON

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 6

WATER COMPANY SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) DPS	(C) BVPS	(D) VALUE LINE HISTORIC EPS	(D) DPS	(D) BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) DPS	(F) BVPS
1	AWR	8.19%	4.00%	9.50%	4.50%	4.00%	5.50%	2.00%	5.00%	4.93%	10.23%	2.96%	4.57%
2	CWT	6.74%	6.70%	4.75%	1.50%	3.50%	7.00%	0.50%	6.50%	4.35%	6.81%	0.87%	5.55%
3	SWWC	5.94%	-	12.00%	-2.00%	-2.50%	-10.00%	8.50%	7.00%	2.17%	-35.42%	7.46%	-7.33%
4	WTR	5.33%	7.70%	10.00%	6.50%	6.00%	5.50%	8.00%	10.00%	7.67%	3.34%	8.35%	7.34%
5				9.06%	2.63%	2.75%	2.00%	4.75%	7.13%		-3.76%	4.91%	2.53%
6	AVERAGES	6.55%	6.13%		4.81%			4.63%		4.78%		1.23%	

NATURAL GAS LDC SAMPLE:

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED EPS	(C) DPS	(C) BVPS	(D) VALUE LINE HISTORIC EPS	(D) DPS	(D) BVPS	(E) VALUE LINE & ZACKS AVGS.	(F) 5 - YEAR COMPOUND HISTORY EPS	(F) DPS	(F) BVPS
1	AGL	5.81%	4.50%	3.50%	2.50%	2.50%	8.50%	8.00%	10.00%	5.64%	4.41%	9.94%	4.43%
2	ATO	4.53%	5.00%	4.00%	1.50%	5.50%	5.00%	1.50%	7.50%	4.07%	6.07%	1.60%	5.78%
3	LG	5.17%	3.00%	3.50%	2.50%	4.50%	9.50%	1.50%	5.50%	4.43%	9.74%	2.50%	6.87%
4	NJR	6.04%	7.00%	5.50%	7.00%	4.00%	7.50%	5.00%	11.50%	7.36%	12.26%	6.28%	11.33%
5	GAS	4.61%	4.20%	1.50%	-	4.00%	1.00%	0.50%	4.00%	2.62%	4.33%	0.00%	6.12%
6	NWN	4.64%	5.70%	5.00%	6.50%	4.70%	8.00%	3.00%	3.50%	5.24%	8.42%	3.99%	3.53%
7	PNY	5.76%	6.30%	8.00%	3.50%	0.00%	6.50%	4.50%	6.00%	5.54%	4.07%	4.92%	2.09%
8	SJI	7.79%	12.40%	5.50%	8.00%	0.00%	13.00%	6.00%	11.00%	8.70%	9.48%	7.86%	8.71%
9	SWX	4.63%	7.00%	6.00%	5.00%	0.00%	9.00%	1.00%	5.00%	5.29%	-4.34%	2.35%	5.20%
10	WGL	4.42%	-	4.00%	3.00%	0.00%	4.00%	1.50%	4.50%	3.58%	5.36%	2.05%	5.49%
11				4.65%	4.39%	4.70%	7.20%	3.25%	6.85%		5.98%	4.15%	5.95%
12	AVERAGES	5.34%	6.12%		4.58%			5.77%		5.25%		5.36%	

REFERENCES:
COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/22/2010 (WATER COMPANIES) AND 12/11/2009 (NATURAL GAS LDC's)
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 01/22/2010 (WATER COMPANIES) AND 12/11/2009 (NATURAL GAS LDC's)
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1 THRU 3 (WATER) AND 1 THRU 10 (NATURAL GAS)
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY
- RATINGS & REPORTS DATED 01/22/2010 (WATER COMPANIES) AND 12/11/2009 (NATURAL GAS LDC's)

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
CAPM COST OF EQUITY CAPITAL

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 7, PAGE 1 OF 2

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x	(	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	2.43%	+ [	0.80	x	(	9.60%	-	5.40%	)]	=	5.79%
2	CWT	k	=	2.43%	+ [	0.75	x	(	9.60%	-	5.40%	)]	=	5.58%
3	SWWC	k	=	2.43%	+ [	1.10	x	(	9.60%	-	5.40%	)]	=	7.05%
4	WTR	k	=	2.43%	+ [	0.65	x	(	9.60%	-	5.40%	)]	=	5.16%
5	**WATER COMPANY AVERAGE**					0.83								**5.90%**
6	AGL	k	=	2.43%	+ [	0.75	x	(	9.60%	-	5.40%	)]	=	5.58%
7	ATO	k	=	2.43%	+ [	0.65	x	(	9.60%	-	5.40%	)]	=	5.16%
8	LG	k	=	2.43%	+ [	0.60	x	(	9.60%	-	5.40%	)]	=	4.95%
9	NJR	k	=	2.43%	+ [	0.65	x	(	9.60%	-	5.40%	)]	=	5.16%
10	GAS	k	=	2.43%	+ [	0.75	x	(	9.60%	-	5.40%	)]	=	5.58%
11	NWN	k	=	2.43%	+ [	0.60	x	(	9.60%	-	5.40%	)]	=	4.95%
12	PNY	k	=	2.43%	+ [	0.65	x	(	9.60%	-	5.40%	)]	=	5.16%
13	SJI	k	=	2.43%	+ [	0.65	x	(	9.60%	-	5.40%	)]	=	5.16%
14	SWX	k	=	2.43%	+ [	0.75	x	(	9.60%	-	5.40%	)]	=	5.58%
15	WGL	k	=	2.43%	+ [	0.65	x	(	9.60%	-	5.40%	)]	=	5.16%
16	**NATURAL GAS LDC AVERAGE**					0.67								**5.24%**

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\, ß\, (r_m - r_f)\,]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 12/18/2009 THROUGH 02/05/2010 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE RISK PREMIUM (RM - RF) USED THE GEOMETRIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2008 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PEI THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2009 YEARBOOK.

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
CAPM COST OF EQUITY CAPITAL

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 7, PAGE 2 OF 2

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	k	=	r_f	+ [	(A) ß	x	(	r_m	-	r_f	)]	=	(B) EXPECTED RETURN
1	AWR	k	=	2.43%	+ [	0.80	x	(	11.70%	-	5.60%	)]	=	7.31%
2	CWT	k	=	2.43%	+ [	0.75	x	(	11.70%	-	5.60%	)]	=	7.01%
3	SWWC	k	=	2.43%	+ [	1.10	x	(	11.70%	-	5.60%	)]	=	9.14%
4	WTR	k	=	2.43%	+ [	0.65	x	(	11.70%	-	5.60%	)]	=	6.40%
5	**WATER COMPANY AVERAGE**					0.83								**7.46%**
6	AGL	k	=	2.43%	+ [	0.75	x	(	11.70%	-	5.60%	)]	=	7.01%
7	ATO	k	=	2.43%	+ [	0.65	x	(	11.70%	-	5.60%	)]	=	6.40%
8	LG	k	=	2.43%	+ [	0.60	x	(	11.70%	-	5.60%	)]	=	6.09%
9	NJR	k	=	2.43%	+ [	0.65	x	(	11.70%	-	5.60%	)]	=	6.40%
10	GAS	k	=	2.43%	+ [	0.75	x	(	11.70%	-	5.60%	)]	=	7.01%
11	NWN	k	=	2.43%	+ [	0.60	x	(	11.70%	-	5.60%	)]	=	6.09%
12	PNY	k	=	2.43%	+ [	0.65	x	(	11.70%	-	5.60%	)]	=	6.40%
13	SJI	k	=	2.43%	+ [	0.65	x	(	11.70%	-	5.60%	)]	=	6.40%
14	SWX	k	=	2.43%	+ [	0.75	x	(	11.70%	-	5.60%	)]	=	7.01%
15	WGL	k	=	2.43%	+ [	0.65	x	(	11.70%	-	5.60%	)]	=	6.40%
16	**NATURAL GAS LDC AVERAGE**					0.67								**6.52%**

REFERENCES:
COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [ß (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
ß = THE BETA COEFFICIENT OF A GIVEN SECURITY
r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) AN 8-WEEK AVERAGE OF THE YIELD ON A 5-YEAR U.S. TREASURY INSTRUMENT THAT APPEARED IN VALUE LINE INVESTMENT SURVEYS "SELECTION & OPINIONS" PUBLICATION FROM 12/18/2009 THROUGH 02/05/2010 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE RISK PREMIUM (RM - RF) USED THE ARITHMETIC MEAN FOR S&P 500 TOTAL RETURNS OVER THE 1926 - 2008 PERIOD MINUS TOTAL RETURNS ON INTERMEDIATE TREASURIES DURING THE SAME PER THE DATA WAS OBTAINED FROM MORNINGSTAR'S STOCKS, BONDS, BILLS AND INFLATION: 2009 YEARBOOK.

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 $)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.39%	1.90%	10.01%	6.98%	8.10%	7.50%	7.49%	9.86%	10.06%
2	1991	4.25%	-0.20%	8.46%	5.45%	5.69%	5.38%	5.38%	9.36%	9.55%
3	1992	3.03%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.69%	8.86%
4	1993	2.96%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.61%	4.00%	7.14%	3.60%	4.21%	4.25%	4.25%	8.31%	8.63%
6	1995	2.81%	2.50%	8.83%	5.21%	5.83%	5.49%	5.49%	7.89%	8.29%
7	1996	2.93%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	2.34%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.55%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.19%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.38%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	2.83%	0.80%	6.92%	3.41%	3.88%	3.40%	5.95%	7.59%	8.02%
13	2002	1.59%	1.60%	4.67%	1.17%	1.67%	1.61%	5.38%	7.41%	7.98%
14	2003	2.27%	2.50%	4.12%	2.03%	1.13%	1.01%	4.92%	6.18%	6.64%
15	2004	2.68%	3.60%	4.34%	2.34%	1.35%	1.37%	5.03%	5.77%	6.20%
16	2005	3.39%	2.90%	6.16%	4.19%	3.22%	3.15%	4.57%	5.38%	5.78%
17	2006	3.24%	2.80%	7.97%	5.96%	4.97%	4.73%	4.91%	5.94%	6.30%
18	2007	2.85%	2.00%	8.05%	5.86%	5.02%	4.36%	4.84%	6.07%	6.24%
19	2008	3.58%	1.30%	5.09%	2.39%	1.92%	1.37%	4.28%	6.34%	6.64%
20	2009	2.60%	-2.40%	3.25%	0.50%	0.00% - 0.25%	0.15%	4.08%	5.84%	6.87%
21	CURRENT	0.20%	5.70%	3.25%	0.50%	0.00% - 0.25%	0.10%	4.63%	5.80%	6.34%

REFERENCES:
COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (D): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 02/19/2010
COLUMN (F) THROUGH (I): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 02/19/2010
COLUMN (H) THROUGH (I): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
COLUMN (H) THROUGH (I): 2001, MERGENT 2002 PUBLIC UTILITY MANUAL
COLUMN (H) THROUGH (I): 2003 MERGENT NEWS REPORTS

ARIZONA-AMERICAN WATER COMPANY
TEST YEAR ENDED DECEMBER 31, 2008
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. W-01303A-09-0343
DOCKET NO. SW-01303A-09-0343
SCHEDULE WAR - 9

AVERAGE CAPITAL STRUCTURES OF SAMPLE WATER COMPANIES

LINE NO.		AWR	PCT.	CWT	PCT.	SWWC	PCT.	WTR	PCT.	WATER COMPANY AVERAGE	PCT.
1	DEBT	$ 266.5	46.2%	$ 287.5	41.6%	$ 190.6	62.6%	$ 1,248.1	54.1%	$ 498.2	51.4%
2											
3	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.5	0.2%	0.0	0.0%	0.1	0.0%
4											
5	COMMON EQUITY	310.5	53.8%	402.9	58.4%	113.3	37.2%	1,058.4	45.9%	471.3	48.6%
6											
7	TOTALS	$ 577.0	100%	$ 690.4	100%	$ 304.4	100%	$ 2,306.5	100%	$ 969.6	100%

AVERAGE CAPITAL STRUCTURES OF SAMPLE NATURAL GAS COMPANIES

LINE NO.		AGL	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	GAS	PCT.
1											
2											
3	DEBT	$ 1,675.0	50.3%	$ 2,119.8	50.8%	$ 389.2	44.4%	$ 455.1	38.5%	$ 448.0	31.5%
4											
5	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.5	0.1%	0.0	0.0%	0.6	0.0%
6											
7	COMMON EQUITY	1,652.0	49.7%	2,052.5	49.2%	486.5	55.5%	727.0	61.5%	973.1	68.4%
8											
9	TOTALS	$ 3,327.0	100%	$ 4,172.3	100%	$ 876.2	100%	$ 1,182.1	100%	$ 1,421.7	100%
10											
11											
12		NWN	PCT.	PNY	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.
13											
14	DEBT	$ 512.0	44.9%	$ 794.3	47.2%	$ 332.8	39.2%	$ 1,185.5	51.0%	$ 603.7	38.5%
15											
16	PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.0	0.0%	100.0	4.3%	28.2	1.8%
17											
18	COMMON EQUITY	628.4	55.1%	887.2	52.8%	515.3	60.8%	1,037.8	44.7%	935.1	59.7%
19											
20	TOTALS	$ 1,140.4	100%	$ 1,681.5	100%	$ 848.1	100%	$ 2,323.3	100%	$1,567.0	100%
21											
22											
23		NATURAL GAS LDC				WATER & LDC					
24		AVERAGE	PCT.			AVERAGE	PCT.				
25											
26	DEBT	$ 851.5	45.9%			$ 674.9	47.8%				
27											
28	PREFERRED STOCK	12.9	0.7%			6.5	0.5%				
29											
30	COMMON EQUITY	989.5	53.4%			730.4	51.7%				
31											
32	TOTALS	$ 1,854.0	100%			$ 1,411.7	100%				

REFERENCE:
MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS

ARIZONA-AMERICAN WATER COMPANY

DOCKET NO. W-01303A-09-0343
AND DOCKET NO. SW-01303A-09-0343

DIRECT TESTIMONY

OF

RALPH C. SMITH

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 8, 2010

BEFORE THE ARIZONA CORPORATION COMMISSION

KRISTIN K. MAYES
Chairman
GARY PIERCE
Commissioner
PAUL NEWMAN
Commissioner
SANDRA D. KENNEDY
Commissioner
BOB STUMP
Commissioner

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM WATER DISTRICT AND ITS SUN CITY WATER DISTRICT	)	DOCKET NO. W-01303A-09-0343
IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS ANTHEM/AGUA FRIA WASTEWATER DISTRICT, ITS SUN CITY WASTEWATER DISTRICT AND ITS SUN CITY WEST WASTEWATER DISTRICT	)	DOCKET NO. SW-01303A-09-0343

DIRECT

TESTIMONY

OF

RALPH C. SMITH

ON BEHALF OF THE

RESIDENTIAL UTILITY CONSUMER OFFICE

MARCH 1, 2010

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RUCO Accounting Schedules- Water Districts.....RCS-2

RUCO Accounting Schedules- Wastewater Districts.....RCS-3

Arizona-American's non-confidential responses to data requests and other Arizona-American non-confidential material referenced in testimony and schedules.....RCS-4

I. INTRODUCTION

Q. Please state your name, position and business address.

A. Ralph C. Smith. I am a Senior Regulatory Consultant at Larkin & Associates, PLLC, 15728 Farmington Road, Livonia, Michigan 48154.

Q. Please describe Larkin & Associates.

A. Larkin & Associates is a Certified Public Accounting and Regulatory Consulting firm. The firm performs independent regulatory consulting primarily for public service/utility commission staffs and consumer interest groups (public counsels, public advocates, consumer counsels, attorneys general, etc.). Larkin & Associates has extensive experience in the utility regulatory field as expert witnesses in over 400 regulatory proceedings including numerous telephone, water and sewer, gas, and electric matters.

Q. Mr. Smith, please summarize your educational background.

A. I received a Bachelor of Science degree in Business Administration (Accounting Major) with distinction from the University of Michigan - Dearborn, in April 1979. I passed all parts of the Certified Public Accountant ("C.P.A.") examination in my first sitting in 1979, received my CPA license in 1981, and received a certified financial planning certificate in 1983. I also have a Master of Science in Taxation from Walsh College, 1981, and a law degree (J.D.) cum laude from Wayne State University, 1986. In addition, I have attended a variety of continuing education courses in conjunction with maintaining my accountancy license. I am a licensed C.P.A. and attorney in the State of Michigan. I am also a Certified Financial Planner™ professional and a Certified Rate of Return Analyst

("CRRA"). Since 1981, I have been a member of the Michigan Association of Certified Public Accountants. I am also a member of the Michigan Bar Association and the Society of Utility and Regulatory Financial Analysts ("SURFA"). I have also been a member of the American Bar Association (ABA), and the ABA sections on Public Utility Law and Taxation.

Q. Please summarize your professional experience.

A. Subsequent to graduation from the University of Michigan, and after a short period of installing a computerized accounting system for a Southfield, Michigan realty management firm, I accepted a position as an auditor with the predecessor CPA firm to Larkin & Associates in July, 1979. Before becoming involved in utility regulation where the majority of my time for the past 29 years has been spent, I performed audit, accounting, and tax work for a wide variety of businesses that were clients of the firm.

During my service in the regulatory section of our firm, I have been involved in rate cases and other regulatory matters concerning electric, gas, telephone, water, and sewer utility companies. My present work consists primarily of analyzing rate case and regulatory filings of public utility companies before various regulatory commissions, and, where appropriate, preparing testimony and schedules relating to the issues for presentation before these regulatory agencies.

I have performed work in the field of utility regulation on behalf of industry, state attorneys general, consumer groups, municipalities, and public service commission staffs concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Indiana, Illinois,

Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, North Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Vermont, Virginia, Washington, Washington D.C., West Virginia and Canada as well as the Federal Energy Regulatory Commission and various state and federal courts of law.

Q. Have you prepared an attachment summarizing your educational background and regulatory experience?

A. Yes. Attachment RCS-1 provides details concerning my experience and qualifications.

Q. On whose behalf are you appearing?

A. I am appearing on behalf of the Residential Utility Consumer Office ("RUCO").

Q. Have you previously testified before the Arizona Corporation Commission?

A. Yes. I have previously testified before the Commission on a number of occasions. I testified before the Commission in Docket No. E-01345A-06-0009, involving an emergency rate increase request by Arizona Public Service Company ("APS" or "Company"), APS' Docket Nos. E-01345A-05-0816, E-01345A-05-0826 and E-01345A-05-0827, concerning proceedings involving APS base rates and other matters, and the most recent APS case, Docket No. E-01345A-08-0172, concerning an emergency rate increase and general rate case request. I also testified before the Commission in the last UNS Gas, Inc. rate cases, Docket Nos. G-04204A-08-0571, G-04204A-06-0463, G-04204A-06-0013 and G-04204A-05-0831, and in a previous UNS Electric, Inc. rate case

Docket No. E-04204A-06-0783, as well as the last Southwest Gas Corporation rate case, G-01551A-07-0504, and Tucson Electric Power Company, Docket No. E-01933A-07-0402, among others.

Q. What is the purpose of the testimony you are presenting?

A. The purpose of my testimony is to address the rate base, adjusted net operating income and revenue requirement proposed by Arizona-American Water Company ("Arizona-American", "AAWC," or "Company").

Q. Have you prepared any exhibits to be filed with your testimony?

A. Yes. Attachments RCS-2 through RCS-5 contain the results of my analysis and copies of selected documents that are referenced in my testimony, respectively.

II. REVENUE REQUIREMENT

Q. What issues are addressed in your testimony?

A. My testimony addresses the Company's proposed revenue requirement and selected other issues.

Q. What revenue increase has been requested by AAWC?

A. For the districts included in its current filing, AAWC is requesting an increase in base rate revenues of $20.498 million, or approximately 56.06 percent over adjusted revenues at current rates as shown in the following table:

Summary of Requested Rate Increases per Company

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	$7,268,177	$ 2,531,127	$ 7,060,837	$ 2,156,882	$ 1,480,756	$ 20,497,779
Adjusted Current Revenues	$7,210,624	$ 9,125,203	$ 8,634,567	$ 5,933,970	$ 5,660,389	$ 36,564,753
% Change	100.80%	27.74%	81.77%	36.35%	26.16%	56.06%

The requested revenue amount is from Company Schedule A in AAWC's filing and is also shown on RUCO Schedule A on Attachments RCS-2 and RCS-3.

Q. What revenue increase does RUCO recommend?

A. RUCO recommends a revenue increase on adjusted fair value rate base, for each AAWC division, of no more than the amounts listed in the following table:

Summary of RUCO Recommended Rate Increases By District

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	$5,327,222	$ 712,316	$ 5,296,731	$ 1,527,407	$ 757,477	$ 13,621,153
Adjusted Current Revenues	$7,201,168	$ 9,125,203	$ 8,634,567	$ 5,933,970	$ 5,660,389	$ 36,555,297
% Change	73.98%	7.81%	61.34%	25.74%	13.38%	37.26%

Details of how these amounts of revenue deficiency were derived are shown in Attachments RCS-2 and RCS-3 to my testimony. The revenue deficiency for each water district is presented in Attachment RCS-2 on the respective "Schedule A" for that district. A "Schedule A" has also been presented for the total water districts and, separately, the

total wastewater districts, for which rate increases have been sought by AAWC in the current rate case. Attachment RCS-3 presents similar information for each wastewater district.

A. Test Year

Q. What test year is being used in this case?

A. AAWC's filing is based on the calendar test year ended December 31, 2008. RUCO's calculations use the same test year.

Q. Could you please discuss the test year concept?

A. Yes. In Arizona, a historic test year approach is used. Various adjustments are made to the historic test year amounts to ensure that there is a matching of investment, revenues and expenses. Rate base items, such as plant in service and accumulated depreciation, are based on the actual level as of the end of the historic test year. Several rate base items that tend to fluctuate from month to month, such as materials and supplies and prepayments, are based on a test year average level. Since end of test year net plant in service is used, revenues are annualized based on end of test year customer levels. Additionally, certain expenses, such as depreciation and payroll costs, are annualized based on end of test year levels. This is to ensure that the going-forward revenue and expense levels are matched with the investment (net plant-in-service) used to serve those customers.

As time goes forward, changes in the Company's cost structure will occur. For example, rate base will increase as new plant is added to serve new customers, revenue will increase as customers are added, expenses will fluctuate, etc. It is very important to

be consistent with a test period approach to ensure that there is a consistent matching between investment, revenues and costs. Any adjustments that reach beyond the end of the historic test year must be very carefully considered before being adopted.

B. Summary of Company Proposed and RUCO Adjusted Revenue Requirement

Q. What did your review of AAWC's filing indicate?

A. As shown on Attachment RCS-2 for water and Attachment RCS-3 for sewer, Schedule A, column C, based on the weighted cost of capital recommended by RUCO witness Rigsby for application to OCRB, and the adjustments to AAWC's rate base and net operating income recommended by myself, I have calculated a jurisdictional base rate revenue requirement deficiency on OCRB for each of the AAWC divisions. I have also summarized the increases for the water divisions and, separately for the wastewater divisions, for which AAWC had applied for rate increases in this case. AAWC has requested that its OCRB be used as its Fair Value Rate Base ("FVRB") and has not included with its filing reconstruction cost new depreciated ("RCND") information. I have also used the OCRB as the appropriate measure of the Company's FVRB in this case. As also shown on Schedule A, page 1, of the respective Attachment RCS-2 for water and Attachment RCS-3 for wastewater districts, I have calculated recommended base rate increases using a fair value rate of return (FVROR) of 6.77 percent for each district. The 6.77 percent is the weighted average cost of capital ("WACC") recommended by RUCO witness Rigsby. Because the FVRB is the same as the OCRB for purposes of this case, the WACC and the FVROR are also the same. AAWC should

receive a base rate increase of no more than the amounts and percentages for each district as summarized in the following table:

Summary of RUCO Recommended Rate Increases By District

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	$5,327,222	$ 712,316	$ 5,296,731	$ 1,527,407	$ 757,477	$ 13,621,153
Adjusted Current Revenues	$7,201,168	$ 9,125,203	$ 8,634,567	$ 5,933,970	$ 5,660,389	$ 36,555,297
% Change	73.98%	7.81%	61.34%	25.74%	13.38%	37.26%

C. Organization of RUCO Accounting Schedules

Q. How are RUCO's accounting schedules organized?

A. RUCO's accounting schedules are presented in Attachment RCS-2 for the water districts, and on Attachment RCS-3 for the wastewater districts. The presentation in those attachments is organized into summary schedules and adjustment schedules. The summary schedules consist of Schedules A, A-1, B, B.1, C, C.1 and D. Within Attachment RCS-2, a set of summary schedules is included for the total of the water districts and, separately, for each water district. Similarly, in Attachment RCS-3, a set of summary schedules is included for the total of the wastewater districts, and, separately, for each wastewater district in AAWC's filing.

Attachments RCS-2 and RCS-3 also contains rate base adjustment Schedules B-1 through B-4 and net operating income adjustment Schedules C-1 through C-17, which show the detailed adjustments I am recommending to AAWC's filing for water and wastewater, respectively.

Q. How have you designated the districts on Attachments RCS-2 and RCS-3?

A. I have used the following designations for the districts on Attachment RCS-2:

"(A)" for Anthem Water

"(SC)" for Sun City Water

I have used the following designations for the districts on Attachment RCS-3:

"(AAF") for Anthem/Agua Fria Wastewater

"(SC)" for Sun City Wastewater

"(SCW)" for Sun City West Wastewater

As illustrative examples, the schedule showing the calculation of the revenue requirement deficiency for Sun City Water on Attachment RCS-2 is designated as Schedule A (SC). Similarly, the revenue deficiency schedule for Sun City Wastewater is designated as Schedule A (SC) on Attachment RCS-3.

Q. What is shown on the "A" Schedules of Attachments RCS-2 and RCS-3?

A. As noted above, Attachments RCS-2 and RCS-3 present the RUCO Accounting Schedules and revenue requirement determination for the water districts and wastewater districts, respectively. Schedule A presents the overall financial summary, giving effect to all the adjustments discussed in my testimony. This schedule presents the change in the Company's gross revenue requirement needed for the Company to have the opportunity to earn RUCO's recommended rate of return on RUCO's proposed Original Cost and Fair Value rate bases. The rate base and operating income amounts are taken from Schedules B and C, respectively. The overall rate of return on original cost rate base of 6.77 percent,

as presented in the prefiled testimony of RUCO witness Rigsby, is provided on Schedule D for convenience.

Column A of Schedule A replicates AAWC's proposed calculations of the revenue deficiency. Columns B presents RUCO's determination of the base rate revenue deficiency on OCRB and FVRB. Column C shows differences between RUCO and AAWC.

The operating income deficiency shown on line 5 of Schedule A is obtained by subtracting the operating income available on line 4 (operating income as adjusted) from the required operating income on line 3. Line 6 represents the gross revenue requirement, which is obtained by multiplying the income deficiency by the gross revenue conversion factor (GRCF).

Q. What is shown on Schedule A-1?

A. Schedule A-1 shows the derivation of the GRCF. The GRCF is used to convert the net operating income deficiency into a revenue deficiency amount. A component for the revenue-based impact on property taxes is included in the derivation of the GRCF. My calculation of the GRCF for each district follows the same format as AAWC's.

Q. How does the GRCF recommended by RUCO compare with the GRCF contained in AAWC's filing?

A. As shown on the respective Schedule A-1, for each AAWC district, for its direct filing RUCO has used the same GRCFs that were contained in AAWC's filing. At a later point

in the proceeding, the specific GRCF for each district may be subject to revision based on other changes, such as changes in the amount of revenue increase.

Q. What is shown on the "B" Schedules?

A. For each district, and in summary for the water systems and, separately, for the wastewater districts included in AAWC's filing, on Attachments RCS-2 and RCS-3, respectively, there is a Schedule B. Each Schedule B presents AAWC's proposed adjusted test year rate base (in column A), RUCO's adjustments (in column B) and RUCO's adjusted test year rate base (in column C). The beginning rate base amounts presented on Schedule B are taken from the Company's filing for the test year, specifically AAWC Schedule B-1.

RUCO's recommended adjustments to rate base are summarized on Schedule B.1. In Attachments RCS-2 and RCS-3, I have prepared a Schedule B.1 for adjustments to AAWC's for each district, and in summary for the water systems and, separately, for the wastewater districts included in AAWC's filing.

In Attachments RCS-2 and RCS-3, Schedules B-1 through B-4 provide further support and calculations for each rate base adjustment that I am recommending.

Q. How was the fair value basis of rate base determined?

A. The FVRB in this proceeding is the same as the adjusted OCRB.

Q. What is shown on the "C" Schedules of Attachments RCS-2 and RCS-3?

A. For each district, and in summary for the water systems and, separately, for the wastewater districts included in AAWC's filing, Schedule C shows the Company's requested and

RUCO's adjusted net operating income. The starting point on each Schedule C is AAWC's adjusted test year net operating income, as provided on Company Schedule C-1. For each district, Schedule C shows AAWC's filed net operating income (in column A), RUCO's adjustments (in column B) and RUCO's adjusted net operating income (in column C).

Each of RUCO's recommended adjustments to AAWC's adjusted test year revenues and expenses are summarized on Schedule C.1. The income tax impact of each adjustment is also shown on Schedule C.1.

Schedules C-1 through C-17 provide further support and calculations for the net operating income adjustments that I am recommending. Each of the adjustments are discussed in my testimony.

Q. What is shown on Schedule D?

A. Schedule D summarizes the capital structure and cost of capital that was proposed by AAWC and the capital structure and cost of capital that is recommended by RUCO witness Rigsby. In this case, because the FVRB is the same as the adjusted OCRB, the fair value rate of return ("FVROR") is the same as the weighted average cost of capital ("WACC") shown on Schedule D.

III. RATE BASE

Q. Have you prepared schedules that summarize RUCO's proposed adjustments to rate base?

A. Yes. As noted above, in Attachments RCS-2 and RCS-3, respectively, for each district, and in summary for the water systems and, separately, for the wastewater districts included in AAWC's filing, I have prepared a Schedule B, which shows the rate base requested by AAWC, RUCO's adjustment and RUCO's adjusted rate base. The adjustments to AAWC's proposed rate base are shown on Schedule B.1. A comparison of the Company's proposed rate base and RUCO's recommended rate base, by district, is presented below:

District	Per Company	Per RUCO	Difference
Anthem Water	$ 57,430,025	$ 57,291,754	$ (138,271)
Sun City Water	$ 28,186,063	$ 26,400,924	$ (1,785,139)
Anthem/Agua Fria Wastewater	$ 47,735,732	$ 47,558,242	$ (177,490)
Sun City Wastewater	$ 14,764,087	$ 14,660,342	$ (103,745)
Sun City West Wastewater	$ 17,821,272	$ 17,739,272	$ (82,000)
Total Rate Base	$ 165,937,179	$ 163,650,534	$ (2,286,645)

Plant Adjustments

Q. Are you proposing any adjustments to AAWC's requested plant in service?

A. Yes. I am proposing two adjustments to AAWC's requested plant in service. The first adjustment, B-1, affects only the Sun City Water district, and removes an item of post-test year plant that AAWC had requested. The second adjustment, B-2, affects only the Agua Fria Wastewater district, and removes the cost of two effluent pumps that had been retired during the test year.

B-1 Post Test Year Plant – Sun City Water

Q. Has AAWC requested the inclusion in rate base of plant that was not in service during the test year?

A. Yes. The Company has proposed to include in rate base the cost for a new well that was placed into service on May 27, 2009, at an amount of $1.587 million.

Q. Should that be allowed?

A. No. This is being removed because it was not in service during the test year and because AAWC has failed to demonstrate special or unusual circumstances to justify inclusion of the post test year plant additions in rate base.

Q. Please elaborate on why post test year plant should be removed in the current AAWC rate case.

A. The test year is the one-year historical period used in determining rate base, operating income and rate of return. Commission's rules at A.A.C. R14-2-103(A)(3)(p) require the end of the test year to be the most recent practical date available prior to the filing. A utility has the freedom to choose a test year that includes all major rate base and operating income items needed to support its rate application, and to include pro forma adjustments to its test year. The "matching" concept is a fundamental principle of accounting and ratemaking. The absence of matching distorts the coordination the elements of the ratemaking formula, and can adversely affect the fairness and reasonableness of rates. My understanding is that the Commission has only allowed inclusion of post test year plant in special and unusual circumstances that warranted such recognition. Decision No. 71410, at page 20, cites the following two types of situations that have warranted rate base recognition of post-test year plant:

(1) when the magnitude of the investment relative to the utility's total investment is such that not including the post test year plant in the cost of service would jeopardize the utility's financial health; and

(2) when certain conditions exist as follows:

(a) the cost of the post test year plant is significant and substantial;

(b) the net impact on revenue and expenses for the post test year plant is known and insignificant or is revenue-neutral; and

(c) the post test year plant is prudent and necessary for the provision of services and reflects appropriate, efficient, effective, and timely decision-making.

In the current rate case, AAWC has not demonstrated special or unusual circumstances to justify inclusion of the post test year plant additions in rate base.

Q. Did the Commission remove AAWC's request for post-test year plant AAWC's last rate case?

A. Yes. For reasons similar to those stated above, AAWC's request for post test year plant was removed in Decision No. 71410 for Agua Fria Water, Mohave Water and Mohave Wastewater.

Q. What adjustment is needed?

A. This adjustment is shown on Attachment RCS-2, Schedule B-1, and reduces rate base by $1.587 million to remove post-test year plant for the Sun City Water district.

Q. Is there a related adjustment to expense?

A. Yes. As shown on Attachment RCS-2 , Schedule C-16, Arizona-American's proposed depreciation expense for Sun City Water is reduced by $36,961 based on applying the

applicable depreciation rates to the plant adjustment. I discuss this related adjustment to depreciation expense in a subsequent section of my testimony.

B-2 Agua Fria Wastewater – Retirement of Two Effluent Pumps

Q. Are you recommending any other adjustments to plant in service?

A. Yes. I am recommending an adjustment to remove from the Agua Fria Wastewater rate base the cost of two pumps that were retired during the test year. This adjustment is shown on Attachment RCS-3, Schedule B-2.

Q. Please explain the adjustment shown on Schedule B-2 of Attachment RCS-3.

A. As described in the Company's response to STF 7.3, two effluent pumps at the Verrado waste water treatment plant ("WWTP") were retired. That response indicates that: "The original cost for the 2 pumps is $52,636.25 and our Engineering Department has been notified that a retirement work order should be created to retire the pumps as soon as possible." This adjustment removes the original cost of the two pumps that were retired from Plant in Service and from Accumulated Depreciation. The net impact on rate base is zero.

Q. Is there a related adjustment to expense?

A. Yes. As shown on Attachment RCS-3, Schedule C-17, Arizona-American's proposed depreciation expense for Agua Fria Wastewater is reduced by $2,853, based on the plant amount of $52,636 times the depreciation rate of 5.42 percent. I discuss this related adjustment to depreciation expense in a subsequent section of my testimony.

1 ***B-3 CIAC in CWIP (All Districts Except Sun City West Wastewater)***

2 **Q. What is the issue relating to CIAC in CWIP?**

3 A. The Company contends that Contributions in Aid of Construction ("CIAC") associated
4 with Construction Work in Progress ("CWIP") should not be deducted from rate base,
5 because there is no offsetting plant in rate base.
6

7 **Q. Please explain why the full amount of CIAC should be deducted from rate base.**

8 A. The full amount of CIAC should be deducted from rate base because it is the Company's
9 choice whether to accept plant or funds from developers, and if the Company chooses to
10 accept plant, then the Company is not expending funds for the plant and thus has funds for
11 other uses. Additionally, the Company's position is contrary to traditional ratemaking
12 practices and contrary to the National Association of Regulatory Utility Commissioners
13 ("NARUC")_definition of CIAC, which does not distinguish between CIAC associated
14 with CWIP and CIAC associated with plant in service.
15

16 **Q. Was this Company position rejected by the Commission in AAWC's last rate case?**

17 A. Yes. Decision No. 71410 rejected AAWC's arguments for filing to deduct CIAC from
18 rate base, and stated at pages 26-27 that:

19 We agree with RUCO and Staff that the Company's choice whether to
20 accept plant or funds from developers is irrelevant, and does not change the
21 nature of AIAC or CIAC. The evidence in this case does not persuade us to
22 depart from the traditional treatment of deducting AIAC and CIAC from
23 rate base. The adjustments recommended by RUCO and Staff will be
24 adopted.
25

Q. What adjustment is necessary in the current AAWC rate case?

A. As shown on Attachment RCS-2, Schedule B-3, rate base should be reduced by $138,495 in total, and by the amounts shown there, and listed below for each district:

Summary of Adjustments to CIAC

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	$ (30,271)	$ (38,991)	$ (65,490)	$ (3,743)	$ -	$ (138,495)

B-4 Cash Working Capital (All Districts)

Q. What is cash working capital?

A. Cash working capital ("CWC") is the cash needed by the Company to cover its day-to-day operations. If the Company's cash expenditures, on an aggregate basis, precede the cash recovery of expenses, investors must provide cash working capital. In that situation a positive cash working capital requirement exists. On the other hand, if revenues are typically received prior to when expenditures are made, on average, then ratepayers provide the cash working capital to the utility, and the negative cash working capital allowance is reflected as a reduction to rate base. In this case, the cash working capital requirement is a reduction to rate base as ratepayers are essentially supplying these funds.

Q. Does AAWC's filing reflect a positive or negative cash working capital requirement?

A. AAWC's filing shows that it has a positive cash working capital requirement for each district. However, there are some serious flaws in AAWC's calculations. After correcting

for such concerns, Attachments RCS-2 and RCS-3, on the respective Schedule B-4 for each district, shows the adjusted cash working capital requirement for each AAWC district.

Q. What is indicated by a positive or negative cash working capital requirement?

A. A negative CWC requirement occurs when the results of a lead-lag study indicate that ratepayers are supplying the funds used for the day-to-day operations of the Company. On average, revenues from ratepayers are received prior to the time when the utility pays the associated expenditures. Conversely, a positive CWC requirement indicates that utility investors have supplied funds used for the day-to-day operations of the Company.

Q. Did AAWC present a lead/lag study in support of its cash working capital requirement?

A. Yes, AAWC performed a lead/lag study to calculate the cash working capital requirement in this case. The Company provided its lead/lag study calculations with its work papers in this case.

Q. What issues are you addressing with respect to AAWC lead/lag study and request for Cash Working Capital?

A. I am addressing the following issues with respect to AAWC's proposed Cash Working Capital allowance:

(1) revenue collection lag;

(2) affiliated Service Company Management Fee payment lag; and

(3) adjustments to expenses.

1. Revenue Lag

Q. What is the function of a revenue lag in a lead/lag study?

A. The revenue lag is supposed to measure, on average, the time between (a) the provision of service and (b) the receipt of payment for service. It typically is comprised of three sub-component lags: (1) the service period lag, (2) the billing lag, and (3) the collection lag.

Q. What revenue lags did AAWC use in its lead/lag study?

A. The revenue lags used by AAWC for each district is summarized in the table below:

Summary of Revenue Lag as calculated by AAWC					
Revenue Lag Component	**Anthem Water**	**Sun City Water**	**Anthem Agua Fria Wastewater**	**Sun City Wastewater**	**Sun City West Wastewater**
Service Period Lag	**15.148**	**15.219**	**15.248**	**15.335**	**15.394**
Billing Lag	**4.875**	**4.426**	**4.711**	**4.317**	**4.216**
Collection Lag	**26.082**	**26.082**	**26.082**	**26.091**	**26.018**
Total Revenue Lag Days	46.105	45.727	46.040	45.743	45.628

The Company's lead lag study uses a collection lag, by service area, ranging from 26.018 days to 26.091 days. This effectively assumes that customers, on average, throughout the year, are not complying with the payment terms. The payment terms are supposed to be reflected in the dates printed on the customers' bills and with the terms of AAWC's tariff. As discussed in more detail below, the due date for payment of billings for water and wastewater service is 20 days and does not differ by the type of customer.

Q. Are the revenue lags used by AAWC appropriate?

A. No. The collection lag period used by AAWC is excessive and would penalize all customers, including the vast majority of customers that pay their utility bills on time, for the minority of customers who either paying their bills late or do not pay at all (i.e., whose bills become uncollectible).

Q. Did RUCO request that AAWC provide Accounts Receivable aging reports by district for each month of 2007, 2008 and 2009?

A. Yes, such information was requested in RUCO 2-74(j).

Q. Did AAWC provide those requested Accounts Receivable aging reports?

A. No. AAWC's response to RUCO 2-74(j) stated that: "The aging reports are deleted from the system after a short period of time. We are investigating what is required to to (sic) restore the aging reports by district. The reports are available for the Company as a whole, but not at the district specific level of detail. If the Company as a whole would suffice, please let the me (sic) know."

Q. Without the district aging reports that AAWC could not provide, it is possible to reasonably adjust the collection lag?

A. Yes. A reasonable adjustment to the collection lag can be made by applying the 20 day due date period as the maximum collection lag that would apply for customers who, on average, pay their utility bills on time.

Q. Please explain why an adjustment for the revenue collection lag is needed.

A. The Company's lead-lag study uses an unreasonably long revenue lag because its revenue collection lag extends well beyond the bill payment period. The Company's revenue lag is also excessive in comparison with other Arizona utilities that bill customers monthly. The Company effectively assumes that customers, on average, are paying their bills late,

i.e., are on average not paying their bills by the due date printed on the bills. Uncollectibles and late payments should be excluded from the calculation of cash working capital. Before amounts are written-off as uncollectible, the Company may carry such amounts on its books in Accounts Receivable for several months, thus distorting the revenue collection lag for customers who, on average, pay their bills on time. Additionally, bad debt recoveries may be eventually collected several months after the rendering of the initial bill. Including write-offs and recoveries in the determination of the revenue collection lag, however, can result in a distortion of the time when normal paying customers pay their bills for the water and sewer utility service. A more reasonable expectation, and one that excludes the potentially distortive impact of uncollectibles on the collection lag, is that customers, on average, pay their bills for water and sewer utility service on or before the due date printed on the bill. Moreover, the Company charges late fees and receives late fee revenue from the customers who pay their bills late.

Q. Please explain how you calculated the adjustment for the revenue lag on each respective Schedule B-4, of Attachments RCS-2 and RCS-3.

A. I used a maximum period of 20 days for the revenue collection lag for each Arizona district that AAWC had included in its lead-lag study. This assures that the collection lag portion of the revenue lag is not overstated in comparison with the terms provided in the Company's tariff for the payment of the billed revenue. Uncollectibles are removed from cash working capital because they are a non-cash expense. Before they become uncollectible, billed revenue amounts may be carried on the company's books as an account receivable for some time, perhaps even for several months, thus adding to the

revenue collection lag. This necessitates a reasonableness check on the collection lag that reflects the timely payment of revenues that are collected.

As stated in the response to RUCO 2-74(b) and (c), the customer bills issued by AAWC states when the bill is due, and "due dates are 20 days after the billing date and it does not differ by type of customer." Moreover, customers are subject to a late charge if payment is made late. As stated in the response to RUCO 2-74(e): "Customers are subject to a 1-1/2% late charge. It begins by being posted to the account on day 21."

For computing the revenue collection lag, I have therefore used the 20 days as the maximum period, on average, which revenue collection should be occurring, without the potentially distortive impact of uncollectible write-offs. This adjustment resulted in the revised revenue lags for each service district as follows:

Adjusted Revenue Lag Days with 20-Day Collection Lag					
Revenue Lag Component	Anthem Water	Sun City Water	Anthem Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
Service Period Lag	15.148	15.219	15.248	15.335	15.394
Billing Lag	4.875	4.426	4.711	4.317	4.216
Collection Lag	20.000	20.000	20.000	20.000	20.000
Total Revenue Lag Days	**40.023**	**39.645**	**39.959**	**39.652**	**39.610**

Q. Are you endorsing the Billing Lag days used by AAWC?

A. No. The Billing Lag days are supposed to measure the time between the reading of the customer's meter and the issuance of the bill. With many modern utilities using automated meter reading and computerized billing software, a Billing Lag exceeding 4 days on average also appears to be excessive. In short, the Billing Lag used by AAWC is also a concern, but a smaller one than the Collection Lag. Fixing the Collection Lag in this case, by limiting it to the bill payment due date, will resolve the biggest concern regarding AAWC's proposed revenue lag, so I have focused on adjusting for that;

however, this focus should not be misconstrued as an endorsement of the Billing Lag days proposed by AAWC, which may themselves reflect inefficiency.

Q. How do the revenue lags used by AAWC compare with the revenue lags used in recent rate cases by other large Arizona utilities that bill their customers monthly?

A. The following table summarizes the revenue lags that have been used in several recent rate cases:

Revenue Lag
Typical Arizona Utilities That Use Monthly Billing

Utility	Docket	Revenue Lag Days	Reference
APS (Arizona Public Service)	E-01315A-08-0172	38.17	A
TEP (Tucson Electric Power)	E-01933A-07-0402	33.79	B
UNS Gas	G-04204A-08-0571	40.70	C
UNS Electric	E-04204A-09-0206	35.59	D
UNS Electric	E-04204A-06-0783	35.59	E
Southwest Gas Corporation	G-01551A-07-0504	39.53	F

Notes and Source:

[A]: APS workpaper JCL-WP11, p.9
[B]: TEP Schedule B-5, p. 3
[C]: UNSG Schedule B-5, p. 3
[D]: UNSE Schedule B-5, p. 3
[E]: UNSE filing Schedule B-5, p. 3
[F]: SWG Schedule B-5, p. 2

The revenue lags used by AAWC of over 45 days are considerably longer than the comparable revenue lags used in each of these recent rate cases by other large Arizona utilities that bill their customers monthly.

Q. How do the adjusted revenue lags you are recommending for AAWC compare with the revenue lags used in recent rate cases by other large Arizona utilities that bill their customers monthly?

A. The adjusted revenue lags I am recommending are near or slightly above the **high end** of the range of revenue lags used by other large Arizona utilities that bill their customers monthly. This supports the reasonableness of, and need to use, the revised revenue lags. Also, because the revised revenue lag days recommended for AAWC are at, or slightly above the **high end** of the range that has been used by other Arizona utilities, this supports viewing their use as the **maximum** revenue lag days that would be reasonable to use in determining AAWC's revenue requirement in this case.

2. Service Company Payment Lag

Q. What lag did AAWC apply in its lead-lag study for payments of affiliated company Management Fees?

A. AAWC applied a payment lag of 14.7715 days, as shown on line 7 of AAWC's Schedule B-6, in the "Expense Lag Days" column for each district.

Q. Was the lag that AAWC applied in its lead-lag study for payments of affiliated company Management Fees objectionable?

A. No. Had AAWC not indicated in response to a RUCO data request that it wants to drastically revise this lag and instead reflect a pre-payment of the affiliated Management Fees, I would not have objected to the payment lag of 14.7715 days that AAWC reflected in its filing, since it appears to be within a range of commercially reasonable terms such as payment lags to non-affiliated vendors.

Q. How has the Company indicated that it now wants to revise that lag and instead reflect a prepayment of Management Fees to the affiliates?

A. Yes. In response to RUCO 2-75, AAWC has indicated that it pre-pays the affiliated Service Company for such affiliated Management Fees and wants to revise its filed lead-lag study to reflect a **pre-payment**, on average of 11.25 days.

Q. Should a pre-payment of Management Fees to the affiliates be allowed in the lead-lag study?

A. No, it should not.

Q. Please explain your recommended Service Company payment lag.

A. The payment lag applied to Management Fees paid to the affiliate American Water Works Service Company ("AWWSC") and/or to other affiliates should be adjusted to commercially reasonable terms. This substantial affiliated transaction should not be permitted to unnecessarily increase rate base via the creation of an unreasonable CWC requirement. In its filed lead-lag study, AAWC reflected a payment lag of 14.7715 days that appears to be commercially reasonable, in that it is between the payroll lag of 12 days and the maintenance lag of 33.6 days, and thus is within a range of reasonableness. However, as stated in response to RUCO 2-75, AAWC now seeks a revision to reflect a pre-payment, on average, for the Management Fees from the affiliates. This would imply that AAWC pays for affiliated services, on average, before the affiliated services are provided. AAWC should not be required to pay for services provided by this affiliate any more rapidly that it would pay for the services if they had been performed internally.

Moreover, if AAWC chooses to pre-pay for affiliate-provided services, on average, before they are provided, ratepayers should not be required to pay a return on the increase to AAWC's rate base that relates to such pre-payment for affiliated services. I have adjusted the CWC associated with AAWC's payments to the affiliate AWWSC by applying the same 12-day expense lag associated with AAWC's direct labor costs.

Q. What have AAWC's affiliates said about this adjustment in other cases?

A. It appears that AAWC would argue, as it alluded to in its response to RUCO 2-75 and RUCO 2-76, that a Service Company Agreement between AWWSC and the operating utility company would <u>require</u> prepayment by the utility of each month's Service Company costs.

Q. Was AAWC able to demonstrate that the Arizona Corporation Commission had ever approved the Service Company Agreement as it applies to any of the AAWC districts covered in the current AAWC rate case?

A. No. RUCO 2-76 asked the Company, in part: "Has the Commission approved any agreement between AzAWC and the affiliated Service Company? If not, explain fully why not. If so, please identify and provide a complete copy of such agreement. Include all amendments and changes thereto since AzAWC's last rate case."

AAWC's response stated, among other things, that[1]:

> Prior approval of an affiliate arrangement is not required in Arizona. The Company has searched the Commission's decisions listing and has not been able to locate a case decision in which either the Company requested approval of or such approval was granted of the agreement between Arizona

[1] A complete copy of AAWC's response to RUCO 2-76 is included in Attachment RCS-4.

> American and the Service Company ("Agreement"). We believe neither has occurred, but we are not 100% certain at this time whether or not the ACC has approved the Agreement because the Company was providing utility services in Arizona for many years but only in the Paradise Valley district and readily available decisions for the 1990s are not complete.

AAWC included with its response to RUCO 2-76 a copy of the Paradise Valley "Agreement." Paradise Valley is not among the districts for which revenue increases are being sought in the current AAWC rate case. Consequently, AAWC has not been able to demonstrate that the Arizona Corporation Commission has approved the Service Company Agreement as it applies to any of the AAWC districts covered in the current AAWC rate case.

Q. Even if the Arizona Corporation Commission had approved such a Service Company "Agreement", does that necessitate that a <u>prepayment</u> of affiliate Management Fees should be reflected in the utility's lead-lag study for ratemaking purposes?

A. Apparently, not. The review of what is reasonable for ratemaking purposes typically occurs when an issue arises in the context of a rate case. The West Virginia Public Service Commission addressed a similar issue in a recent rate case for one of AAWC's affiliated water companies operating in that jurisdiction.

Q. How was a similar argument presented by AAWC's water utility affiliate in a recent West Virginia rate case?

A. In West Virginia Public Service Commission ("PSC") Case No. 08-0900-W-42T, West Virginia American Water Company ("WVAWC") presented a similar argument, citing the provisions of its Service Agreement with AWWSC, and claiming that such Agreement

would somehow require WVAWC ratepayers to pay a return on the rate base/CWC impact of such an affiliated services prepayment arrangement.

Q. How did the West Virginia PSC decide that issue?

A. In its Commission Order dated March 25, 2009, the West Virginia PSC rejected the arguments presented by the water utility and adopted the adjustment recommended by the Consumer Advocate Division ("CAD"). Pages 35-36 of the West Virginia PSC's Order state as follows:

> The Commission is not persuaded that the CAD recommendation is unreasonable or requires actions on the part of the Company that violate its agreement with AWWSC. The agreement allows AWWSC to provide a current bill 'as soon as practicable' after the last day of each month. It also provides that AWWSC provide an estimate of the bill for the next month. However, <u>there is no provision for advance payments of the next monthly bill.</u> While WVAWC should not act unreasonably in making payments to AWWSC, <u>a lag comparable with its own payroll lags does not appear to be unreasonable, while an advance payment does appear to be unreasonable.</u> The Commission will adopt this CAD adjustment to the Cash Working Capital.
>
> (Emphasis supplied)

Consequently, the West Virginia Commission used the 12-day labor cost payment lag for the affiliated Service Company Management Fees in the lead-lag study.

Q. Is your recommended adjustment to AAWC's lead-lag study for the lag for payments to the affiliate AWWSC essentially the same recommendation that was recently adopted by the West Virginia PSC?

A. Yes. AAWC's lead-lag study shows the same 12-day lag for that utility's direct payroll as did WVAWC's lead-lag study. I have applied this same 12-day lag for the AAWC direct

payroll as a reasonable payment lag for payments to the affiliate AWWSC, which provides services to WVAWC as well as AAWC.

Q. Might a payment lag longer than 12 days be reasonable for payments to this affiliate?

A. Yes. As shown on AAWC – Anthem Water Schedule B-6, lines 14 and 15, for example, AAWC's overall weighted lags for Maintenance Expense and Other Operating Expenses are 33.6 and 30.0 days, respectively. Consequently, applying the 12-day lag for AAWC's direct payroll[2] as a payment lag for payments to the affiliate AWWSC is probably a bit conservative.

3. Other Expense Adjustments

Q. Have you also adjusted Cash Working Capital for each district for your recommended adjustments to operating expenses?

A. Yes. Schedule B-4 for each district on Attachment RCS-2 (for water) and RCS-3 (for wastewater) also reflects adjustments for operating expense amounts.

Summary of Cash Working Capital Adjustments

Q. What is your adjusted Cash Working Capital allowance for each district?

[2] See, RUCO Attachment RCS-2 and RCS-3, Schedule B-4, line 1, Labor, for each respective district which has a composite weighted payment lag of 12.00 days, meaning that payment is made, on average, 12 days after service is provided.

A. My recommended adjusted Cash Working Capital allowance is shown on Attachments RCS-2 and RCS-3, Schedule B-4 for each district, and how it compares with AAWC's request, is summarized in the following table:

Summary of Adjustments to Cash Working Capital

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY Rate Base	$ (108,000)	$ (159,000)	$ (112,000)	$ (100,000)	$ (82,000)	$ (561,000)

IV. ADJUSTMENTS TO OPERATING INCOME

Q. Please describe how you have summarized RUCO's proposed adjustments to operating income.

A. Attachment RCS-2 includes for each district, and in summary for the water systems and, separately, for the wastewater districts included in AAWC's filing, a Schedule C that shows AAWC's requested net operating income, RUCO adjustments, and RUCO's adjusted net operating income. Schedule C.1 presents RUCO's recommended adjustments to Arizona test year revenues and expenses. The impact on state and federal income taxes associated with each of the recommended adjustments to operating income is also reflected on Schedule C.1. AAWC's proposed adjusted test year net operating income and RUCO's recommended adjusted net operating income for each district is summarized in the following table:

District	Adjusted Net Operating Revenue Increase		
	Per Company	Per RUCO	Difference
Anthem Water	$ 514,448	$ 667,437	$ 152,989
Sun City Water	$ 861,085	$ 1,354,113	$ 493,028
Anthem/Agua Fria Wastewater	$ (191,785)	$ 23,202	$ 214,987
Sun City Wastewater	$ (51,593)	$ 64,724	$ 116,317
Sun City West Wastewater	$ 618,443	$ 740,390	$ 121,947
Total	$ 1,750,598	$ 2,849,864	$ 1,099,266

The recommended adjustments to operating income are discussed below in the same order as they appear on Schedule C.1.

C-1 Customer Annualization Correction (Anthem Water District)

Q. Please explain RUCO Adjustment C-1.

A. AAWC's response to RUCO 2-48 says that RUCO witness Rodney Moore[3] found errors in the Company pro forma annualization for Anthem Water, which the Company is accepting and will reflect in their rebuttal. RUCO Adjustment C-1 in Attachment RCS-2 reflects the correction of such errors in computing the revenue requirement for Anthem Water. This adjustment decreases the amount of annualized revenue at current rates for Anthem Water by $9,456.

C-2 Rate Case Expense (All Districts)

Q. What has AAWC requested for rate case expense?

A. AAWC has requested $678,425 for the current case, amortized over three years, plus amortization of the remaining unamortized balance from prior rate cases. The $678,425

[3] Mr. Moore will be presenting the rate design testimony for RUCO.

is shown on AAWC witness Broderick's Exhibit TMB-2. The amounts requested for the prior rate cases of $149,119 is from AAWC witness Kiger's direct testimony at page 10 and was requested over three years as an amortization in AAWC adjustment MHK-8.

Q. Why does the Company state it is asking for more rate case expense than in Docket No. 08-0227?

A. Page 11 of AAWC witness Broderick's testimony states that: "The primary reason this [$678,425] estimate is higher than the most recent (seven district) rate case is primarily due to the anticipated additional requirement to provide a required public notice to all 154,000 Arizona-American customers of the proposed consolidated rates – at a cost of roughly $95,957. There is additional cost to have our rate design expert, Mr. Paul Herbert, design, support and explain consolidated rates. We also anticipate mailing a postcard to all customers concerning public meetings about rate consolidation at a cost of approximately $40,000." AAWC Exhibit TMB-2 presents an itemization of the Company's estimated rate case expense, by component, which sums to the $678,425. In addition to the components mentioned above, this includes $230,000 for legal representation, $65,000 for a cost of equity witness, $65,000 for a rate design witness, $15,000 for compliance for an Anthem rate tiers study, $75,000 for "Shared Services" which appears to be for affiliate labor-related charges, $20,000 for newspaper publishing of initial public notice and ACC public comment meetings, $47,500 related to Company-sponsored community meetings, and $50,329 for an initial public notice letter to 81,176 customers.

Q. Was a request made for the Company's supporting documentation?

A. Yes. A request for the supporting documentation was made in RUCO 2-40(a).

Q. What did that response state regarding the initial public notice?

A. With regard to the initial public notice, the response to RUCO 2-40(a) stated: "Overall, to-date, expenses are running slightly under budget because **the initial required public notice was sent as a bill insert and not as a separately mailed letter**. However, legal expenses are expected to later be over budget." (Emphasis supplied.) Company Exhibit TMB-2 listed an estimated expense of $50,329 for the initial public notice.

Q. What amount of rate case expense was allowed in Decision No. 71410?

A. Decision No. 71410 states at page 39 that: "We find total rate case expense of $456,275, normalized over three years and allocated across the seven districts using the Company's four factor allocation methodology as agreed to by Staff to be reasonable, and will allow it." (footnote omitted).

Q. What does that equate to as an average per-district?

A. The $456,275 for the seven districts would average $65,182 per district. As noted above, the amount was allocated to the districts using the four factor allocation, rather than a straight average.

Q. Does there appear to be "economies of scale" in addressing multiple districts in a single rate case?

A. Yes. While there are some issues that pertain only to a single district, there are also several common issues affecting all of the districts in the filing are addressed in the same rate case. Also, the $456,275 for seven districts, which equates to $65,182 average per district from Decision No. 71410, appears to be lower on a per-district basis than cases filed by AAWC having fewer districts.

Q. How many districts are included in the current AAWC filing?

A. Five districts, including three wastewater districts and two water districts.

Q. If the average cost per district from Decision No. 71410 for the seven districts included in that case was used as a reasonableness check on AAWC's requested amount, what would the equivalent amount be for the current case, which includes five districts?

A. The $456,275 for the seven districts from Decision No. 71410 divided by 7 and multiplied by 5 produces an amount of approximately $330,000:

	$ 456,275	Decision No. 71410 For Seven Districts
/	7	Number of districts in last case
x	5	Number of districts in current case
	$ 330,000	Approximate Equivalent 5 District Amount

Q. The Anthem and Agua Fria wastewater districts are combined in this case. If those districts were counted separately, what would the average "per district" cost be?

A. If the Anthem and Agua Fria wastewater districts were counted separately, that would mean 6 districts are included in the current AAWC filing, and the proportional amount would be approximately $390,000:

	$ 456,275	Decision No. 71410 For Seven Districts
/	7	Number of districts in last case
x	6	Number of districts in current case*
	$ 390,000	Approximate Equivalent 6 District Amount

*If Anthem and Agua Fria wastewater were considered as separate districts

In summary, if all other things were equal, a rate case with fewer utility districts should equate to a lower allowable total amount for rate case expense than a comparable filing with a higher number of utility districts.

Q. Were the "unamortized" amounts from the prior rate case that AAWC had requested allowed?

A. No. Decision No. 71410, at page 39, addressed this and states as follows:

> RUCO opposes the inclusion in rates set in this case [of] the $62,000 of Decision No. 69440 rate case expenses, and Staff is in agreement. RUCO argues that it should not be allowed because the amortization of rate case expense for two separate rate cases in one rate case is not a normal recurring expense; it would allow the Company to recover expenses associated with rates that are no longer in effect; and it would reimburse the Company for an expense that does not provide a benefit to current ratepayers.
>
> "We agree with RUCO and Staff that it would be inappropriate to allow Decision No. 69440 rate case expenses. As RUCO argues, allowing recovery of the Decision 69440 rate case expenses would contravene the ratemaking convention of setting rates at a normal recurring level of expenses, and would improperly result in charging ratepayers for expenditures related to rates that are no longer in effect, and it therefore must be rejected. (footnotes omitted.)

Q. Has the Company identified the allowed amounts of rate case expense in other recent AAWC rate cases?

A. Yes. The Company's response to RUCO 2-78(b) states that:

> Decision No. 71410, dated December 8, 2009, allowed $456,275 in a seven district rate case. Decision No. 70372, dated June 13, 2008 allowed $300,000 in a three district rate case. Decision No. 70351, dated May 16, 2008 allowed $94,264 in a one district rate case.

AAWC's response to RUCO 2-78(c) states that:

> "The amortization period for Decisions No. 71410 and 70372 was three years and Decision 70351 was four years."

Q. Please explain RUCO Adjustment C-2.

A. This adjustment removes the cost for the prior rate case, and provides for an allowance of $460,000 for the current case, normalized over three years, for a normalized annual allowance of $153,333. This normalized allowance is allocated to each district in proportion to its four-factor allocator, as shown on Schedule C-2 in Attachment RCS-2 for water and Attachment RCS-3 for wastewater, respectively. The adjustment to reduce AAWC's requested rate case expense for each district is summarized below.

Summary of Adjustments to Rate Case Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (27,003)	$ (24,304)	$ (31,679)	$ (20,573)	$ (18,954)	$ (122,513)

C-3 Incentive Compensation Expense – AAWC Employees (All Districts)

Q. Please explain RUCO Adjustment C-3.

A. This adjustment removes 30 percent of the incentive compensation expense for AAWC employees that the Company had included in the test year.

Q. How did you determine the amount of incentive compensation for AAWC employees that the Company had included in the test year, inclusive of pro forma adjustments?

A. The amount was determined based on the Company's responses to RUCO data requests, which had asked for such information, and from a review of underlying detail contained in the Excel files that were provided by the Company. The 30 percent disallowance has also been applied by the Commission to AAWC's incentive compensation expense in other recent AAWC rate cases including Docket Nos. W/SW-01303A-08-0227, as discussed in Decision No. 71410.

Q. Did RUCO ask AAWC data requests concerning the amount of incentive compensation expense that was included in the test year, inclusive of pro forma adjustments?

A. Yes. RUCO 2-6 and RUCO 3-2 asked for such information.

Q. Does the information listed by AAWC in response to those data requests appear to accurately present the full amount of incentive compensation expense that was included in the test year, inclusive of pro forma adjustments?

A. No, it does not. As summarized in the following table, the amounts listed by AAWC in its responses to RUCO 2-6 and RUCO 3-2 only appear to include the "corporate allocation" amounts from Account 501711 and that AAWC has included in its request, amounts

which include "12/31/2008 recorded" plus the "corporate allocation" amounts in Account 501711, which are shown in columns A, B and C of the following table:

Incentive Plan Expense Requested by AAWC: Account 501711

District	12/31/08 Recorded	Corporate Allocation	12/31/08 Actual	Per RUCO 2-6 & RUCO 3-2	Difference
	(A)	(B)	(C)	(D)	(E)
Anthem Water	$ 3,496	$ 44,560	$ 48,056	$ 44,560	$ 3,496
Sun City Water	$ 4,224	$ 58,075	$ 62,299	$ 58,075	$ 4,224
Anthem/Aqua Fria Wastewa	$ -	$ 58,795	$ 58,795	$ 58,795	$ -
Sun City Wastewater		$ 35,906	$ 35,906	$ 35,906	$ -
Sun City West Wastewater	$ 17,753	$ 30,382	$ 48,135	$ 30,382	$ 17,753
Total	$ 25,473	$ 227,718	$ 253,191	$ 227,718	$ 25,473

I have used the amounts listed in column C of the above table which total to $253,191 as the basis for this adjustment. In response to RUCO 6-1, the Company clarified its previous responses and confirmed that the amounts shown in column C accurately reflect the incentive compensation expense included in its filing for these districts.

Q. Did the Company provide a copy of its incentive compensation plan?

A. Yes, a copy was provided in response to RUCO 2-6.

Q. Please briefly discuss the key provisions of the incentive compensation program.

A. According to the 2008 Annual Incentive Plan - Rewarding Achievement, the annual incentive plan ("AIP" or "Plan") is designed to reward participants for the performance results attained by such participants and the Company during the plan year. These

performance standards are comprised of the three following components: (1) Financial (Corporate, Divisional/Regional and State), Operational and Individual.

Financial Component

The financial component is based on operating income. The performance level is determined at the Corporate, Divisional/Regional and State levels. In 2008, more than 85% of the operating income target for the entire Company had to be achieved before incentive compensation was awarded based on the corporate financial component of the Plan, although such an award could be made on the Divisional/Regional and State financial components if operating income exceeded 85% of the target. In addition, more than 75% of the Corporate operating income target had to be achieved in order for any payments to be made on any components of the Plan for the entire Company.

Operational Component

The operational component is based on the following:

- Environmental Compliance: Environmental compliance is measured by "Notice of Violation ("NOV") count defined as the number of times an official notice is issued by a primacy agency for failure to comply with a federal, state or local government statute or regulation that is covered under the scope of the American Water Environmental Management Policy.

- Safety Performance: Safety performance is measured on an OSHA Total Recordable Incident Rate ("ORIR") which is defined as the rate of total injuries requiring treatment beyond first aid per 200,000 hours worked. ORIR focuses on total injury reduction which by extension improves Lost Work Day Case Rate ("LWCR") and correlates more closely to workers compensation claims and costs. LWCR will remain a personal performance goal for the Operations and Operational Risk Management functions.

- Customer Satisfaction: Customer satisfaction is based on the results of the annual Customer Satisfaction Survey ("CSS") conducted in the fourth quarter of each year through randomly selected customer contacts in each state.

- Service Quality: Service quality is based on the annual results of the Service Quality Surveys ("SQS") conducted throughout the year with customers having had recent contact with a customer service or field service representative.

- Service Level: Percentage of calls answered in the Customer Service Center within a certain timeframe.

- Quality Measures (Shared Services Center): (1) SSC error rate – number of financial statement errors; (2) Reconciliations – calendar year average of accounts beyond policy; and (3) Timeliness of Processes – annual percentage of processes conducted according to schedule (e.g. tax filings, consolidated financial statements, external audit information submissions, days to image & process invoices and Orcom rate changes.

- Compliance (Shared Services Center ("SSC") – (1) External audit findings – number of unrecorded differences and topside entries; (2) internal audit findings – number of instances of deviations from policy/procedures during SOX testing; and (3) external filing requirements – annual reports and Commission reports completed by established deadlines for SSC.

Each operational component discussed above is measured as follows:

Environmental Compliance – 25%
Safety Performance – 25%
Customer Satisfaction – 25%
Service Quality – 25%

Individual Component

The individual component includes Performance Targets as agreed to by participants and managers within the Companywide standard performance management process. The Company will provide an AIP letter which outlines the Company component targets. Individual performance is assessed using American Water's Performance Management and Development Review ("PDR") process whereby the PDR requires each individual to have five performance targets. Each of these five performance targets should be specific, measurable and aligned with the Company's performance targets.

Q. What criteria has the Commission found important in deciding issues concerning utility incentive compensation in recent cases?

A. The criteria the Commission has found important in deciding this issue in recent cases are described in various orders which have addressed the treatment of utility incentive compensation expense for ratemaking purposes. In Decision No. 68487 (February 23, 2006), the Commission adopted Staff's recommendation for an equal sharing of costs associated with the Southwest Gas Corporation's ("SWG") Management Incentive Plan ("MIP") expense. For example, in reaching its conclusion regarding SWG's MIP, the Commission stated in part on page 18 of Order 68487 that:

> We believe that Staff's recommendation for an equal sharing of the costs associated with MIP compensation provides an appropriate balance between the benefits attained by both shareholders and ratepayers. Although achievement of the performance goals in the MIP, and the benefits attendant thereto, cannot be precisely quantified there is little doubt that both shareholders and ratepayers derive some benefit from incentive goals. Therefore, the costs of the program should be borne by both groups and we find Staff's equal sharing recommendations to be a reasonable resolution.

AAWC has not refuted the fact that both shareholders and ratepayers derive some benefit from incentive goals when such goals are achieved by AAWC employees.

Q. Do AAWC's shareholders and customers both benefit from the achievement of incentive compensation program?

A. Yes. Shareholders benefit from the achievement of financial goals. Additionally, shareholders benefit from the achievement of expense reduction and expense containment

goals between rate cases. Shareholders and ratepayers can both benefit from the achievement of customer service goals.

Q. Why have you used a 30 percent disallowance for the incentive compensation for AAWC employees?

A. The 30 percent disallowance is what the Commission had determined for AAWC incentive compensation in prior AAWC rate cases, including Decision No. 71410 and 68858.

Q. Could a higher percentage disallowance be justified?

A. I believe so. In general, incentive compensation programs can provide benefits to both shareholders and ratepayers. The removal of 50% of the incentive compensation expense, in essence, provides an equal sharing of such cost, and therefore provides an appropriate balance between the benefits attained by both shareholders and ratepayers. Both shareholders and ratepayers stand to benefit from the achievement of performance goals; however, there is no assurance that the award levels included in the Company's proposed expense for the test year will be repeated in future years.

Q. Please summarize your recommendation concerning AAWC's incentive compensation expense.

A. I recommend continuing the 30 percent allocation for AAWC's incentive compensation expense to shareholders ordered by the Commission in Decision No. 71410. This results in a reduction to test year expense of $75,959, as summarized in the table below.

Summary of Adjustments to Achievement Incentive Pay

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (14,417)	$ (18,690)	$ (17,639)	$ (10,772)	$ (14,441)	$ (75,959)

Q. Does this adjustment address incentive compensation expense charged to AAWC from affiliates?

A. No. The incentive compensation charged to AAWC from affiliates as part of the affiliate Management Fee is addressed in a subsequent section of my testimony.

C-4 Stock-Based Compensation Expense (All Districts)

Q. What expense for stock-based compensation has AAWC stated that it included in its filing?

A. The Company's response to RUCO 2-25 listed the following amounts for stock-based compensation:

Amounts of Test Year Stock-Based Compensation Expense per AAWC's Response to RUCO 2-25:		
Description	Account Number	Amount
Compensation - Stock Options	501716	$ 36,693
Compensation - Restricted Stock	501717	$ 28,834
Compensation - Restricted Stock Units	501718	$ 4,046
Total Test Year Stock-Based Compensation		$ 69,573

Q. Did you uncover conflicting information regarding the stock-based compensation expense in Account No. 501717?

A. Yes. The Company's response to RUCO 2-25 indicated that for Account No. 501717 – Comp-Restricted Stock, the Company listed the test year amount as $28,834. However, as shown in the table below, the referenced Company workpaper indicated that AAWC recorded a total of $49,751 during the test year for this expense in Account 501717 for the districts that are the subject of this proceeding:

Acct.	Description	Anthem Water	Sun City Water	Anthem Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
501717	Comp Exp-Restricted Stk	$ 9,735	$12,688	$ 12,845	$ 7,845	$ 6,638	$49,751

In response to RUCO 6-3, AAWC stated that the Company inadvertently provided only the Service Company portion of stock-based compensation in its response to RUCO 2-25. In addition, the Company further stated in RUCO 6-3 that due to an accounting error, some stock-based compensation was erroneously booked to an AAWC district that is not part of this proceeding. As a result, in the response to RUCO 6-3, the Company provided updated test year amounts for the Service Company and AAWC non-affiliate portions of stock-based compensation included in cost of service.

Q. Has stock-based compensation expense been disallowed by the Commission in rate cases for other utilities?

A. Yes. In Decision No. 69663, the Commission adopted Staff's recommendation that stock-based compensation be disallowed for Arizona Public Service Company ("APS").

Q. Was the adjustment to remove APS' stock-based compensation expense made by the Commission in the Company's last rate case despite attempts by APS to demonstrate that its total compensation, including incentives, was reasonable?

A. Yes. At page 36 of Decision No. 69663, the Commission rejected an argument made by APS that the Commission should look at the reasonableness of total compensation and not at how compensation is determined or its individual components, when it stated as follows:

> APS argues that the issue is whether APS compensation, including incentives, is reasonable. APS does not believe that the Commission should look at how that compensation is determined or its individual components, but rather should just look at the total compensation. The Company argues that the interests of investors and consumers are not in fundamental conflict over the issue of financial performance, because both want the Company to be able to attract needed capital at a reasonable cost...We agree with Staff that APS' stock-based compensation expense should not be included in the cost of service used to set rates...To the extent that Pinnacle West shareholders wish to compensate APS management for its enhanced earnings, they may do so, but it is not appropriate for the utility's ratepayers to provide such incentive and compensation.

Q. Was stock-based compensation expense also disallowed in the Commission's decision in a rate case involving UNS Electric, Inc.?

A. Yes, it was. In Decision No. 70360 at page 22, the Commission, in referencing a similar decision regarding Southwest Gas Corporation as well as APS' last rate case stated:

> For these same reasons, we agree with Staff that test year expenses should be reduced to remove stock-based compensation to officers and employees...The disallowance of stock-based compensation is consistent with the most recent rate case for Arizona Public Service Company (Decision No. 69663).

Q. Was stock-based compensation expense removed by Staff in other recent utility rate cases?

A. Yes. Staff also removed the utility's stock-based compensation expense in the recent rate cases of Tucson Electric Power Company, Docket No. E-01933A-07-0402 and Southwest Gas Corporation, Docket No. G-01551A-07-0504.[4]

Q. Please discuss the reasons for removing stock-based compensation.

A. Ratepayers should not be required to pay executive compensation that is based on the performance of the Company's (or its parent company's) stock price. Additionally, prior to being required to expense stock options for financial reporting purposes under Statement of Financial Accounting Standards No. 123 Revised (SFAS 123R), the cost of stock options was typically treated as a dilution of shareholders' investments, i.e., it was a cost borne by shareholders. While SFAS 123R now requires stock option cost to be expensed on a company's financial statements, this does not provide a reason for shifting the cost responsibility for stock options from shareholders to utility ratepayers.

Q. Please explain your adjustment to AAWC's Stock-Based Compensation.

A. As shown on Schedule C-4, using the updated amounts reference above, this adjustment decreases test year expense by $123,782 to reflect the removal of AAWC's stock-based compensation for the AAWC districts in the current rate case. The expense of providing

[4] Staff's adjustment to remove TEP's stock-based compensation was incorporated into a settlement approved by the Commission in Decision No.70628. The ALJ's recommended opinion and order in Docket No. G-01551A-07-0504 adopted Staff's adjustment to remove stock-based compensation expense. The Commission's Decision No 70665 in that case adopted the adjustment to remove expense for Southwest Gas's stock-based compensation expense.

stock options and other stock-based compensation to officers and employees beyond their other compensation should be borne by shareholders and not by ratepayers.

Q. What adjustment do you recommend for AAWC's stock-based compensation expense by district?

A. As shown on Schedule C-4, expense for the AAWC districts in the current rate case is reduced by $123,782. The adjustment is summarized in the table below.

Summary of Adjustments to Stock-Based Compensation

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (24,222)	$ (31,568)	$ (31,959)	$ (19,518)	$ (16,515)	$ (123,782)

C-5 Normalized Pension Expense (All Districts)

Q. What amount of pension expense has AAWC requested?

A. AAWC has requested pension expense of $2.090 million, before allocation among districts, based on funding payments into the defined benefit pension plan trust for 2009.

Q. How does the $2.090 million pro forma amount used by AAWC for Pensions compare with the actual recorded expense in recent years?

A. It is significantly higher than any amount for the last five years, 2004-2008, as shown in the following table:

Comparison of Annual Pension Amounts

Year	Amount		AAWC Request Exceeds By Amount	Percent
Actual Recorded:				
2004	$ 146,893	[a]	$ 1,943,107	1322.8%
2005	$ 317,798	[a]	$ 1,772,202	557.7%
2006	$ 1,013,141	[a]	$ 1,076,859	106.3%
2007	$ 903,222	[a]	$ 1,186,778	131.4%
2008	$ 1,734,561	[a]	$ 355,439	20.5%
Averages:				
2004-2008	$ 823,123		$ 1,266,877	153.9%
2006-2008	$ 1,216,975		$ 873,025	71.7%
2007-2008	$ 1,318,892		$ 771,109	58.5%
AAWC Requested	$ 2,090,000	[b]		
RUCO Normalized	$ 1,318,892	[c]		

Notes and Source
[a] Annual recorded amounts from response to RUCO 2-60
[b] Company's requested amount is from AAWC Exhibit SLH-2 and is based upon 2009 funding contributions
[c] Based on two-year average, 2007-2008

The 2009 amount used by AAWC is abnormally high, and the unusually high amount appears to be driven by the poor stock market performance that occurred with the worldwide financial crises that began unfolding in the second half of 2008.

Q. Do you have other concerns about AAWC's request for pension expense in this case?

A. Yes, the amount requested by AAWC does not appear to have been based on its net periodic pension cost that is accrued pursuant to Statement of Financial Accounting Standards No. 87 ("FAS 87') but rather on a funding amount, which is subject to management discretion. As explained in response to RUCO 2-52, AAWC's requested pension expense "is based upon the funding requirement for the upcoming year based upon the actuarial report of Towers Perrin." A copy of that actuarial report was provided in response to RUCO 2-52.

Q. What is shown in that actuarial report?

A. The actuarial report provided in the response to RUCO 2-52, dated March 2009, is for the American Water Works Company, Inc. (AWWC) defined benefit pension plan, and includes information on the following:

- Pension Cost for Fiscal Year Ending December 31, 2009
- Employer Contributions for Plan Year Beginning July 1, 2008

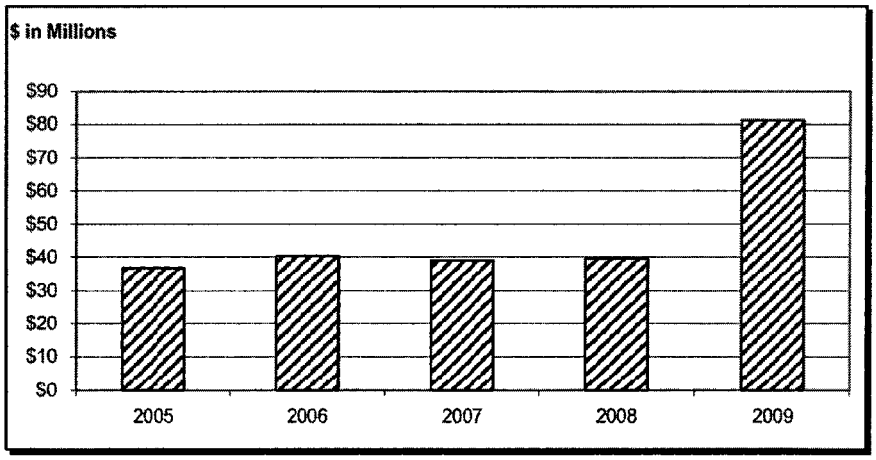
Q. Does the actuarial report show the net periodic pension cost per FAS 87?

A. Yes, it does.

Q. What was the FAS 87 Pension Cost amount and how does it compare with prior years?

A. The FAS 87 pension cost for January 1, 2009 for AWWC is listed on page MS-2 of the report and is $81,116,478. The 2009 expense is much higher than in previous years as shown in the "History of Pension Cost" tables from page MS-4 of the report, which are reproduced for ease of reference below:

History of Pension Cost



The following table shows the relative dollar amounts in total and the percent of covered pay:

History of Pension Cost

Fiscal year	Pension cost: Amount	Pension cost: Percent of covered pay	Discount rate
2009*	$ 81,116,478	26.1%	6.12%
2008*	39,625,996	13.4	6.27
2007*	38,968,697	13.5	5.90
2006	40,327,960	16.7	5.65
2005	36,845,672	15.5	6.00

* All values on or after 2007 reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

As can be seen, the total cost for 2009 has more than doubled the cost of any of the prior years, 2005 through 2008. Additionally, the cost as a "percent of covered pay" at 26.1 percent for 2009 is also almost double the 13.4 percent and 13.5 percent for the prior years 2008 and 2007, respectively. As shown on page SI-3 of the actual report, the dollar cost

per active participant is $16,626 for fiscal 2009, which is more than double the comparable amount of $7,842 for fiscal 2008.

Q. Does the actuarial report show how the pension cost under FAS 87 changed from 2008 to 2009?

A. Yes. This is shown at page MS-2, and summarized in the following table:

Change in Pension Cost and Overfunded (Underfunded) PBO

The pension cost increased from $39,625,996 in fiscal 2008 to $81,116,478 in fiscal 2009 and the underfunded PBO increased from $(265,135,065) on January 1, 2008 to $(479,814,107), as set forth below:

	Pension Cost	Funded Position
Prior year	$ 39,625,996	$ (265,135,065)
Change due to:		
▸ Expected based on prior valuation	(2,982,015)	42,493,168
▸ Loss (gain) from noninvestment experience	1,762,793	(16,002,728)
▸ Loss (gain) from asset experience	37,809,962	(209,099,734)
▸ Assumption changes	4,899,742	(32,069,748)
▸ Plan amendments	0	0
Current year	$ 81,116,478	$ (479,814,107)

As can be seen, there was a loss on the assets of over $209 million which resulted in an increase to the pension cost of approximately $37.8 million. Page MS-3 of the report lists the following as "significant reasons" for the changes:

- The return on the fair value of plan assets since the prior measurement date was less than expected, which increased the underfunded PBO and increased pension cost.
- The assumed rate of future salary increases was lowered by 25 basis points, which decreased pension cost and decreased the underfunded PBO.
- The overtime assumption for union participants and nonunion, nonexempt participants was increased, which increased the underfunded PBO and decreased pension cost.
- The discount rate for benefit obligations was changed from 6.27% to 6.12%, which increased pension cost and increased underfunded PBO.

- Minor losses from what was assumed for plan demographics occurred, which increased pension cost and increased underfunded PBO.

As described on page SI-1 of the actuarial report, the plan experienced a rate of return of negative 24.6 percent in 2008, and had an investment return of negative $160 million. This compares with a negative investment return of $41.9 million in 2007, which equated to a negative return of approximately 6.6 percent.

Q. You mentioned that the return on the AWWC defined benefit pension plan assets was a negative 24.6 percent in 2008, which contributed to the abnormally high pension expense that AAWC is seeking. Did the Company provide the return on pension plan assets for 2009?

A. Yes. The Company's response to RUCO 2-95 states that, "the total return year-to-date 2009 is 20.34%."

Q. Does the actuarial report describe AAWC's funding policy for its defined benefit pension plan?

A. Yes. This is discussed at page MS-6, as follows:

> American Water's funding policy is to contribute an amount equal to the minimum required contribution under ERISA. American Water may increase its contribution above the minimum if appropriate to its tax and cash position and the plan's funded position. American Water makes plan contributions each plan year in four installments, one in August, one in November, one in February, and one in May, which, in total, suffice to cover the minimum funding requirement for the plan year, and, individually, suffice to cover the quarterly requirements in October, January, April, and July respectively of each plan year.
>
> Plan year contributions were made in the amounts of $15,000,000 during August of 2008, $15,000,000 during November of 2008, and $17,100,000

during February of 2009. Additionally, $17,100,000 is expected to be funded during May of 2009.

Q. Are the funding contributions discretionary with management?

A. Yes. Within limits, the funding contributions for a defined benefit pension plan are discretionary with AWWC management.

Q. What are the limits based upon?

A. The limits typically involve looking at three areas:

(1) the minimum required contribution under ERISA;

(2) the contribution needed to meet the funding target under the Pension Protection Act of 2006 ("PPA"); and

(3) the maximum tax deductible contribution.

The ERISA and PPA analysis is sometimes used to establish the minimum amount of annual funding. Frequently, there can be an extremely wide range between some of these measures. For example, as described in the actuarial report on pages MS-5 and MS-6, the estimated maximum tax deductible contribution was $737.3 million and the minimum funding requirement under the PPA was approximately $64.2 million. These figures for the plan year beginning July 1, 2008 are also shown on pages SI-6 and SI-8, along with comparative information from the prior year. The difference between the maximum tax deductible contribution of $737.3 million and the minimum required contribution of $64.2 million is over $673 million, and the amount to choose to contribute to the defined benefit plan trust within this range is up to management discretion.

Q. What do you recommend for pension expense in the current case?

A. I recommend using a two-year average of the FAS 87 amounts for pension expense to establish a normalized level for AAWC in the current case. The use of an average is needed because the 2009 results are abnormally high and reflect a FAS 87 amount that almost doubled the 2007 and 2008 experience, largely due to the poor investment returns experienced by the pension trust in the latter part of 2008 and early 2009.

Q. Is it widely accepted to use the FAS 87 amounts for establishing pension expense in utility ratemaking proceedings?

A. Based on my experience, yes it is. Regulatory commissions typically either base pension expense upon the FAS 87 accruals, or use the cash funding contributions. Because the range of potential cash funding contributions has become so wide in recent years, and is subject to such a degree of management discretion, I believe it is better to base the ratemaking allowance for pension expense on the FAS 87 results, normalized to remove the abnormal results that affected the AWWC defined benefit plan for 2009.

Q. How does your recommendation for a normalized level of pension cost compare with prior years, and with AAWC's request, in terms of a cost per participant and percent of covered pay?

A. These comparisons are presented in the following tables:

Pension Cost Per Active Participant and As Percent of Covered Pay			
Period	Per Active Participant	Percent of Covered Pay	Notes/ Source
Fiscal 2006	$ 8,836	16.70%	[a]
Fiscal 2007	$ 7,700	13.50%	[a]
Fiscal 2008	$ 7,842	13.40%	[a]
Fiscal 2009	$ 16,626	26.10%	[a]
RUCO Normalized	$ 11,374	14.50%	[b]
AAWC Requested	$ 19,539	24.90%	[c]
Notes/Source			
[a] Per AWWC actuarial reports, May 2007 and March 2009 [b] RUCO adjustment, percent of covered pay estimated [c] AAWC adjustment, percent of covered pay estimated			

Q. Has the parent company, AWWC, closed its defined benefit plan to new employees?

A. Yes. In general, employees hired or rehired after January 1, 2006 are not eligible to participate in the AWWC defined benefit pension plan.[5]

Q. Is closing or limiting participation in defined benefit pension plans consistent with an overall trend?

A. Yes, it certainly appears to be. For example, in March 2009, the U.S. Government Accountability Office issued a report (GAO-09-291, dated March 30, 2009)[6], which concluded that:

> **The number of private defined benefit (DB) pension plans**, an important source of retirement income for millions of Americans, **has declined substantially over the past two decades. For example, about 92,000 single-employer DB plans existed in 1990, compared to just under 29,000 single-employer plans today.** Although this decline has been concentrated among smaller plans, **there is a widespread concern that large DB plans covering many participants have modified, reduced, or**

[5] Details of eligibility are described in the March 2009 actuarial report at page SI-23, including certain exceptions for certain union groups.
[6] A copy of the complete GAO study can be obtained online at: http://www.gao.gov/new.items/d09291.pdf

otherwise frozen plan benefits in recent years. GAO was asked to examine (1) what changes employers have made to their pension and benefit offerings, including to their defined contribution (DC) plans and health offerings over the last 10 years or so, and (2) what changes employers might make with respect to their pensions in the future, and how these changes might be influenced by changes in pension law and other factors. To gather information about overall changes in pension and health benefit offerings, GAO asked 94 of the nation's largest DB plan sponsors to participate in a survey; 44 of these sponsors responded. These respondents represent about one-quarter of the total liabilities in the nation's single-employer insured DB plan system as of 2004. The survey was largely completed prior to the current financial market difficulties of late 2008.

GAO's survey of the largest sponsors of DB pension plans revealed that **respondents have made a number of revisions to their retirement benefit offerings over the last 10 years or so. Generally speaking, they have changed benefit formulas; converted to hybrid plans (such plans are legally DB plans, but they contain certain features that resemble DC plans); or frozen some of their plans.** Eighty-one percent of responding sponsors reported that they modified the formula for computing benefits for one or more of their DB plans. Among all plans reported by respondents, 28 percent of these (or 47 of 169) plans were under a plan freeze--an amendment to the plan to limit some or all future pension accruals for some or all plan participants. The vast majority of respondents (90 percent, or 38 of 42 respondents) reported on their 401(k)-type DC plans. Regarding these DC plans, a majority of respondents reported either an increase or no change to the employer or employee contribution rates, with roughly equal responses to both categories. About 67 percent of (or 28 of 42) responding firms plan to implement or have already implemented an automatic enrollment feature to one or more of their DC plans. With respect to health care offerings, all of the (42) responding firms offered health care to their current workers. Eighty percent (or 33 of 41 respondents) offered a retiree health care plan to at least some current workers, although 20 percent of (or 8 of 41) respondents reported that retiree health benefits were to be fully paid by retirees. Further, 46 percent of (or 19 of 41) responding firms reported that it is no longer offered to employees hired after a certain date. At the time of the survey, most sponsors reported no plans to revise plan formulas, freeze or terminate plans, or convert to hybrid plans before 2012. When asked about the influence of recent legislation or changes to the rules for pension accounting and reporting, responding firms generally indicated these were not significant factors in their benefit decisions. Finally, a minority of sponsors said they would consider forming a new DB plan. Those sponsors that would consider forming a new plan might do so if there were reduced unpredictability or volatility in DB plan funding requirements and greater scope in accounting for DB plans on corporate balance sheets. **The survey results suggest that the long-time stability of larger DB**

plans is now vulnerable to the broader trends of eroding retirement security. The current market turmoil appears likely to exacerbate this trend.

Q. What type of pension plan does AWWC offer to employees hired after January 1, 2006?

A. The Company's pension expense workpaper states: "Beginning 1/1/06, the Company no longer offers a Pension Plan to new hires. Instead, new hires get the Defined Contribution Plan as a benefit. The Company will contribute 5.25% of Base Pay into a Defined Contribution Plan."

Q. How does the cost of the Defined Contribution Plan compare with the cost of the Defined Benefit plan?

A. The cost comparison is shown in the following table:

Average Cost Per Active Participant				
As Adjusted	AWWC Defined Benefit Plan	Defined Contribution Plan	Excess Cost for Defined Benefit	Percent Excess for DB Plan
RUCO Normalized	$ 11,374	$ 2,628	$ 8,746	333%
AAWC Requested	$ 19,539	$ 2,628	$ 16,911	643%
Source: Pension adjustment workpaper				

As can be seen, the defined benefit plan is substantially more costly on a "per active participant" basis.

Q. Are you recommending any adjustment for the expense related to AAWC's Defined Contribution Plan?

A. No.

Q. Does RUCO Adjustment C-5 cover pension costs that are charged to AAWC from affiliated companies via the Management Fee?

A. No. RUCO Adjustment C-5 addresses the amount of normalized pension expense for AAWC employees. There are significant additional charges to AAWC from the affiliated Management Fee which include charges for pensions as well as numerous other expenses. The affiliated charges to AAWC from the Management Fee, including the affiliated charges for pensions, are addressed in a subsequent section of my testimony.

Q. What specific adjustment do you recommend?

A. I recommend an adjustment to decrease the Company's requested amount of pension expense by $280,339 as shown on Attachment RCS-2 and RCS-3, Schedule C-5. The amount of pension expense requested by AAWC for each district should be reduced by the amounts listed below:

Summary of Adjustments to Pension Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (39,203)	$ (92,636)	$ (72,483)	$ (25,187)	$ (50,830)	$ (280,339)

Q. Please explain the calculations on Schedule C-5.

A. The Company provided actual AAWC recorded pension expense for prior years in response to RUCO 2-60. I have used the average of 2007 through 2008 as the basis for a normalized pension expense allowance. I have replaced the $2,090,643 abnormally high

2009 result that AAWC used with the $1,318,892 normalized amount, and ran this through the Company's detailed Excel file [AZ 2008 Labor_Pension Adjustment.xls] to derive an adjustment to decrease the Company's requested pension expense by $280,339 for all of the districts in the current case combined. Schedule C-5 shows the amount of adjustment for each of the five districts in this proceeding. Schedule C-5.1, which consists of two pages, reflects the results from using the recommended allowable level, based on the three-year average to determine the normalized amount.

C-6 Normalized Other Post Employment Benefits Expense (All Districts)

Q. What amount of Other Post Employment Benefits ("OPEB") expense has AAWC used?

A. As shown on Company Exhibit SLH-14, AAWC has used an OPEB expense of $95,763, before allocation among AAWC districts and reduced it by a capitalization rate of 18.3 percent, to derive its proposed expense of $78,238.

Q. How does the $95,763 pro forma amount used by AAWC for OPEBs compare with the actual recorded expense in recent years?

A. It is significantly higher than any amount for the last five years, 2004-2008, as shown in the following table:

Comparison of Annual OPEB Amounts

Year	Amount		AAWC Request Exceeds By Amount	Percent
Actual Recorded:				
2004	$ 73,823	[a]	$ 21,940	29.7%
2005	$ 63,196	[a]	$ 32,567	51.5%
2006	$ 74,032	[a]	$ 21,731	29.4%
2007	$ 62,603	[a]	$ 33,160	53.0%
2008	$ 75,723	[a]	$ 20,040	26.5%
Averages:				
2004-2008	$ 69,875		$ 25,888	37.0%
2006-2008	$ 70,786		$ 24,977	35.3%
2007-2008	$ 69,163		$ 26,600	38.5%
AAWC Requested	$ 95,763	[b]		
RUCO Normalized	$ 69,163	[c]		

Notes and Source

[a] Annual recorded amounts from response to RUCO 2-60
[b] Company's requested amount is from AAWC Exhibit SLH-14
[c] Based on two-year average, 2007-2008

Q. Please explain RUCO Adjustment C-6.

A. This adjustment is shown on Schedule C-6 of Attachments RCS-2 and RCS-3 for water and wastewater districts, respectively. This adjustment normalizes the OPEB expense, using an average of 2007-2008 as the basis for deriving a normal level for ratemaking purposes. This adjustment reduces the $95,763 amount used by AAWC to $69,163, before capitalization, and reduces the OPEB expense from $78,238 to $56,529, after capitalization. The adjustment for each of the districts by the amounts is shown on Schedule C-6 of Attachments RCS-2 and RCS-3. For all of the districts included in the current rate case filing, the adjustment decreases OPEB expense by $10,389. The reduction to each district is shown in the following table:

Summary of Adjustments to OPEB Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (2,033)	$ (2,650)	$ (2,682)	$ (1,638)	$ (1,386)	$ (10,389)

C-7 ***Donations, Membership Dues, Advertising and Miscellaneous (All Districts)***

Q. Please explain RUCO Adjustment C-7.

A. This adjustment removes expenses for donations, membership dues, certain advertising expense, and miscellaneous expenses, as shown on Attachment RCS-2, Schedule C-7. These costs, which were identified from AWWC's response to RUCO 2-43, are discretionary and not needed for the provision of safe and reliable utility service.

Q. Was an adjustment made to remove similar expenses in AAWC's last rate case?

A. It appears so. Decision No. 71410 at pages 35-36 states that: "The parties are in agreement that downward expense adjustments should be made to remove civic and charitable contributions, membership dues, and other related miscellaneous expenses not typically recovered from customers, from each of the seven districts through the 4-factor allocation methodology …"

Q. What adjustment should be made in the current AAWC's rate case?

A. The adjustment to remove expenses not typically recovered from customers in the current rate case is shown on Attachment RCS-2, Schedule C-7, and summarized in the following table:

Summary of Adjustments to Dues, Donations & Misc. Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (3,250)	$ (4,237)	$ (4,289)	$ (2,620)	$ (2,216)	$ (16,612)

C-8 Tank Maintenance Reserve Fund Accrual (Sun City Water)

Q. What has AAWC requested for a Tank Maintenance Reserve Fund Accrual?

A. AAWC is requesting an additional expense for Sun City Water of $445,000 annually for a Tank Maintenance Reserve Fund Accrual, as shown on Company Schedule C-2, page 29.

Q. What was the amount of test year Tank Maintenance Expense for Sun City Water?

A. Per AAWC's Schedule C-2, page 29, line 15, the test year Tank Maintenance Expense for Sun City Water was $29,062.

Q. In the current case, did you request AAWC to provide its actual tank painting expense so that a normalization adjustment could be considered?

A. Yes. RUCO 2-91(d) asked AAWC to:

> "Provide the Company's actual tank painting expense, by district, by year, for the ten-year period through 2009. Also indicate which specific tanks were painted in each year, and the cost of painting each tank."

RUCO set 2 of data requests is dated December 21, 2009.

Q. What information did AAWC provide in its response to RUCO 2-91(d)?

A. AAWC's response to RUCO 2-91(d) stated in full: "Please see the attachment labeled "RUCO 2-91d Tank Painting Expenditures.xls" for maintenance detail by district.

Invoices are also included in this file." The response only included information for the 2008 test year, and not for the ten-year period through 2009 as had been requested. RUCO has notified the Company about its deficient response; however, to date the Company has not supplemented its initial response to RUCO 2-91(d) to provide the requested information.

Q. Is the current case the first time AAWC has requested charging ratepayers in advance for a Tank Maintenance Reserve?

A. No. The Commission recently rejected a similar proposal by AAWC in Docket Nos. W-01303A-08-0227 et al. which would apparently have applied for all of the water districts for which AAWC had sought rate increases in that case.

Q. Please discuss the "Tank Maintenance Reserve" issue from Docket Nos. W-01303A-08-0227 et al.

A. Decision No. 71410 discusses this issue at pages 36-37. At page 36, Decision No. 71410 describes the AAWC proposal as follows:

> The Company proposed a reserve for water tank maintenance expense which would provide an annual allowance for tank maintenance costs in operating expenses. Under the Company's proposal, the funds collected through rates would be recorded in a deferred liability account labeled Reserve for Tank Maintenance, and the Reserve for Tank Maintenance account would be charged as tank maintenance expenses are incurred, reducing the balance of funds reserved.

RUCO had not opposed that AAWC adjustment in that docket, but Staff did. The Commission concluded at page 37 of Decision No. 71410 concerning this as follows:

> … we do not believe that it is necessary or reasonable to adopt the Company's proposal for advance funding of a Reserve for Tank

> Maintenance at this time. Because the tank maintenance expense reserve account balance proposed by the Company is not based on known and measureable Company expenditures, we find the normalization of tank maintenance expenses proposed by Staff, which is based on a three year average of expenses for each district, to be the more reasonable alternative. Staff's normalization adjustment will therefore be adopted for each of the six water districts.

In summary, AAWC's proposed Reserve accrual was rejected, and the Commission adopted a normalized amount based on a three-year average, as had been proposed by Staff.

Q. Please explain RUCO adjustment C-8.

A. This adjustment is shown on Attachment RCS-2, Schedule C-8 and removes the $445,000 additional pro forma accrual that AAWC seeks for Sun City Water to fund a Tank Maintenance Reserve. The Company seeks to collect from ratepayers in advance for tank maintenance. This Company request should be rejected because the tank maintenance expense reserve account balance proposed by the Company is not based on known and measureable Company expenditures and therefore, not necessary or reasonable to adopt the Company's proposal for advance funding of a Reserve for Tank Maintenance at this time. As noted above, a similar AAWC proposal was opposed by Staff and rejected by the Commission in Decision No. 71410.

Affiliated Management Fees (All Districts)

Q. What affiliate companies/departments are charging Management Fees to AAWC?

A. American Water Works Service Company (AWWSC) appears to be the primary affiliate that is charging Management Fees to AAWC. The Company's workpapers indicate that

the following organizations or departments have charged Management Fees to AAWC during the test year:

Belleville Lab

- Call Center
- Central Region
- Corporate
- ITS
- Northeast Region
- Shared Service Center
- Southeast Region
- Supply Chain
- Western Region

Q. Does it appear that there may be overlap between the functions and services that are being paid for in the affiliated Management Fee charges to AAWC from "Corporate", "Western Region" and possibly others?

A. Yes. The charges from "Corporate" and from the "Western Region" appear to include charges to AAWC for many of the same types of functions as summarized in the following table:

Functions Charged to AAWC In the Affiliate Management Fee	
From "Corporate"	**From "Western Region"**
Administration	Administration
Audit	
Communications	Communications
Finance	Finance
Human Resources	Human Resources
Legal	Legal
Operations	Operations
Rates & Revenue	
Risk Management	Risk Management
Water Quality	Water Quality
	Customer Service
	Engineering

Q. Does it appear that the affiliated Management Fee charges to AAWC have received a high degree of regulatory scrutiny in recent AAWC rate cases?

A. It does not.

Q. Have you been able to thoroughly review the affiliated Management Fee charges to AAWC in the current AAWC rate case?

A. Not in the detail that these affiliated charges deserve. I have asked and reviewed discovery concerning some of the costs that have been included in AAWC's claim for affiliated Management Fees.

Q. Have you uncovered other information on regulatory commission reviews of Service Company charges to other American Water Works operating utilities, similarly situated to AAWC, of which you believe the Commission should be aware?

A. Yes. It has recently come to my attention that the California Public Utilities Commission ("CPUC") Division of Ratepayer Advocates ("DRA") sponsored and presented a regulatory audit of California-American Water Company's ("Cal-Am") 2009 test year revenue requirement, including a detailed review of General Office ("GO") and affiliated Service Company charges to that water utility. Notably, out of the approximately $16.8 million in General Office expense for the 2009 test year that Cal-Am had requested, the DRA-sponsored detailed audit of such expenses, which included a review of affiliated Service Company charges to Cal-Am (the regulated water utility), recommended adjustments to decrease that expense by approximately $3.6 million, and recommended an adjusted level of approximately $13.2 million. The $3.6 million represented a reduction of approximately 21.5 percent to the $16.8 million that had been requested by Cal-Am for such costs.

Section 6.3 of the CPUC's Decision No. 97-07-021 (July 9, 2009) discusses its review of such charges. The CPUC determined that Cal-Am had not experienced significant customer growth since its last general rate case, and required that Cal-Am "must overcome a heavy burden to establish that the proposed increases will result in reasonable rates." Of those GO and affiliated Service Company adjustments identified by the DRA, the CPUC adopted an allowed amount of approximately $13.6 million, ordering reductions based largely on the DRA-recommended adjustments, and reduced Cal-Am's request by approximately $3.2 million, or approximately 19 percent. The CPUC also determined that that DRA's proposed adjustments brought Cal-Am's overall proposed increase for GO costs into line with a benchmark comprised of inflation and customer growth.

Some of the DRA's recommended adjustments in that recent Cal-Am rate case appear to be for similar costs that are being charged to AAWC by AWWSC, including cost for the AWWSC Business Development, and for concerns regarding the over-allocation of Service Company charges to the regulated utility subsidiaries and corresponding under-allocation to non-regulated businesses owned and operated by American Water Works and its subsidiaries, and increased costs allocated to Cal-Am for the national Service Company's Customer Service Center.

Q. Was there a subsequent modification to the CPUC's Decision No. 97-07-021?

A. The CPUC allowed Cal-Am to file a petition, which Cal-Am submitted on October 7, 2009, wherein Cal-Am petitioned the Commission to modify Decision 09-07-021 regarding General Office charges. The primary result of that petition appears to have been a correction to an allocation to non-regulated operations, specifically, a reversal of the Commission's allocation of 12 percent of the costs of six National Service Company functions to non-regulated affiliate functions, along with some other allocation corrections of less consequence.

Q. Have the Management Fees of AWWSC been reviewed in other utility rate cases?

A. To some extent, it appears they have. The results appear to vary on a case-by-case basis. Each regulatory jurisdiction that regulates water and wastewater utilities owned by AWWC makes its own determinations as to which costs are allowed or disallowed.

Q. How have you utilized the information you obtained from CPUC Decision No. 97-07-021 in the current AAWC rate case?

A. I used it as a source of background information, and asked AAWC discovery questions to help identify questionable affiliate Management Fee expenses charged to AAWC that perhaps should be the subject of ratemaking disallowances or adjustments. I will be discussing specific adjustments that should be made in the current AAWC rate case in subsequent sections of my testimony.

Q. Please briefly describe the Management Fees that AAWC incurs from affiliates.

A. A considerable amount of AAWC's expenses come from affiliated company Management Fee charges. For the 2008 test year, AAWC recorded affiliated Management Fees charged to O&M expenses of approximately $11.62 million, per the Company's response to RUCO 4-1. In addition, AAWC is requesting a pro forma adjustment to increase this expense by approximately $358,000.

Q. What pro forma adjustments did AAWC make to the affiliated Management Fees?

A. AAWC made three pro forma adjustments to increase the net amount of affiliated Management Fee expense above the amount recorded in the 2008 test year for the five districts by approximately $358,000 as summarized below:

AAWC Affiliate Management Fee Pro Formas

AAWC Adj.	Description	Increase (Decrease)
MHK-3	Increase labor by 4% and benefits by 22%	$ 364,586
MHK-4	Increase "Other" by 4%	$ 81,530
MHK-5	Remove costs for corporate divestiture and non-recurring projects	$ (88,188)
	Net Increase to Test Year Recorded Amount of Affiliate Management Fees	$ 357,928

Q. How have you adjusted AAWC's request for Affiliate Management Fees?

A. I have adjusted the affiliated Management Fees requested by AAWC in the following manner:

- I have allowed the 4 percent pay increase that AAWC represents occurred in March 2009.[7]
- I accepted AAWC's adjustment to remove one-time charges associated with corporate divestiture and non-recurring projects.
- I reversed AAWC's proposed 4 percent pro forma increase for "Other Expense" (Adjustment C-9).
- I removed AAWC's proposed 22 percent increase in employee benefits, which includes a one-year 72.92 percent increase for pensions and a 26.34 percent increase for OPEB, and assumed 4 percent increases for a number of other items, including state and federal unemployment taxes (Adjustment C-10).
- I removed all incentive compensation expense included in the Management Fees (Adjustment C-11).

[7] RUCO has agreed in the past to post test year wage increases that took place shortly after the end of the test year. RUCO believes that the consistent application of regulation is good public policy and provides for a stable regulatory environment. However, given the downturn in the economy, Arizona's high unemployment and foreclosure rate, RUCO may consider disallowing the post test year wage increase in subsequent testimony.

- I adjusted the 2008 recorded pension amount to a normalized amount based on a two-year average of 2007-2008 (Adjustment C-12).
- I adjusted the 2008 recorded OPEB amount to a normalized amount based on a two-year average of 2007-2008 (Adjustment C-13).
- I removed the cost for the AWWSC "Business Development" function (Adjustment C-14).

Each of these adjustments is discussed in a subsequent section of my testimony.

C-9 Affiliate Management Fees – Remove 4% Increase to "Other Expense"

Q. Please summarize your recommended adjustment.

A. This adjustment removes AAWC's requested post-test year increase to Affiliate Management Fees of 4 percent for "Other Expense". Expense for the five districts is reduced by $81,530 as shown on Schedule C-9 and summarized on the table below.

Summary of Adjustments to Management Fees - Other Expenses

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (15,954)	$ (20,793)	$ (21,050)	$ (12,855)	$ (10,878)	$ (81,530)

C-10 Affiliate Management Fees – Remove 22.22% Post Test Year Increase for Affiliate Employee Benefits

Q. Please explain Adjustment C-10.

A. This adjustment removes AAWC's requested post-test year increase to Affiliate Management Fees for a 22.22 percent increase in affiliate employee benefit costs. The

Company has requested percentage increases in affiliate employee benefits expense and payroll taxes as follows:

Post Test Year Percentage Increases In Affiliate Employee Benefits Requested by AAWC	
Account	Percent Increase Over 2008
504100 Group Insurance	0.00%
505100 PBOP	26.34%
506100 Pension	72.92%
507100 401k	4.00%
508100 EIP	4.00%
508101 DCP	4.00%
508200 ESPP Oper AG	4.00%
685320 FUTA	4.00%
685325 FICA	4.00%
685350 SUTA	4.00%
Affiliate Employee Benefits Weighted Average Increase	22.22%

The affiliate expenses for pensions and OPEB (PBOP) are being addressed below, by adjusting the 2008 test year recorded amount to a normalized amount, based on a three-year average of 2006-2008. AAWC has failed to substantiate that the other expense, such as affiliate federal and state unemployment taxes and other benefits should be increased beyond the test year recorded level. Expense for the five districts is reduced by $301,673 as shown on Schedule C-10, summarized on the table below.

Summary of Adjustments to Management Fees - Affiliate Employee Benefits

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (53,795)	$ (70,111)	$ (70,978)	$ (70,111)	$ (36,678)	$ (301,673)

C-11 Affiliate Management Fees – Remove Affiliate Incentive Compensation Expense

Q. Please explain Adjustment C-11.

A. This adjustment removes all identifiable incentive compensation expense included in the affiliate Management Fees for the 2008 test year. Expense for the five districts is reduced by $256,853 as shown on Schedule C-11 and summarized on the schedule below.

Summary of Adjustments to Management Fees - Affiliate Incentive Compensation

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (50,261)	$ (65,506)	$ (66,317)	$ (40,500)	$ (34,269)	$ (256,853)

C-12 Affiliate Management Fees – Normalize Affiliate Pension Expense

Q. Please explain Adjustment C-12.

A. This adjustment normalizes the amount of affiliate pension expense that was included in the Management Fee charges to AAWC for the 2008 test year. The affiliate employees participate in the same AWWC pension plan (subject to eligibility restrictions) as do AAWC employees. Similar to the adjustment for the pension expense for AAWC, discussed above in conjunction with Adjustment C-5, I have provided for a normalized expense based on a two-year average of 2007-2008. Expense for the five districts is reduced by $4,257 as shown on Schedule C-12, summarized on the table below.

Summary of Adjustments to Management Fees - Affiliate Pension Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (833)	$ (1,086)	$ (1,099)	$ (671)	$ (568)	$ (4,257)

C-13 Affiliate Management Fees – Normalize Affiliate OPEB Expense

Q. Please explain Adjustment C-13.

A. This adjustment normalizes the amount of OPEB expense that was included in the affiliate Management Fee charges to AAWC for the 2008 test year. The affiliate employees participate in the same AWWC OPEB plan (subject to eligibility restrictions) as do AAWC employees. Similar to the adjustment for the pension expense for AAWC, discussed above in conjunction with Adjustment C-6, I have provided for a normalized expense based on a two-year average of 2006-2008. Expense for the five districts is reduced by $7,206 as shown on Schedule C-13 and summarized on the table below.

Summary of Adjustments to Management Fees - Affiliate OPEB Expense

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (1,410)	$ (1,838)	$ (1,860)	$ (1,136)	$ (961)	$ (7,206)

C-14 Affiliate Management Fees – Remove Affiliate "Business Development" Costs

Q. Please explain Adjustment C-14.

A. This adjustment removes all identifiable affiliate "Business Development" costs included in the affiliate Management Fees for the 2008 test year. Expense for the five districts is reduced by $48,232 as shown on Schedule C-14 and as summarized in the table below.

Summary of Adjustments to Management Fees - Affiliate Business Development Costs

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (9,438)	$ (12,301)	$ (12,453)	$ (7,605)	$ (6,435)	$ (48,232)

Q. Why should the affiliate "Business Development" costs that are included in the Management Fee charges to AAWC be removed?

A. These charges should be removed because they are unnecessary for the provision of safe, reliable and reasonably priced water and wastewater utility service in Arizona. Similar costs were removed by the California PUC in the most recent California American Water rate case.

C-15 Interest Synchronization (All Districts)

Q. Please explain Adjustment C-15.

A. The interest synchronization adjustment applies the weighted cost of debt to the calculation of test year income tax expense. After adjustments, my proposed rate base differs from that of the Company. Additionally, the weighted cost of debt recommended by RUCO witness Rigsby differs from that requested by AAWC. This results in an adjustment to the amount of synchronized interest included in the tax calculation. The calculation of the interest synchronization adjustment is shown on Attachments RCS-2 (for water) and RCS-3 (for wastewater), Schedule C-15. This adjustment decreases income tax expense and increases the Company's achieved operating income by a similar amount, as summarized in the below table.

Summary of Adjustments to Income Tax Expense for Interest Synchronization

District	Anthem Water	Sun City Water	Anthem/ Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
Adjusted TY NOI	$ (10,318)	$ 15,169	$ (7,858)	$ (1,854)	$ (2,748)	$ (7,609)

C-16 Depreciation Expense (Sun City Water)

Q. Please explain RUCO Adjustment C-16.

A. As shown on Attachment B-2, Schedule C-16, AAWC's proposed depreciation expense for Sun City Water is reduced by $36,961 based on applying the applicable depreciation rates to the plant adjustment. The related adjustment to plant was discussed above in conjunction with my rate base adjustment B-1.

C-17 Depreciation Expense (Agua Fria Wastewater)

Q. Please explain RUCO Adjustment C-17.

A. This adjustment is shown on Attachment RCS-3, Schedule C-7 and reduces depreciation expense for Anthem/Agua Fria Wastewater by $2,853 relating to the removal of two 75-horsepower pumps that were retired from plant in service. The retirement of those pumps was covered in my rate base shown on Attachment RCS-3, Schedule B-2, discussed above.

Q. Does this conclude your testimony?

A. Yes, it does.

Attachment RCS-1
QUALIFICATIONS OF RALPH C. SMITH

Accomplishments

Mr. Smith's professional credentials include being a Certified Financial Planner™ professional, a licensed Certified Public Accountant and attorney. He functions as project manager on consulting projects involving utility regulation, regulatory policy and ratemaking and utility management. His involvement in public utility regulation has included project management and in-depth analyses of numerous issues involving telephone, electric, gas, and water and sewer utilities.

Mr. Smith has performed work in the field of utility regulation on behalf of industry, public service commission staffs, state attorney generals, municipalities, and consumer groups concerning regulatory matters before regulatory agencies in Alabama, Alaska, Arizona, Arkansas, California, Connecticut, Delaware, Florida, Georgia, Hawaii, Illinois, Indiana, Kansas, Kentucky, Louisiana, Maine, Michigan, Minnesota, Mississippi, Missouri, New Jersey, New Mexico, New York, Nevada, North Carolina, North Dakota, Ohio, Pennsylvania, South Carolina, South Dakota, Texas, Utah, Vermont, Virginia, Washington, Washington DC, West Virginia, Canada, Federal Energy Regulatory Commission and various state and federal courts of law. He has presented expert testimony in regulatory hearings on behalf of utility commission staffs and intervenors on several occasions.

Project manager in Larkin & Associates' review, on behalf of the Georgia Commission Staff, of the budget and planning activities of Georgia Power Company; supervised 13 professionals; coordinated over 200 interviews with Company budget center managers and executives; organized and edited voluminous audit report; presented testimony before the Commission. Functional areas covered included fossil plant O&M, headquarters and district operations, internal audit, legal, affiliated transactions, and responsibility reporting. All of our findings and recommendations were accepted by the Commission.

Key team member in the firm's management audit of the Anchorage Water and Wastewater Utility on behalf of the Alaska Commission Staff, which assessed the effectiveness of the Utility's operations in several areas; responsible for in-depth investigation and report writing in areas involving information systems, finance and accounting, affiliated relationships and transactions, and use of outside contractors. Testified before the Alaska Commission concerning certain areas of the audit report. AWWU concurred with each of Mr. Smith's 40 plus recommendations for improvement.

Co-consultant in the analysis of the issues surrounding gas transportation performed for the law firm of Cravath, Swaine & Moore in conjunction with the case of Reynolds Metals Co. vs. the Columbia Gas System, Inc.; drafted in-depth report concerning the regulatory treatment at both state and federal levels of issues such as flexible pricing and mandatory gas transportation.

Lead consultant and expert witness in the analysis of the rate increase request of the City of Austin - Electric Utility on behalf of the residential consumers. Among the numerous ratemaking issues addressed was the economies of the Utility's employment of outside services; provided both written and oral testimony outlining recommendations and their bases. Most of Mr. Smith's recommendations were adopted by the City Council and Utility in a settlement.

Key team member performing an analysis of the rate stabilization plan submitted by the Southern Bell Telephone & Telegraph Company to the Florida PSC; performed comprehensive analysis of the Company's projections and budgets which were used as the basis for establishing rates.

Lead consultant in analyzing Southwestern Bell Telephone separations in Missouri; sponsored the complex technical analysis and calculations upon which the firm's testimony in that case was based. He has also assisted in analyzing changes in depreciation methodology for setting telephone rates.

Lead consultant in the review of gas cost recovery reconciliation applications of Michigan Gas Utilities Company, Michigan Consolidated Gas Company, and Consumers Power Company. Drafted recommendations regarding the appropriate rate of interest to be applied to any over or under collections and the proper procedures and allocation methodology to be used to distribute any refunds to customer classes.

Lead consultant in the review of Consumers Power Company's gas cost recovery refund plan. Addressed appropriate interest rate and compounding procedures and proper allocation methodology.

Project manager in the review of the request by Central Maine Power Company for an increase in rates. The major area addressed was the propriety of the Company's ratemaking attrition adjustment in relation to its corporate budgets and projections.

Project manager in an engagement designed to address the impacts of the Tax Reform Act of 1986 on gas distribution utility operations of the Northern States Power Company. Analyzed the reduction in the corporate tax rate, uncollectibles reserve, ACRS, unbilled revenues, customer advances, CIAC, and timing of TRA-related impacts associated with the Company's tax liability.

Project manager and expert witness in the determination of the impacts of the Tax Reform Act of 1986 on the operations of Connecticut Natural Gas Company on behalf of the Connecticut Department of Public Utility Control - Prosecutorial Division, Connecticut Attorney General, and Connecticut Department of Consumer Counsel.

Lead Consultant for The Minnesota Department of Public Service ("DPS") to review the Minnesota Incentive Plan ("Incentive Plan") proposal presented by Northwestern Bell Telephone Company ("NWB") doing business as U S West Communications ("USWC"). Objective was to express an opinion as to whether current rates addressed by the plan were appropriate from a Minnesota intrastate revenue requirements and accounting perspective, and to assist in developing recommended modifications to NWB's proposed Plan.

Performed a variety of analytical and review tasks related to our work effort on this project. Obtained and reviewed data and performed other procedures as necessary (1) to obtain an understanding of the Company's Incentive Plan filing package as it relates to rate base, operating income, revenue requirements, and plan operation, and (2) to formulate an opinion concerning the reasonableness of current rates and of amounts included within the Company's Incentive Plan filing. These procedures included requesting and reviewing extensive discovery, visiting the Company's offices to review data, issuing follow-up information requests in many instances, telephone and on-site discussions with Company representatives, and frequent discussions with counsel and DPS Staff assigned to the project.

Lead Consultant in the regulatory analysis of Jersey Central Power & Light Company for the Department of the Public Advocate, Division of Rate Counsel. Tasks performed included on-site review and audit of Company, identification and analysis of specific issues, preparation of data requests, testimony, and cross examination questions. Testified in Hearings.

Assisted the NARUC Committee on Management Analysis with drafting the Consultant Standards for Management Audits.

Presented training seminars covering public utility accounting, tax reform, ratemaking, affiliated transaction auditing, rate case management, and regulatory policy in Maine, Georgia, Kentucky, and Pennsylvania. Seminars were presented to commission staffs and consumer interest groups.

Previous Positions

With Larkin, Chapski and Co., the predecessor firm to Larkin & Associates, was involved primarily in utility regulatory consulting, and also in tax planning and tax research for businesses and individuals, tax return preparation and review, and independent audit, review and preparation of financial statements.

Installed computerized accounting system for a realty management firm.

Education

Bachelor of Science in Administration in Accounting, with distinction, University of Michigan, Dearborn, 1979.

Master of Science in Taxation, Walsh College, Michigan, 1981. Master's thesis dealt with investment tax credit and property tax on various assets.

Juris Doctor, cum laude, Wayne State University Law School, Detroit, Michigan, 1986. Recipient of American Jurisprudence Award for academic excellence.

Continuing education required to maintain CPA license and CFP® certificate.

Passed all parts of CPA examination in first sitting, 1979. Received CPA certificate in 1981 and Certified Financial Planning certificate in 1983. Admitted to Michigan and Federal bars in 1986.

Michigan Bar Association.

American Bar Association, sections on public utility law and taxation.

Partial list of utility cases participated in:

79-228-EL-FAC	Cincinnati Gas & Electric Company (Ohio PUC)
79-231-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
79-535-EL-AIR	East Ohio Gas Company (Ohio PUC)
80-235-EL-FAC	Ohio Edison Company (Ohio PUC)

80-240-EL-FAC	Cleveland Electric Illuminating Company (Ohio PUC)
U-1933*	Tucson Electric Power Company (Arizona Corp. Commission)
U-6794	Michigan Consolidated Gas Co. --16 Refunds (Michigan PSC)
81-0035TP	Southern Bell Telephone Company (Florida PSC)
81-0095TP	General Telephone Company of Florida (Florida PSC)
81-308-EL-EFC	Dayton Power & Light Co.- Fuel Adjustment Clause (Ohio PUC)
810136-EU	Gulf Power Company (Florida PSC)
GR-81-342	Northern States Power Co. -- E-002/Minnesota (Minnesota PUC)
Tr-81-208	Southwestern Bell Telephone Company (Missouri PSC))
U-6949	Detroit Edison Company (Michigan PSC)
8400	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
18328	Alabama Gas Corporation (Alabama PSC)
18416	Alabama Power Company (Alabama PSC)
820100-EU	Florida Power Corporation (Florida PSC)
8624	Kentucky Utilities (Kentucky PSC)
8648	East Kentucky Power Cooperative, Inc. (Kentucky PSC)
U-7236	Detroit Edison - Burlington Northern Refund (Michigan PSC)
U6633-R	Detroit Edison - MRCS Program (Michigan PSC)
U-6797-R	Consumers Power Company -MRCS Program (Michigan PSC)
U-5510-R	Consumers Power Company - Energy conservation Finance Program (Michigan PSC)
82-240E	South Carolina Electric & Gas Company (South Carolina PSC)
7350	Generic Working Capital Hearing (Michigan PSC)
RH-1-83	Westcoast Transmission Co., (National Energy Board of Canada)
820294-TP	Southern Bell Telephone & Telegraph Co. (Florida PSC)
82-165-EL-EFC (Subfile A)	Toledo Edison Company(Ohio PUC)
82-168-EL-EFC	Cleveland Electric Illuminating Company (Ohio PUC)
830012-EU	Tampa Electric Company (Florida PSC)
U-7065	The Detroit Edison Company - Fermi II (Michigan PSC)
8738	Columbia Gas of Kentucky, Inc. (Kentucky PSC)
ER-83-206	Arkansas Power & Light Company (Missouri PSC)
U-4758	The Detroit Edison Company – Refunds (Michigan PSC)
8836	Kentucky American Water Company (Kentucky PSC)
8839	Western Kentucky Gas Company (Kentucky PSC)
83-07-15	Connecticut Light & Power Co. (Connecticut DPU)
81-0485-WS	Palm Coast Utility Corporation (Florida PSC)
U-7650	Consumers Power Co. (Michigan PSC)
83-662	Continental Telephone Company of California, (Nevada PSC)
U-6488-R	Detroit Edison Co., FAC & PIPAC Reconciliation (Michigan PSC)
U-15684	Louisiana Power & Light Company (Louisiana PSC)
7395 & U-7397	Campaign Ballot Proposals (Michigan PSC)
820013-WS	Seacoast Utilities (Florida PSC)
U-7660	Detroit Edison Company (Michigan PSC)
83-1039	CP National Corporation (Nevada PSC)
U-7802	Michigan Gas Utilities Company (Michigan PSC)
83-1226	Sierra Pacific Power Company (Nevada PSC)
830465-EI	Florida Power & Light Company (Florida PSC)
U-7777	Michigan Consolidated Gas Company (Michigan PSC)
U-7779	Consumers Power Company (Michigan PSC)
U-7480-R	Michigan Consolidated Gas Company (Michigan PSC)
U-7488-R	Consumers Power Company – Gas (Michigan PSC)
U-7484-R	Michigan Gas Utilities Company (Michigan PSC)
U-7550-R	Detroit Edison Company (Michigan PSC)
U-7477-R**	Indiana & Michigan Electric Company (Michigan PSC)
18978	Continental Telephone Co. of the South Alabama (Alabama PSC)

R-842583	Duquesne Light Company (Pennsylvania PUC)
R-842740	Pennsylvania Power Company (Pennsylvania PUC)
850050-EI	Tampa Electric Company (Florida PSC)
16091	Louisiana Power & Light Company (Louisiana PSC)
19297	Continental Telephone Co. of the South Alabama (Alabama PSC)
76-18788AA &76-18793AA	Detroit Edison - Refund - Appeal of U-4807 (Ingham County, Michigan Circuit Court)
85-53476AA & 85-534785AA	Detroit Edison Refund - Appeal of U-4758 (Ingham County, Michigan Circuit Court)
U-8091/U-8239	Consumers Power Company - Gas Refunds (Michigan PSC)
TR-85-179**	United Telephone Company of Missouri (Missouri PSC)
85-212	Central Maine Power Company (Maine PSC)
ER-85646001 & ER-85647001	New England Power Company (FERC)
850782-EI & 850783-EI	Florida Power & Light Company (Florida PSC)
R-860378	Duquesne Light Company (Pennsylvania PUC)
R-850267	Pennsylvania Power Company (Pennsylvania PUC)
851007-WU & 840419-SU	Florida Cities Water Company (Florida PSC)
G-002/GR-86-160	Northern States Power Company (Minnesota PSC)
7195 (Interim)	Gulf States Utilities Company (Texas PUC)
87-01-03	Connecticut Natural Gas Company (Connecticut PUC))
87-01-02	Southern New England Telephone Company (Connecticut Department of Public Utility Control)
3673-	Georgia Power Company (Georgia PSC)
29484	Long Island Lighting Co. (New York Dept. of Public Service)
U-8924	Consumers Power Company – Gas (Michigan PSC)
Docket No. 1	Austin Electric Utility (City of Austin, Texas)
Docket E-2, Sub 527	Carolina Power & Light Company (North Carolina PUC)
870853	Pennsylvania Gas and Water Company (Pennsylvania PUC)
880069**	Southern Bell Telephone Company (Florida PSC)
U-1954-88-102 T E-1032-88-102	Citizens Utilities Rural Company, Inc. & Citizens Utilities Company, Kingman Telephone Division (Arizona CC)
89-0033	Illinois Bell Telephone Company (Illinois CC)
U-89-2688-T	Puget Sound Power & Light Company (Washington UTC))
R-891364	Philadelphia Electric Company (Pennsylvania PUC)
F.C. 889	Potomac Electric Power Company (District of Columbia PSC)
Case No. 88/546*	Niagara Mohawk Power Corporation, et al Plaintiffs, v. Gulf+Western, Inc. et al, defendants (Supreme Court County of Onondaga, State of New York)
87-11628*	Duquesne Light Company, et al, plaintiffs, against Gulf+ Western, Inc. et al, defendants (Court of the Common Pleas of Allegheny County, Pennsylvania Civil Division)
890319-EI	Florida Power & Light Company (Florida PSC)
891345-EI	Gulf Power Company (Florida PSC)
ER 8811 0912J	Jersey Central Power & Light Company (BPU)
6531	Hawaiian Electric Company (Hawaii PUCs)
R0901595	Equitable Gas Company (Pennsylvania Consumer Counsel)
90-10	Artesian Water Company (Delaware PSC)
89-12-05	Southern New England Telephone Company (Connecticut PUC)
900329-WS	Southern States Utilities, Inc. (Florida PSC)
90-12-018	Southern California Edison Company (California PUC)
90-E-1185	Long Island Lighting Company (New York DPS)

R-911966	Pennsylvania Gas & Water Company (Pennsylvania PUC)
I.90-07-037, Phase II	(Investigation of OPEBs) Department of the Navy and all Other Federal Executive Agencies (California PUC)
U-1551-90-322	Southwest Gas Corporation (Arizona CC)
U-1656-91-134	Sun City Water Company (Arizona RUCO)
U-2013-91-133	Havasu Water Company (Arizona RUCO)
91-174***	Central Maine Power Company (Department of the Navy and all Other Federal Executive Agencies)
U-1551-89-102 & U-1551-89-103	Southwest Gas Corporation - Rebuttal and PGA Audit (Arizona Corporation Commission)
Docket No. 6998	Hawaiian Electric Company (Hawaii PUC)
TC-91-040A and TC-91-040B	Intrastate Access Charge Methodology, Pool and Rates Local Exchange Carriers Association and South Dakota Independent Telephone Coalition
9911030-WS & 911-67-WS	General Development Utilities - Port Malabar and West Coast Divisions (Florida PSC)
922180	The Peoples Natural Gas Company (Pennsylvania PUC)
7233 and 7243	Hawaiian Nonpension Postretirement Benefits (Hawaiian PUC)
R-00922314 & M-920313C006	Metropolitan Edison Company (Pennsylvania PUC)
R00922428	Pennsylvania American Water Company (Pennsylvania PUC)
E-1032-92-083 & U-1656-92-183	Citizens Utilities Company, Agua Fria Water Division (Arizona Corporation Commission)
92-09-19	Southern New England Telephone Company (Connecticut PUC)
E-1032-92-073	Citizens Utilities Company (Electric Division), (Arizona CC)
UE-92-1262	Puget Sound Power and Light Company (Washington UTC))
92-345	Central Maine Power Company (Maine PUC)
R-932667	Pennsylvania Gas & Water Company (Pennsylvania PUC)
U-93-60**	Matanuska Telephone Association, Inc. (Alaska PUC)
U-93-50**	Anchorage Telephone Utility (Alaska PUC)
U-93-64	PTI Communications (Alaska PUC)
7700	Hawaiian Electric Company, Inc. (Hawaii PUC)
E-1032-93-111 & U-1032-93-193	Citizens Utilities Company - Gas Division (Arizona Corporation Commission)
R-00932670	Pennsylvania American Water Company (Pennsylvania PUC)
U-1514-93-169/ E-1032-93-169	Sale of Assets CC&N from Contel of the West, Inc. to Citizens Utilities Company (Arizona Corporation Commission)
7766	Hawaiian Electric Company, Inc. (Hawaii PUC)
93-2006- GA-AIR*	The East Ohio Gas Company (Ohio PUC)
94-E-0334	Consolidated Edison Company (New York DPS)
94-0270	Inter-State Water Company (Illinois Commerce Commission)
94-0097	Citizens Utilities Company, Kauai Electric Division (Hawaii PUC)
PU-314-94-688	Application for Transfer of Local Exchanges (North Dakota PSC)
94-12-005-Phase I	Pacific Gas & Electric Company (California PUC)
R-953297	UGI Utilities, Inc. - Gas Division (Pennsylvania PUC)
95-03-01	Southern New England Telephone Company (Connecticut PUC)
95-0342	Consumer Illinois Water, Kankakee Water District (Illinois CC)
94-996-EL-AIR	Ohio Power Company (Ohio PUC)
95-1000-E	South Carolina Electric & Gas Company (South Carolina PSC)
Non-Docketed Staff Investigation	Citizens Utility Company - Arizona Telephone Operations (Arizona Corporation Commission)
E-1032-95-473	Citizens Utility Co. - Northern Arizona Gas Division (Arizona CC)
E-1032-95-433	Citizens Utility Co. - Arizona Electric Division (Arizona CC)
	Collaborative Ratemaking Process Columbia Gas of Pennsylvania (Pennsylvania PUC)

GR-96-285	Missouri Gas Energy (Missouri PSC)
94-10-45	Southern New England Telephone Company (Connecticut PUC)
A.96-08-001 et al.	California Utilities' Applications to Identify Sunk Costs of Non-Nuclear Generation Assets, & Transition Costs for Electric Utility Restructuring, & Consolidated Proceedings (California PUC)
96-324	Bell Atlantic - Delaware, Inc. (Delaware PSC)
96-08-070, et al.	Pacific Gas & Electric Co., Southern California Edison Co. and San Diego Gas & Electric Company (California PUC)
97-05-12	Connecticut Light & Power (Connecticut PUC)
R-00973953	Application of PECO Energy Company for Approval of its Restructuring Plan Under Section 2806 of the Public Utility Code (Pennsylvania PUC)
97-65	Application of Delmarva Power &Light Co. for Application of a Cost Accounting Manual and a Code of Conduct (Delaware PSC)
16705	Entergy Gulf States, Inc. (Cities Steering Committee)
E-1072-97-067	Southwestern Telephone Co. (Arizona Corporation Commission)
Non-Docketed Staff Investigation	Delaware - Estimate Impact of Universal Services Issues (Delaware PSC)
PU-314-97-12	US West Communications, Inc. Cost Studies (North Dakota PSC)
97-0351	Consumer Illinois Water Company (Illinois CC)
97-8001	Investigation of Issues to be Considered as a Result of Restructuring of Electric Industry (Nevada PSC)
U-0000-94-165	Generic Docket to Consider Competition in the Provision of Retail Electric Service (Arizona Corporation Commission)
98-05-006-Phase I	San Diego Gas & Electric Co., Section 386 costs (California PUC)
9355-U	Georgia Power Company Rate Case (Georgia PUC)
97-12-020 - Phase I	Pacific Gas & Electric Company (California PUC)
U-98-56, U-98-60, U-98-65, U-98-67	Investigation of 1998 Intrastate Access charge filings (Alaska PUC)
(U-99-66, U-99-65, U-99-56, U-99-52)	Investigation of 1999 Intrastate Access Charge filing (Alaska PUC)
Phase II of 97-SCCC-149-GIT	Southwestern Bell Telephone Company Cost Studies (Kansas CC)
PU-314-97-465	US West Universal Service Cost Model (North Dakota PSC)
Non-docketed Assistance	Bell Atlantic - Delaware, Inc., Review of New Telecomm. and Tariff Filings (Delaware PSC)
Contract Dispute	City of Zeeland, MI - Water Contract with the City of Holland, MI (Before an arbitration panel)
Non-docketed Project	City of Danville, IL - Valuation of Water System (Danville, IL)
Non-docketed Project	Village of University Park, IL - Valuation of Water and Sewer System (Village of University Park, Illinois)
E-1032-95-417	Citizens Utility Co., Maricopa Water/Wastewater Companies et al. (Arizona Corporation Commission)
T-1051B-99-0497	Proposed Merger of the Parent Corporation of Qwest Communications Corporation, LCI International Telecom Corp., and US West Communications, Inc. (Arizona CC)
T-01051B-99-0105	US West Communications, Inc. Rate Case (Arizona CC)
A00-07-043	Pacific Gas & Electric - 2001 Attrition (California PUC)
T-01051B-99-0499	US West/Quest Broadband Asset Transfer (Arizona CC)
99-419/420	US West, Inc. Toll and Access Rebalancing (North Dakota PSC)
PU314-99-119	US West, Inc. Residential Rate Increase and Cost Study Review (North Dakota PSC
98-0252	Ameritech - Illinois, Review of Alternative Regulation Plan (Illinois CUB)
00-108	Delmarva Billing System Investigation (Delaware PSC)
U-00-28	Matanuska Telephone Association (Alaska PUC)

Non-Docketed	Management Audit and Market Power Mitigation Analysis of the Merged Gas System Operation of Pacific Enterprises and Enova Corporation (California PUC)
00-11-038	Southern California Edison (California PUC)
00-11-056	Pacific Gas & Electric (California PUC)
00-10-028	The Utility Reform Network for Modification of Resolution E-3527 (California PUC)
98-479	Delmarva Power & Light Application for Approval of its Electric and Fuel Adjustments Costs (Delaware PSC)
99-457	Delaware Electric Cooperative Restructuring Filing (Delaware PSC)
99-582	Delmarva Power & Light dba Conectiv Power Delivery Analysis of Code of Conduct and Cost Accounting Manual (Delaware PSC)
99-03-04	United Illuminating Company Recovery of Stranded Costs (Connecticut OCC)
99-03-36	Connecticut Light & Power (Connecticut OCC)
Civil Action No. 98-1117	West Penn Power Company vs. PA PUC (Pennsylvania PSC)
Case No. 12604	Upper Peninsula Power Company (Michigan AG)
Case No. 12613	Wisconsin Public Service Commission (Michigan AG)
41651	Northern Indiana Public Service Co Overearnings investigation (Indiana UCC)
13605-U	Savannah Electric & Power Company – FCR (Georgia PSC)
14000-U	Georgia Power Company Rate Case/M&S Review (Georgia PSC)
13196-U	Savannah Electric & Power Company Natural Gas Procurement and Risk Management/Hedging Proposal, Docket No. 13196-U (Georgia PSC)
Non-Docketed	Georgia Power Company & Savannah Electric & Power FPR Company Fuel Procurement Audit (Georgia PSC)
Non-Docketed	Transition Costs of Nevada Vertically Integrated Utilities (US Department of Navy)
Application No. 99-01-016, Phase I	Post-Transition Ratemaking Mechanisms for the Electric Industry Restructuring (US Department of Navy)
99-02-05	Connecticut Light & Power (Connecticut OCC)
01-05-19-RE03	Yankee Gas Service Application for a Rate Increase, Phase I-2002-IERM (Connecticut OCC)
G-01551A-00-0309	Southwest Gas Corporation, Application to amend its rate Schedules (Arizona CC)
00-07-043	Pacific Gas & Electric Company Attrition & Application for a rate increase (California PUC)
97-12-020 Phase II	Pacific Gas & Electric Company Rate Case (California PUC)
01-10-10	United Illuminating Company (Connecticut OCC)
13711-U	Georgia Power FCR (Georgia PSC)
02-001	Verizon Delaware § 271(Delaware DPA)
02-BLVT-377-AUD	Blue Valley Telephone Company Audit/General Rate Investigation (Kansas CC)
02-S&TT-390-AUD	S&T Telephone Cooperative Audit/General Rate Investigation (Kansas CC)
01-SFLT-879-AUD	Sunflower Telephone Company Inc., Audit/General Rate Investigation (Kansas CC)
01-BSTT-878-AUD	Bluestem Telephone Company, Inc. Audit/General Rate Investigation (Kansas CC)
P404, 407, 520, 413 426, 427, 430, 421/ CI-00-712	Sherburne County Rural Telephone Company, dba as Connections, Etc. (Minnesota DOC)
U-01-85	ACS of Alaska, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)

U-01-34	ACS of Anchorage, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-83	ACS of Fairbanks, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
U-01-87	ACS of the Northland, dba as Alaska Communications Systems (ACS), Rate Case (Alaska Regulatory Commission PAS)
96-324, Phase II	Verizon Delaware, Inc. UNE Rate Filing (Delaware PSC)
03-WHST-503-AUD	Wheat State Telephone Company (Kansas CC)
04-GNBT-130-AUD	Golden Belt Telephone Association (Kansas CC)
Docket 6914	Shoreham Telephone Company, Inc. (Vermont BPU)
Docket No. E-01345A-06-009	Arizona Public Service Company (Arizona Corporation Commission)
Case No. 05-1278-E-PC-PW-42T	Appalachian Power Company and Wheeling Power Company both d/b/a American Electric Power (West Virginia PSC)
Docket No. 04-0113	Hawaiian Electric Company (Hawaii PUC)
Case No. U-14347	Consumers Energy Company (Michigan PSC)
Case No. 05-725-EL-UNC	Cincinnati Gas & Electric Company (PUC of Ohio)
Docket No. 21229-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 19142-U	Georgia Power Company (Georgia PSC)
Docket No. 03-07-01RE01	Connecticut Light & Power Company (CT DPUC)
Docket No. 19042-U	Savannah Electric & Power Company (Georgia PSC)
Docket No. 2004-178-E	South Carolina Electric & Gas Company (South Carolina PSC)
Docket No. 03-07-02	Connecticut Light & Power Company (CT DPUC)
Docket No. EX02060363, Phases I&II	Rockland Electric Company (NJ BPU)
Docket No. U-00-88	ENSTAR Natural Gas Company and Alaska Pipeline Company (Regulatory Commission of Alaska)
Phase 1-2002 IERM, Docket No. U-02-075	Interior Telephone Company, Inc. (Regulatory Commission of Alaska)
Docket No. 05-SCNT-1048-AUD	South Central Telephone Company (Kansas CC)
Docket No. 05-TRCT-607-KSF	Tri-County Telephone Company (Kansas CC)
Docket No. 05-KOKT-060-AUD	Kan Okla Telephone Company (Kansas CC)
Docket No. 2002-747	Northland Telephone Company of Maine (Maine PUC)
Docket No. 2003-34	Sidney Telephone Company (Maine PUC)
Docket No. 2003-35	Maine Telephone Company (Maine PUC)
Docket No. 2003-36	China Telephone Company (Maine PUC)
Docket No. 2003-37	Standish Telephone Company (Maine PUC)
Docket Nos. U-04-022, U-04-023	Anchorage Water and Wastewater Utility (Regulatory Commission of Alaska)
Case 05-116-U/06-055-U	Entergy Arkansas, Inc. EFC (Arkansas Public Service Commission)
Case 04-137-U	Southwest Power Pool RTO (Arkansas Public Service Commission)
Case No. 7109/7160	Vermont Gas Systems (Department of Public Service)
Case No. ER-2006-0315	Empire District Electric Company (Missouri PSC)
Case No. ER-2006-0314	Kansas City Power & Light Company (Missouri PSC)
Docket No. U-05-043,44	Golden Heart Utilities/College Park Utilities (Regulatory Commission of Alaska)
A-122250F5000	Equitable Resources, Inc. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
E-01345A-05-0816	Arizona Public Service Company (Arizona CC)
Docket No. 05-304	Delmarva Power & Light Company (Delaware PSC)
05-806-EL-UNC	Cincinnati Gas & Electric Company (Ohio PUC)
U-06-45	Anchorage Water Utility (Regulatory Commission of Alaska)

03-93-EL-ATA,	
06-1068-EL-UNC	Duke Energy Ohio (Ohio PUC)
PUE-2006-00065	Appalachian Power Company (Virginia Corporation Commission)
G-04204A-06-0463 et. al	UNS Gas, Inc. (Arizona CC)
Docket No. 2006-0386	Hawaiian Electric Company, Inc (Hawaii PUC)
E-01933A-07-0402	Tucson Electric Power Company (Arizona CC)
G-01551A-07-0504	Southwest Gas Corporation (Arizona CC)
Docket No.UE-072300	Puget Sound Energy, Inc. (Washington UTC)
PUE-2008-00009	Virginia-American Water Company (Virginia SCC)
PUE-2008-00046	Appalachian Power Company (Virginia SCC)
E-01345A-08-0172	Arizona Public Service Company (Arizona CC)
A-2008-2063737	Babcock & Brown Infrastructure Fund North America, LP. and The Peoples Natural Gas Company, d/b/a Dominion Peoples (Pennsylvania PUC)
08-1783-G-42T	Hope Gas, Inc., dba Dominion Hope (West Virginia PSC
08-1761-G-PC	Hope Gas, Inc., dba Dominion Hope, Dominion Resources, Inc., and Peoples Hope Gas Companies (West Virginia PSC)
Docket No. 2008-0085	Hawaiian Electric Company, Inc. (Hawaii PUC)
Docket No. 2008-0266	Young Brothers, Limited (Hawaii PUC)
G-04024A-08-0571	UNS Gas, Inc. (Arizona CC)
Docket No. 09-29	Tidewater Utilities, Inc. (Delaware PSC)

Arizona American Water Company
Docket No. 01303A-09-0343
Attachment RCS-2
Accompanying the Direct Testimony of Ralph Smith
RUCO Accounting Schedules - Water Districts

Number	Description	No. of Pages	Page No.
	Revenue Requirement Summary Schedules - Total Water		
A	Calculation of Revenue Deficiency (Sufficiency)	1	2
A-1	Gross Revenue Conversion Factor	1	3
B	Adjusted Rate Base	1	4
B.1	Summary of Rate Base Adjustments	1	5
C	Adjusted Net Operating Income	1	6
C.1	Summary of Net Operating Income Adjustments	3	7-9
D	Capital Structure and Cost Rates	1	10
	Revenue Requirement Summary Schedules - Anthem Water		
A (A)	Calculation of Revenue Deficiency (Sufficiency)	1	11
A-1(A)	Gross Revenue Conversion Factor	1	12
B(A)	Adjusted Rate Base	1	13
B.1(A)	Summary of Rate Base Adjustments	1	14
C(A)	Adjusted Net Operating Income	1	15
C.1(A)	Summary of Net Operating Income Adjustments	3	16-18
	Revenue Requirement Summary Schedules - Sun City Water		
A (SC)	Calculation of Revenue Deficiency (Sufficiency)	1	19
A-1(SC)	Gross Revenue Conversion Factor	1	20
B (SC)	Adjusted Rate Base	1	21
B.1 (SC)	Summary of Rate Base Adjustments	1	22
C (SC)	Adjusted Net Operating Income	1	23
C.1 (SC)	Summary of Net Operating Income Adjustments	3	24-26
	Rate Base Adjustments		
B-1	Post-Test Year Additions to Plant - Well 5.1 - Sun City Water	1	27
B-3	Contributions In Aid of Construction	1	28
B-4	Cash Working Capital	3	29-31
	Net Operating Income Adjustments		
C-1	Customer Annualization Correction - Anthem Water	1	32
C-2	Rate Case Expense	1	33
C-3	Achievement Incentive Pay	1	34
C-4	Stock-Based Compensation	1	35
C-5	Pension Expense	1	36
C-5.1	Calculations for pension expense adjustment	2	37-38
C-6	OPEB Expense	1	39
C-7	Dues, Donations & Miscellaneous Expenses	1	40
C-8	Tank Maintenance Expense - Sun City Water	1	41
C-9	Management Fees - Other Expenses	1	42
C-10	Management Fees - Remove AAWC's Requested Post Test Year Increase in Affiliate Employee Benefits	1	43
C-11	Management Fees - Remove Affiliate Incentive Compensation Expense	1	44
C-12	Management Fees - Normalize Affiliate Pension Expense	1	45
C-13	Management Fees - Normalize Affiliate OPEB Expense	1	46
C-14	Management Fees - Remove Business Development Expense	1	47
C-15	Interest Synchronization	1	48
C-16	Depreciation Expense - Well 5.1 - Sun City Water	1	49
	Total Pages (including Contents page)	49	

Arizona American Water Company - Total of Water Districts
Calculation of Revenue Deficiency (Sufficiency)

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule A
Docket No. W-01303A-09-0343

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B	$ 85,616,088	$ 83,692,675	$ (1,923,413)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		$ 7,303,090	$ 5,669,342	$ (1,633,748)
4	Adjusted net operating income	C	$ 1,375,533	$ 2,021,549	$ 646,016
5	Net operating income deficiency		$ 5,927,557	$ 3,647,793	$ (2,279,764)
6	Gross revenue conversion factor	A-1	1.6561	1.6561	
7	Revenue deficiency (Sufficiency)		$ 9,816,374	$ 6,040,964	$ (3,775,410)
	Percentage Increase Over Current Rates				
8	Revenue from Sales to Retail Customers	Sch C, L.1	$ 16,335,827	$ 16,326,371	
9	Percentage Increase	L.7 / L.8	60.09%	37.00%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1 (Anthem/Agua Fria, Sun City and Sun City West)

Calculation of RUCO recommended percentage increase to AAWC's base rates	RUCO Proposed
AAWC's adjusted water revenues per Schedule C	$ 16,326,371
RUCO recommended rate increase (line 7 above)	$ 6,040,964
Total revenues after reflecting RUCO recommended increase	$ 22,367,335
Percentage change in revenues	37.00%

Calculation of AAWC's proposed percentage increase to base rates	AAWC Proposed
AAWC's adjusted water revenues per Schedule C	$ 16,335,827
AAWC proposed rate increase (line 7 above)	$ 9,816,374
Total revenues after reflecting AAWC proposed increase	$ 26,152,201
Percentage change in revenues	60.09%

Arizona American Water Company
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule A-1
Docket No. W-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.71%	0.71%
3	Bad Debt Expense	0.31%	0.31%
4	Taxable Income as a Percent	98.98%	98.98%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.35%	67.35%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.38%	60.38%
9	**Gross Revenue Conversion Factor**	**1.6561**	**1.6561**

Notes and Source

Col.A:	AAWC Filing, Schedule C-3		
	Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

		Amount	Percent
11	Net Income	$ 3,216,811	60.38%
12	Federal Income Taxes	$ 1,685,047	31.63%
13	State Income Taxes	$ 371,201	6.97%
14	Property Taxes	$ 37,633	0.71%
15	Uncollectibles	$ 16,531	0.31%
16	Total Revenue Increase	$ 5,327,223	100.00%
17	Total Revenue Increase (From Schedule A)	$ 5,327,222	

Arizona American Water Company - Total of Water Districts
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B
Docket No. W-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	$ 149,301,020	$ (1,123,185)	$ 148,177,835
2	Phoenix Interconnection	$ 5,000,000		$ 5,000,000
3	Amortization of Phoenix Interconnection	$ (116,667)		$ (116,667)
4	Accumulated Depreciation	$ (31,762,996)	$ (463,964)	$ (32,226,960)
5	**Net Utility Plant in Service**	$ 122,421,357	$ (1,587,149)	$ 120,834,208
	Less:			
6	Advances in Aid of Construction	$ (24,418,393)	$ -	$ (24,418,393)
7	Contributions in Aid of Construction (net of amortization)	$ (15,572,984)	$ (69,262)	$ (15,642,246)
8	Imputed Regulatory Advances	$ -	$ -	$ -
9	Imputed Regulatory Contributions	$ (669,222)	$ -	$ (669,222)
10	Customer Meter Deposits	$ (4,370)		$ (4,370)
11	Deferred Income Taxes and Credits	$ 2,624,884	$ -	$ 2,624,884
12	Investment Tax Credits and Deferred Credits	$ -	$ -	$ -
13	**Total Reductions**	$ (38,040,085)	$ (69,262)	$ (38,109,347)
	Plus:			
14	Unamortized Finance Charges	$ -	$ -	$ -
15	Deferred Tax Assets	$ -	$ -	$ -
16	Deferred Debits	$ 489,620	$ -	$ 489,620
17	Allowance for Working Capital	$ 745,195	$ (267,000)	$ 478,195
18	Utility Plant Acquisition Adjustment	$ -	$ -	$ -
19	**Total Additions**	$ 1,234,814	$ (267,000)	$ 967,814
20	**Total Rate Base**	$ 85,616,088	$ (1,923,411)	$ 83,692,675

Notes and Source
Col.A: AAWC Filing, Schedule B-1
Col.B: Schedule B.1

Arizona American Water Company - Total of Water Districts
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B.1
Docket No. W-01303A-09-0343

Line No.	Description	RUCO Adjustments	Post-Test Year Plant - Well 5.1	Contributions in Aid of Construction	Cash Working Capital
			B-1	B-3	B-4
1	Gross Utility Plant in Service	$ (1,123,185)	$ (1,123,185)		
2	Accumulated Depreciation	$ (463,964)	$ (463,964)		
3	**Net Utility Plant in Service**	$ (1,587,149)	$ (1,587,149)	$ -	$ -
	Less:				
4	Advances in Aid of Construction	$ -			
5	Contributions in Aid of Construction (net of amortization)	$ (69,262)		$ (69,262)	
6	Imputed Regulatory Advances	$ -			
7	Imputed Regulatory Contributions	$ -			
8	Deferred Income Taxes and Credits	$ -			
9	Investment Tax Credits and Deferred Credits	$ -			
10	**Total Reductions**	$ (69,262)	$ -	$ (69,262)	$ -
	Plus:				
11	Unamortized Finance Charges	$ -			
12	Deferred Tax Assets	$ -			
13	Deferred Debits	$ -			
14	Allowance for Working Capital	$ (267,000)			$ (267,000)
15	Utility Plant Acquisition Adjustment	$ -			
16	**Total Additions**	$ (267,000)	$ -	$ -	$ (267,000)
17	**Total Rate Base**	$ (1,923,411)	$ (1,587,149)	$ (69,262)	$ (267,000)

Notes and Source
See referenced exhibit for each adjustment

Arizona American Water Company - Total of Water Districts
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C
Docket No. W-01303A-09-0343

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
	Revenues			
1	Water Revenues	$ 16,335,827	$ (9,456)	$ 16,326,371
2	Other Revenues	$ 430,548	$ -	$ 430,548
3	**Total Revenues**	$ 16,766,375	$ (9,456)	$ 16,756,919
	Operating Expenses			
4	Labor	$ 1,979,757	$ (88,897)	$ 1,890,860
5	Purchased Water	$ 625,435	$ -	$ 625,435
6	Fuel & Power	$ 2,982,219	$ -	$ 2,982,219
7	Chemicals	$ 140,388	$ -	$ 140,388
8	Waste Disposal	$ 1,933	$ -	$ 1,933
9	Management Fees	$ 2,667,400	$ (303,325)	$ 2,364,075
10	Group Insurance	$ 563,722	$ (4,683)	$ 559,039
11	Pensions	$ 357,243	$ (131,839)	$ 225,404
12	Regulatory Expense	$ 139,775	$ (51,307)	$ 88,468
13	Insurance Other Than Group	$ 164,808	$ -	$ 164,808
14	Customer Accounting	$ 418,449	$ -	$ 418,449
15	Rents	$ 93,842	$ -	$ 93,842
16	General Office Expense	$ 138,590	$ -	$ 138,590
17	Miscellaneous	$ 529,384	$ (7,487)	$ 521,897
18	Maintenance Expense	$ 793,404	$ (445,000)	$ 348,404
19	Depreciation & Amortization	$ 3,965,599	$ (36,961)	$ 3,928,638
20	General Taxes - Property Taxes	$ 449,027	$ -	$ 449,027
21	General Taxes - Other	$ 129,794	$ -	$ 129,794
22	Income Taxes	$ (749,929)	$ 414,028	$ (335,901)
23	**Total Operating Expenses**	$ 15,390,840	$ (655,471)	$ 14,735,369
24	**Utility Operating Income**	$ 1,375,535	$ 646,015	$ 2,021,550
	Other Income & Deductions			
25	Other Income & Deductions	$ -	$ -	$ -
26	Interest Expense	$ (2,568,483)	$ -	$ (2,568,483)
27	Other Expense	$ (32,427)	$ -	$ (32,427)
28	Gain/Loss Sale of Fixed Assets	$ (7)	$ -	$ (7)
29	**Total Other Additions/Deductions From Income**	$ (2,600,917)	$ -	$ (2,600,917)
30	**Net Profit (Loss)**	**$ (1,225,382)**	**$ 646,015**	**$ (579,367)**
31	Rate Base	$ 85,616,088	$ (138,271)	$ 85,477,817
32	Earned Rate of Return	1.61%		2.36%

Notes and Source

Col.A: AAWC Filing, Schedule C-1
Col.B: Schedule C.1
Col.C: Col.A + Col.B

Arizona American Water Company - Total of Water Districts
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Tank Maintenance Expense	Rate Case Expense	Achievement Incentive Pay	Stock-Based Compensation	Pension Expense
			C-1	C-2	C-3	C-4	C-5
	Revenues						
1	Water Revenues	$ (9,456)	$ (9,456)				
2	Other Revenues	$ -					
3	**Total Revenues**	$ (9,456)	$ (9,456)	$ -	$ -	$ -	$ -
	Operating Expenses						
4	Labor	$ (88,897)			$ (33,107)	$ (55,790)	
5	Purchased Water	$ -					
6	Fuel & Power	$ -					
7	Chemicals	$ -					
8	Waste Disposal	$ -					
9	Management Fees	$ (303,325)					
10	Group Insurance	$ (4,683)					
11	Pensions	$ (131,839)					$ (131,839)
12	Regulatory Expense	$ (51,307)		$ (51,307)			
13	Insurance Other Than Group	$ -					
14	Customer Accounting	$ -					
15	Rents	$ -					
16	General Office Expense	$ -					
17	Miscellaneous	$ (7,487)					
18	Maintenance Expense	$ (445,000)					
19	Depreciation & Amortization	$ (36,961)					
20	General Taxes - Property Taxes	$ -					
21	General Taxes - Other	$ -					
15	PRE-TAX OPERATING EXPENSES	$ (1,069,499)	$ -	$ (51,307)	$ (33,107)	$ (55,790)	$ (131,839)
16	PRE-TAX OPERATING INCOME	$ 1,060,043	$ (9,456)	$ 51,307	$ 33,107	$ 55,790	$ 131,839
17	Income Taxes	$ 414,028	$ (3,650)	$ 19,805	$ 12,779	$ 21,535	$ 50,890
18	TOTAL OPERATING EXPENSES	$ (655,471)	$ (3,650)	$ (31,502)	$ (20,328)	$ (34,255)	$ (80,949)
19	OPERATING INCOME	$ 646,015	$ (5,806)	$ 31,502	$ 20,328	$ 34,255	$ 80,949

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3 38.60%

Arizona American Water Company - Total of Water Districts
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	OPEB Expense	Dues, Donations & Misc. Expenses	Tank Maintenance Expense	Management Fees - Other Expenses	Management Fees - Employee Benefits	Management Fees - Incentive Compensation
		C-6	C-7	C-8	C-9	C-10	C-11
	Revenues						
1	Water Revenues						
2	Other Revenues						
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses						
4	Labor						
5	Purchased Water						
6	Fuel & Power						
7	Chemicals						
8	Waste Disposal						
9	Management Fees				$ (36,747)	$ (123,905)	$ (115,767)
10	Group Insurance	$ (4,683)					
11	Pensions						
12	Regulatory Expense						
13	Insurance Other Than Group						
14	Customer Accounting						
15	Rents						
16	General Office Expense						
17	Miscellaneous		$ (7,487)				
18	Maintenance Expense			$ (445,000)			
19	Depreciation & Amortization						
20	General Taxes - Property Taxes						
21	General Taxes - Other						
15	PRE-TAX OPERATING EXPENSES	$ (4,683)	$ (7,487)	$ (445,000)	$ (36,747)	$ (123,905)	$ (115,767)
16	PRE-TAX OPERATING INCOME	$ 4,683	$ 7,487	$ 445,000	$ 36,747	$ 123,905	$ 115,767
17	Income Taxes	$ 1,808	$ 2,890	$ 171,770	$ 14,184	$ 47,827	$ 44,686
18	TOTAL OPERATING EXPENSES	$ (2,875)	$ (4,597)	$ (273,230)	$ (22,563)	$ (76,078)	$ (71,081)
19	OPERATING INCOME	$ 2,875	$ 4,597	$ 273,230	$ 22,563	$ 76,078	$ 71,081

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Total of Water Districts
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Normalize Affiliate Pension Expense	Management Fees - Normalize Affiliate OPEB Expense	Management Fees - Remove Business Development Expenses	Interest Synchronization	Depreciation Expense Related to Post-Test Year Plant - Well 5.1
		C-12	C-13	C-14	C-15	C-16
	Revenues					
1	Water Revenues					
2	Other Revenues					
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -
	Operating Expenses					
4	Labor					
5	Purchased Water					
6	Fuel & Power					
7	Chemicals					
8	Waste Disposal					
9	Management Fees	$ (1,919)	$ (3,248)	$ (21,739)		
10	Group Insurance					
11	Pensions					
12	Regulatory Expense					
13	Insurance Other Than Group					
14	Customer Accounting					
15	Rents					
16	General Office Expense					
17	Miscellaneous					
18	Maintenance Expense					
19	Depreciation & Amortization					$ (36,961)
20	General Taxes - Property Taxes					
21	General Taxes - Other					
15	PRE-TAX OPERATING EXPENSES	$ (1,919)	$ (3,248)	$ (21,739)	$ -	$ (36,961)
16	PRE-TAX OPERATING INCOME	$ 1,919	$ 3,248	$ 21,739	$ -	$ 36,961
17	Income Taxes	$ 741	$ 1,254	$ 8,391	$ 4,851	$ 14,267
18	TOTAL OPERATING EXPENSES	$ (1,178)	$ (1,994)	$ (13,348)	$ 4,851	$ (22,694)
19	OPERATING INCOME	$ 1,178	$ 1,994	$ 13,348	$ (4,851)	$ 22,694

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Water Districts
Capital Structure and Cost Rates

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule D
Docket No. W-01303A-09-0343

Line No.	Description	Amount	Percent	Cost Rate	Weighted Cost
		(A)	(B)	(C)	(D)
	Per Company				
1	Long-Term Debt	$ 188,208,140	54.85%	5.47%	3.00%
2	Short-Term Debt				
3	Stockholder's Equity	$ 154,949,595	45.15%	12.25%	5.53%
4	Total	$ 343,157,735	100.00%		8.53%
	Per RUCO				
5	Long-Term Debt	$ 188,208,140	47.56%	5.47%	2.60%
6	Short-Term Debt	$ 52,584,000	13.29%	3.41%	0.45%
7	Stockholder's Equity	$ 154,949,595	39.15%	9.50%	3.72%
8	Total	$ 395,741,735	100.00%		6.77%
9	Difference				-1.756%
10	Weighted Cost of Debt				3.05%

Notes and Source

Lines 1-4: AAWC Filing, Schedule D-1 (reflects end of projected test year capital structure)
Lines 5-8: Per RUCO witness William Rigsby (reflects end of test year capital structure)

Arizona American Water Company - Anthem Water
Calculation of Revenue Deficiency (Sufficiency)

Test Year Ended December 31, 2008

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (A)	$ 57,430,025	$ 57,291,754	$ (138,271)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		$ 4,898,781	$ 3,880,943	$ (1,017,838)
4	Adjusted net operating income	C (A)	$ 514,448	$ 667,437	$ 152,989
5	Net operating income deficiency		$ 4,384,333	$ 3,213,506	$ (1,170,827)
6	Gross revenue conversion factor	A-1 (A)	1.6578	1.6578	
7	Revenue deficiency (Sufficiency)		$ 7,268,177	$ 5,327,222	$ (1,940,955)
	Percentage Increase Over Current Rates				
8	Revenue from Sales to Retail Customers	Sch C, L.1	$ 7,210,624	$ 7,201,168	
9	Percentage Increase	L.7 / L.8	100.80%	73.98%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

Calculation of RUCO recommended percentage increase to AAWC's base rates	RUCO Proposed
AAWC's adjusted water revenues per Schedule C (A)	$ 7,201,168
RUCO recommended rate increase (line 7 above)	$ 5,327,222
Total revenues after reflecting RUCO recommended increase	$ 12,528,390
Percentage change in revenues	73.98%

Calculation of AAWC's proposed percentage increase to base rates	AAWC Proposed
AAWC's adjusted water revenues per Schedule C (A)	$ 7,210,624
AAWC proposed rate increase (line 7 above)	$ 7,268,177
Total revenues after reflecting AAWC proposed increase	$ 14,478,801
Percentage change in revenues	100.80%

Arizona American Water Company - Anthem Water
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule A-1 (A)
Docket No. W-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.80%	0.80%
3	Bad Debt Expense	0.28%	0.28%
4	Taxable Income as a Percent	98.92%	98.92%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.29%	67.29%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.32%	60.32%
9	**Gross Revenue Conversion Factor**	**1.6578**	**1.6578**

Notes and Source

Col.A:	AAWC Filing, Schedule C-3		
	Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

		Amount	Percent
11	Net Income	$ 3,213,504	60.32%
12	Federal Income Taxes	$ 1,685,047	31.63%
13	State Income Taxes	$ 371,201	6.97%
14	Property Taxes	$ 42,670	0.80%
15	Uncollectibles	$ 14,800	0.28%
16	Total Revenue Increase	$ 5,327,222	100.00%
17	Total Revenue Increase (From Schedule A)	$ 5,327,222	

Arizona American Water Company - Anthem Water
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B (A)
Docket No. W-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	$ 85,684,602	$ -	$ 85,684,602
2	Phoenix Interconnection	$ 5,000,000	$ -	$ 5,000,000
3	Amortization of Phoenix Interconnection	$ (116,667)	$ -	$ (116,667)
4	Accumulated Depreciation	$ (12,789,099)	$ -	$ (12,789,099)
5	**Net Utility Plant in Service**	$ 77,778,836	$ -	$ 77,778,836
	Less:			
6	Advances in Aid of Construction	$ (18,557,742)	$ -	$ (18,557,742)
7	Contributions in Aid of Construction (net of amortization)	$ (2,393,271)	$ (30,271)	$ (2,423,542)
8	Imputed Regulatory Advances	$ -	$ -	$ -
9	Imputed Regulatory Contributions	$ (326,764)	$ -	$ (326,764)
10	Customer Meter Deposits	$ (1,920)	$ -	$ (1,920)
11	Deferred Income Taxes and Credits	$ 720,067	$ -	$ 720,067
12	Investment Tax Credits and Deferred Credits	$ -	$ -	$ -
13	**Total Reductions**	$ (20,559,630)	$ (30,271)	$ (20,589,901)
	Plus:			
13	Unamortized Finance Charges	$ -	$ -	$ -
14	Deferred Tax Assets	$ -	$ -	$ -
15	Deferred Debits	$ 51,714	$ -	$ 51,714
16	Allowance for Working Capital	$ 159,104 *	$ (108,000)	$ 51,104
17	Utility Plant Acquisition Adjustment	$ -	$ -	$ -
18	**Total Additions**	$ 210,818	$ (108,000)	$ 102,818
19	**Total Rate Base**	$ 57,430,025	$ (138,271)	$ 57,291,754

Notes and Source
Col.A: AAWC Filing, Schedule B-1
Col.B: Schedule B.1

* Per Revised Schedule B-5 (Company did not revise Schedule B-1 for Anthem Water)

Arizona American Water Company - Anthem Water
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B.1 (A)
Docket No. W-01303A-09-0343

Line No.	Description	RUCO Adjustments	Contributions in Aid of Construction	Cash Working Capital
			B-3	B-4
1	Gross Utility Plant in Service	$ -		
2	Phoenix Interconnection	$ -		
3	Amortization of Phoenix Interconnection	$ -		
4	Accumulated Depreciation	$ -		
5	**Net Utility Plant in Service**	$ -	$ -	$ -
	Less:			
6	Advances in Aid of Construction	$ -		
7	Contributions in Aid of Construction (net of amortization)	$ (30,271)	$ (30,271)	
8	Imputed Regulatory Advances	$ -		
9	Imputed Regulatory Contributions	$ -		
10	Customer Meter Deposits	$ -		
11	Deferred Income Taxes and Credits	$ -		
12	Investment Tax Credits and Deferred Credits	$ -		
13	**Total Reductions**	$ (30,271)	$ (30,271)	$ -
	Plus:			
13	Unamortized Finance Charges	$ -		
14	Deferred Tax Assets	$ -		
15	Deferred Debits	$ -		
16	Allowance for Working Capital	$ (108,000)		$ (108,000)
17	Utility Plant Acquisition Adjustment	$ -		
18	**Total Additions**	$ (108,000)	$ -	$ (108,000)
19	**Total Rate Base**	$ (138,271)	$ (30,271)	$ (108,000)
		$ (138,271)		

Notes and Source
See referenced exhibit for each adjustment

Arizona American Water Company - Anthem Water
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C (A)
Docket No. W-01303A-09-0343

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
	Revenues			
1	Water Revenues	$ 7,210,624	$ (9,456)	$ 7,201,168
2	Other Revenues	$ 272,650	$ -	$ 272,650
3	**Total Revenues**	$ 7,483,274	$ (9,456)	$ 7,473,818
	Operating Expenses			
4	Labor	$ 754,087	$ (38,639)	$ 715,448
5	Purchased Water	$ 625,435	$ -	$ 625,435
6	Fuel & Power	$ 1,259,637	$ -	$ 1,259,637
7	Chemicals	$ 103,351	$ -	$ 103,351
8	Waste Disposal	$ 1,933	$ -	$ 1,933
9	Management Fees	$ 1,158,078	$ (131,691)	$ 1,026,387
10	Group Insurance	$ 209,326	$ (2,033)	$ 207,293
11	Pensions	$ 105,808	$ (39,203)	$ 66,605
12	Regulatory Expense	$ 64,489	$ (27,003)	$ 37,486
13	Insurance Other Than Group	$ 71,553	$ -	$ 71,553
14	Customer Accounting	$ 183,101	$ -	$ 183,101
15	Rents	$ 33,826	$ -	$ 33,826
16	General Office Expense	$ 60,044	$ -	$ 60,044
17	Miscellaneous	$ 229,300	$ (3,250)	$ 226,050
18	Maintenance Expense	$ 140,803	$ -	$ 140,803
19	Depreciation & Amortization	$ 2,399,893	$ -	$ 2,399,893
20	General Taxes - Property Taxes	$ 292,953	$ -	$ 292,953
21	General Taxes - Other	$ 34,882	$ -	$ 34,882
22	Income Taxes	$ (759,675)	$ 79,375	$ (680,300)
23	**Total Operating Expenses**	$ 6,968,825	$ (162,445)	$ 6,806,380
24	**Utility Operating Income**	$ 514,448	$ 152,989	$ 667,437
	Other Income & Deductions			
25	Other Income & Deductions	$ -		$ -
26	Interest Expense	$ (1,722,901)		$ (1,722,901)
27	Other Expense	$ (14,079)		$ (14,079)
28	Gain/Loss Sale of Fixed Assets	$ (3)		$ (3)
29	**Total Other Additions/Deductions From Income**	$ (1,736,983)	$ -	$ (1,736,983)
30	**Net Profit (Loss)**	**$ (1,222,535)**	**$ 152,989**	**$ (1,069,546)**
31	Rate Base	$ 57,430,025	$ (138,271)	$ 57,291,754
32	Earned Rate of Return	0.90%		1.16%

Notes and Source

Col.A: AAWC Filing, Schedule C-1
Col.B: Schedule C.1
Col.C: Col.A + Col.B

Arizona American Water Company - Anthem Water
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Customer Annualization Correction	Rate Case Expense	Achievement Incentive Pay	Stock-Based Compensation	Pension Expense	OPEB Expense
			C-1	C-2	C-3	C-4	C-5	C-6
	Revenues							
1	Water Revenues	$ (9,456)	$ (9,456)					
2	Other Revenues	$ -						
3	**Total Revenues**	$ (9,456)	$ (9,456)	$ -	$ -	$ -	$ -	$ -
	Operating Expenses							
4	Labor	$ (38,639)			$ (14,417)	$ (24,222)		
5	Purchased Water	$ -						
6	Fuel & Power	$ -						
7	Chemicals	$ -						
8	Waste Disposal	$ -						
9	Management Fees	$ (131,691)						
10	Group Insurance	$ (2,033)						$ (2,033)
11	Pensions	$ (39,203)					$ (39,203)	
12	Regulatory Expense	$ (27,003)		$ (27,003)				
13	Insurance Other Than Group	$ -						
14	Customer Accounting	$ -						
15	Rents	$ -						
16	General Office Expense	$ -						
17	Miscellaneous	$ (3,250)						
18	Maintenance Expense	$ -						
19	Depreciation & Amortization	$ -						
20	General Taxes - Property Taxes	$ -						
21	General Taxes - Other	$ -						
15	PRE-TAX OPERATING EXPENSES	$ (241,820)	$ -	$ (27,003)	$ (14,417)	$ (24,222)	$ (39,203)	$ (2,033)
16	PRE-TAX OPERATING INCOME	$ 232,364	$ (9,456)	$ 27,003	$ 14,417	$ 24,222	$ 39,203	$ 2,033
17	Income Taxes	$ 79,375	$ (3,650)	$ 10,423	$ 5,565	$ 9,350	$ 15,132	$ 785
18	TOTAL OPERATING EXPENSES	$ (162,445)	$ (3,650)	$ (16,580)	$ (8,852)	$ (14,872)	$ (24,071)	$ (1,248)
19	OPERATING INCOME	$ 152,989	$ (5,806)	$ 16,580	$ 8,852	$ 14,872	$ 24,071	$ 1,248

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3 38.60%

Arizona American Water Company - Anthem Water
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Dues, Donations & Misc. Expenses	Management Fees - Other Expenses	Management Fees - Employee Benefits	Management Fees - Incentive Compensation	Management Fees - Normalize Affiliate Pension Expense	Management Fees - Normalize Affiliate OPEB Expense
		C-7	C-9	C-10	C-11	C-12	C-13
	Revenues						
1	Water Revenues						
2	Other Revenues						
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses						
4	Labor						
5	Purchased Water						
6	Fuel & Power						
7	Chemicals						
8	Waste Disposal						
9	Management Fees		$ (15,954)	$ (53,795)	$ (50,261)	$ (833)	$ (1,410)
10	Group Insurance						
11	Pensions						
12	Regulatory Expense						
13	Insurance Other Than Group						
14	Customer Accounting						
15	Rents						
16	General Office Expense						
17	Miscellaneous	$ (3,250)					
18	Maintenance Expense						
19	Depreciation & Amortization						
20	General Taxes - Property Taxes						
21	General Taxes - Other						
15	PRE-TAX OPERATING EXPENSES	$ (3,250)	$ (15,954)	$ (53,795)	$ (50,261)	$ (833)	$ (1,410)
16	PRE-TAX OPERATING INCOME	$ 3,250	$ 15,954	$ 53,795	$ 50,261	$ 833	$ 1,410
17	Income Taxes	$ 1,255	$ 6,158	$ 20,765	$ 19,401	$ 322	$ 544
18	TOTAL OPERATING EXPENSES	$ (1,995)	$ (9,796)	$ (33,030)	$ (30,860)	$ (511)	$ (866)
19	OPERATING INCOME	$ 1,995	$ 9,796	$ 33,030	$ 30,860	$ 511	$ 866

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Anthem Water
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15
	Revenues		
1	Water Revenues		
2	Other Revenues		
3	**Total Revenues**	$ -	$ -
	Operating Expenses		
4	Labor		
5	Purchased Water		
6	Fuel & Power		
7	Chemicals		
8	Waste Disposal		
9	Management Fees	$ (9,438)	
10	Group Insurance		
11	Pensions		
12	Regulatory Expense		
13	Insurance Other Than Group		
14	Customer Accounting		
15	Rents		
16	General Office Expense		
17	Miscellaneous		
18	Maintenance Expense		
19	Depreciation & Amortization		
20	General Taxes - Property Taxes		
21	General Taxes - Other		
15	PRE-TAX OPERATING EXPENSES	$ (9,438)	$ -
16	PRE-TAX OPERATING INCOME	$ 9,438	$ -
17	Income Taxes	$ 3,643	$ (10,318)
18	TOTAL OPERATING EXPENSES	$ (5,795)	$ (10,318)
19	OPERATING INCOME	$ 5,795	$ 10,318

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3

Arizona American Water Company - Sun City Water
Calculation of Revenue Deficiency (Sufficiency)

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule A (SC)
Docket No. W-01303A-09-0343

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (SC)	$ 28,186,063	$ 26,400,924	$ (1,785,139)
2	Rate of return	D (SC)	8.53%	6.77%	
3	Net operating income required		$ 2,404,271	$ 1,788,399	$ (615,872)
4	Adjusted net operating income	C (SC)	$ 861,085	$ 1,354,113	$ 493,028
5	Net operating income deficiency		$ 1,543,186	$ 434,286	$ (1,108,900)
6	Gross revenue conversion factor	A-1 (SC)	1.6402	1.6402	
7	Revenue deficiency (Sufficiency)		$ 2,531,127	$ 712,316	$ (1,818,811)
	Percentage Increase Over Current Rates				
8	Revenue from Sales to Retail Customers	Sch C, L.1	$ 9,125,203	$ 9,125,203	
9	Percentage Increase	L.7 / L.8	27.74%	7.81%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

Calculation of RUCO recommended percentage increase to AAWC's base rates	RUCO Proposed
AAWC's adjusted water revenues per Schedule C (SC)	$ 9,125,203
RUCO recommended rate increase (line 7 above)	$ 712,316
Total revenues after reflecting RUCO recommended increase	$ 9,837,519
Percentage change in revenues	7.81%

Calculation of AAWC's proposed percentage increase to base rates	AAWC Proposed
AAWC's adjusted water revenues per Schedule C (SC)	$ 9,125,203
AAWC proposed rate increase (line 7 above)	$ 2,531,127
Total revenues after reflecting AAWC proposed increase	$ 11,656,330
Percentage change in revenues	27.74%

Arizona American Water Company - Sun City Water
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule A-1 (SC)
Docket No. W-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.34%	0.34%
3	Bad Debt Expense	0.09%	0.09%
4	Taxable Income as a Percent	99.57%	99.57%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.94%	67.94%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.97%	60.97%
9	**Gross Revenue Conversion Factor**	**1.6402**	**1.6402**

Notes and Source

Col.A:	AAWC Filing, Schedule C-3		
	Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

		Amount	Percent
11	Net Income	$ 434,287	60.97%
12	Federal Income Taxes	$ 225,312	31.63%
13	State Income Taxes	$ 49,634	6.97%
14	Property Taxes	$ 2,431	0.34%
15	Uncollectibles	$ 652	0.09%
16	Total Revenue Increase	$ 712,316	100.00%
17	Total Revenue Increase (From Schedule A)	$ 712,316	

Arizona American Water Company - Sun City Water
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B (SC)
Docket No. W-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	$ 63,616,418	$ (1,123,185)	$ 62,493,233
2	Accumulated Depreciation	$ (18,973,897)	$ (463,964)	$ (19,437,861)
3	**Net Utility Plant in Service**	$ 44,642,520	$ (1,587,149)	$ 43,055,372
	Less:			
4	Advances in Aid of Construction	$ (5,860,651)	$ -	$ (5,860,651)
5	Contributions in Aid of Construction (net of amortization)	$ (13,179,713)	$ (38,991)	$ (13,218,704)
6	Imputed Regulatory Advances	$ -	$ -	$ -
7	Imputed Regulatory Contributions	$ (342,458)	$ -	$ (342,458)
8	Customer Meter Deposits	$ (2,450)	$ -	$ (2,450)
9	Deferred Income Taxes and Credits	$ 1,904,817	$ -	$ 1,904,817
10	Investment Tax Credits and Deferred Credits	$ -	$ -	$ -
11	**Total Reductions**	$ (17,480,455)	$ (38,991)	$ (17,519,446)
	Plus:			
12	Unamortized Finance Charges	$ -	$ -	$ -
13	Deferred Tax Assets	$ -	$ -	$ -
14	Deferred Debits	$ 437,906	$ -	$ 437,906
15	Allowance for Working Capital	$ 586,091	$ (159,000)	$ 427,091
16	Utility Plant Acquisition Adjustment	$ -	$ -	$ -
17	**Total Additions**	$ 1,023,997	$ (159,000)	$ 864,997
18	**Total Rate Base**	$ 28,186,063	$ (1,785,140)	$ 26,400,924

Notes and Source
Col.A: AAWC Filing, Schedule B-1
Col.B: Schedule B.1

Arizona American Water Company - Sun City Water
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B.1 (SC)
Docket No. W-01303A-09-0343
Page 1 of 1

Line No.	Description	RUCO Adjustments	Post-Test Year Plant - Well 5.1	Contributions in Aid of Construction	Cash Working Capital
			B-1	B-3	B-4
1	Gross Utility Plant in Service	$ (1,123,185)	$ (1,123,185)		
2	Accumulated Depreciation	$ (463,964)	$ (463,964)		
3	**Net Utility Plant in Service**	$ (1,587,149)	$ (1,587,149)	$ -	$ -
	Less:				
4	Advances in Aid of Construction	$ -			
5	Contributions in Aid of Construction (net of amortization)	$ (38,991)		$ (38,991)	
6	Imputed Regulatory Advances	$ -			
7	Imputed Regulatory Contributions	$ -			
8	Customer Meter Deposits	$ -			
9	Deferred Income Taxes and Credits	$ -			
10	Investment Tax Credits and Deferred Credits	$ -			
11	**Total Reductions**	$ (38,991)	$ -	$ (38,991)	$ -
	Plus:				
12	Unamortized Finance Charges	$ -			
13	Deferred Tax Assets	$ -			
14	Deferred Debits	$ -			
15	Allowance for Working Capital	$ (159,000)			$ (159,000)
16	Utility Plant Acquisition Adjustment	$ -			
17	**Total Additions**	$ (159,000)	$ -	$ -	$ (159,000)
18	**Total Rate Base**	$ (1,785,140)	$ (1,587,149)	$ (38,991)	$ (159,000)

Notes and Source
See referenced exhibit for each adjustment

Arizona American Water Company - Sun City Water
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C (SC)
Docket No. W-01303A-09-0343

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
	Revenues			
1	Water Revenues	$ 9,125,203	$ -	$ 9,125,203
2	Other Revenues	$ 157,898	$ -	$ 157,898
3	**Total Revenues**	$ 9,283,101	$ -	$ 9,283,101
	Operating Expenses			
4	Labor	$ 1,225,670	$ (50,258)	$ 1,175,412
5	Purchased Water	$ -	$ -	$ -
6	Fuel & Power	$ 1,722,582	$ -	$ 1,722,582
7	Chemicals	$ 37,037	$ -	$ 37,037
8	Waste Disposal	$ -	$ -	$ -
9	Management Fees	$ 1,509,322	$ (171,633)	$ 1,337,689
10	Group Insurance	$ 354,396	$ (2,650)	$ 351,746
11	Pensions	$ 251,435	$ (92,636)	$ 158,799
12	Regulatory Expense	$ 75,286	$ (24,304)	$ 50,982
13	Insurance Other Than Group	$ 93,255	$ -	$ 93,255
14	Customer Accounting	$ 235,348	$ -	$ 235,348
15	Rents	$ 60,016	$ -	$ 60,016
16	General Office Expense	$ 78,546	$ -	$ 78,546
17	Miscellaneous	$ 300,084	$ (4,237)	$ 295,847
18	Maintenance Expense	$ 652,601	$ (445,000)	$ 207,601
19	Depreciation & Amortization	$ 1,565,706	$ (36,961)	$ 1,528,745
20	General Taxes - Property Taxes	$ 156,074	$ -	$ 156,074
21	General Taxes - Other	$ 94,912	$ -	$ 94,912
22	Income Taxes	$ 9,746	$ 334,652	$ 344,398
23	**Total Operating Expenses**	$ 8,422,016	$ (493,028)	$ 7,928,988
24	**Utility Operating Income**	$ 861,085	$ 493,028	$ 1,354,113
	Other Income & Deductions			
25	Other Income & Deductions	$ -		$ -
26	Interest Expense	$ (845,582)		$ (845,582)
27	Other Expense	$ (18,348)		$ (18,348)
28	Gain/Loss Sale of Fixed Assets	$ (4)		$ (4)
29	**Total Other Additions/Deductions From Income**	$ (863,934)	$ -	$ (863,934)
30	**Net Profit (Loss)**	**$ (2,849)**	**$ 493,028**	**$ 490,179**
31	Rate Base	$ 28,186,063	$ (1,785,140)	$ 26,400,923
32	Earned Rate of Return	3.06%		5.13%

Notes and Source

Col.A: AAWC Filing, Schedule C-1
Col.B: Schedule C.1
Col.C: Col.A + Col.B

Arizona American Water Company - Sun City Water
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense	Achievement Incentive Pay	Stock-Based Compensation	Pension Expense	OPEB Expense	Dues, Donations & Misc. Expenses
			C-2	C-3	C-4	C-5	C-6	C-7
	Revenues							
1	Water Revenues	$ -						
2	Other Revenues	$ -						
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses							
4	Labor	$ (50,258)		$ (18,690)	$ (31,568)			
5	Purchased Water	$ -						
6	Fuel & Power	$ -						
7	Chemicals	$ -						
8	Waste Disposal	$ -						
9	Management Fees	$ (171,633)						
10	Group Insurance	$ (2,650)					$ (2,650)	
11	Pensions	$ (92,636)				$ (92,636)		
12	Regulatory Expense	$ (24,304)	$ (24,304)					
13	Insurance Other Than Group	$ -						
14	Customer Accounting	$ -						
15	Rents	$ -						
16	General Office Expense	$ -						
17	Miscellaneous	$ (4,237)						$ (4,237)
18	Maintenance Expense	$ (445,000)						
19	Depreciation & Amortization	$ (36,961)						
20	General Taxes - Property Taxes	$ -						
21	General Taxes - Other	$ -						
15	PRE-TAX OPERATING EXPENSES	$ (827,680)	$ (24,304)	$ (18,690)	$ (31,568)	$ (92,636)	$ (2,650)	$ (4,237)
16	PRE-TAX OPERATING INCOME	$ 827,680	$ 24,304	$ 18,690	$ 31,568	$ 92,636	$ 2,650	$ 4,237
17	Income Taxes	$ 334,652	$ 9,381	$ 7,214	$ 12,185	$ 35,758	$ 1,023	$ 1,635
18	TOTAL OPERATING EXPENSES	$ (493,028)	$ (14,923)	$ (11,476)	$ (19,383)	$ (56,878)	$ (1,627)	$ (2,602)
19	OPERATING INCOME	$ 493,028	$ 14,923	$ 11,476	$ 19,383	$ 56,878	$ 1,627	$ 2,602

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C-3 38.60%

Arizona American Water Company - Sun City Water
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Tank Maintenance Expense	Management Fees - Other Expenses	Management Fees - Employee Benefits	Management Fees - Incentive Compensation	Management Fees - Normalize Affiliate Pension Expense	Management Fees - Normalize Affiliate OPEB Expense	Management Fees - Remove Business Development Expenses
		C-8	C-9	C-10	C-11	C-12	C-13	C-14
	Revenues							
1	Water Revenues							
2	Other Revenues							
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses							
4	Labor							
5	Purchased Water							
6	Fuel & Power							
7	Chemicals							
8	Waste Disposal							
9	Management Fees		$ (20,793)	$ (70,111)	$ (65,506)	$ (1,086)	$ (1,838)	$ (12,301)
10	Group Insurance							
11	Pensions							
12	Regulatory Expense							
13	Insurance Other Than Group							
14	Customer Accounting							
15	Rents							
16	General Office Expense							
17	Miscellaneous							
18	Maintenance Expense	$ (445,000)						
19	Depreciation & Amortization							
20	General Taxes - Property Taxes							
21	General Taxes - Other							
15	PRE-TAX OPERATING EXPENSES	$ (445,000)	$ (20,793)	$ (70,111)	$ (65,506)	$ (1,086)	$ (1,838)	$ (12,301)
16	PRE-TAX OPERATING INCOME	$ 445,000	$ 20,793	$ 70,111	$ 65,506	$ 1,086	$ 1,838	$ 12,301
17	Income Taxes	$ 171,770	$ 8,026	$ 27,063	$ 25,285	$ 419	$ 709	$ 4,748
18	TOTAL OPERATING EXPENSES	$ (273,230)	$ (12,767)	$ (43,048)	$ (40,221)	$ (667)	$ (1,129)	$ (7,553)
19	OPERATING INCOME	$ 273,230	$ 12,767	$ 43,048	$ 40,221	$ 667	$ 1,129	$ 7,553

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C

Arizona American Water Company - Sun City Water
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Interest Synchronization	Depreciation Expense Related to Post-Test Year Plant - Well 5.1 - Sun City Water
		C-15	C-16
	Revenues		
1	Water Revenues		
2	Other Revenues		
3	**Total Revenues**	$ -	$ -
	Operating Expenses		
4	Labor		
5	Purchased Water		
6	Fuel & Power		
7	Chemicals		
8	Waste Disposal		
9	Management Fees		
10	Group Insurance		
11	Pensions		
12	Regulatory Expense		
13	Insurance Other Than Group		
14	Customer Accounting		
15	Rents		
16	General Office Expense		
17	Miscellaneous		
18	Maintenance Expense		
19	Depreciation & Amortization		$ (36,961)
20	General Taxes - Property Taxes		
21	General Taxes - Other		
15	PRE-TAX OPERATING EXPENSES	$ -	$ (36,961)
16	PRE-TAX OPERATING INCOME	$ -	$ 36,961
17	Income Taxes	$ 15,169	$ 14,267
18	TOTAL OPERATING EXPENSES	$ 15,169	$ (22,694)
19	OPERATING INCOME	$ (15,169)	$ 22,694

Notes and Source

Combined Effective Tax Rate per AAWC filing, Sch. C

Arizona American Water Company
Post-Test Year Additions to Plant - Well 5.1 - Sun City Water

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B-1
Docket No. W-01303A-09-0343

Line No.	Description	Sun City Water (A)	Reference
1	Remove Well 5.1 From Utility Plant in Service	$ (1,587,149)	A
2	Reverse Retirement of Old Well	$ 463,964	A&B
3	Gross Utility Plant in Service	$ (1,123,185)	
3	Increase Accumulated Depreciation for Old Well	$ (463,964)	B
4	Net Adjustment to Utility Plant in Service	$ (1,587,149)	

Notes and Source

A: Amounts per Schedule B-2, Adjustment No. LJG-5 from AAWC filing

B: Page 5 of the direct testimony of Company witness Linda J. Gutowski stated:
"The retirement of $463,964 for the old Well #5.1 was deducted from plant and from accumulated depreciation"

Arizona American Water Company
Contributions In Aid of Construction

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B-3
Docket No. W/SW-01303A-09-0343

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Anthem/ Agua Fria Wastewater (C)	Sun City Wastewater (D)	Sun City West Wastewater* (E)	Total (F)	Reference
1	Reverse Company Adjustments to CIAC	$ (30,271)	$(38,991)	$ (65,490)	$ (3,743)	$ -	$ (138,495)	A
2	Subtotal Water						$ (69,262)	
3	Subtotal Wastewater						$ (69,233)	
4	Total Adjustment						$ (138,495)	

Notes and Source

A: Per Schedule B-2, Adjustment No. SLM-8 from AAWC filing

* The Company's adjustment to CIAC related to Sun City West Wastewater netted to zero

Arizona American Water Company
Cash Working Capital

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B-4
Docket No. W-01303A-09-0343

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (D)	Reference
1	Cash Working Capital Requirement Per Filing	$ 75,089	$ 416,111	$ 491,200	A
2	RUCO Recommended Cash Working Capital Requirement	$ (32,502)	$ 257,541	$ 225,039	B
3	Adjustment to Cash Working Capital	$ (107,591)	$ (158,570)	$ (266,161)	
4	Adjustment to Cash Working Capital Rounded to Nearest $000	$ (108,000)	$ (159,000)	$ (267,000)	

Notes and Source

A: AAWC filing, Schedule B-6

B: See Schedules B-2 (A) and B-2 (SC)

Arizona American Water Company - Anthem Water
Cash Working Capital/Lead Lag Study

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B-4 (A)
Docket No. W-01303A-09-0343

Line No.			Test Year Adjusted Results (A)	RUCO Adjustments (B)	RUCO Adjusted (C)	Revenue Lag Days (D)	Expense Lag Days (E)	Net Lag Days (F)	Lead/ Lag Factor (G)	Cash Working Capital Required (H)	Reference
	OPERATING EXPENSES										
1	P08	Labor	$ 754,087	$ (38,639)	$ 715,448	40.02	12.00	28.02	0.0768	$ 54,931	
2	P09	Purchased Water	$ 625,435		$ 625,435	40.02	50.92	-10.89	(0.0298)	$ (18,664)	
3	P10	Fuel & Power	$ 1,259,637		$ 1,259,637	40.02	22.70	17.33	0.0475	$ 59,801	
4	P11	Chemicals	$ 103,351		$ 103,351	40.02	8.73	31.30	0.0857	$ 8,862	
5	P12	Waste disposal	$ 1,933		$ 1,933	40.02	4.55	35.47	0.0972	$ 188	
6	P13	Management Fees	$ 1,158,078	$ (131,691)	$ 1,026,387	40.02	12.00	28.02	0.0768	$ 78,804	a
7	P14	Group Insurance	$ 209,326	$ (2,033)	$ 207,293	40.02	-13.70	53.73	0.1472	$ 30,513	
8	P15	Pensions	$ 105,808	$ (39,203)	$ 66,605	40.02	-2.37	42.39	0.1161	$ 7,736	
9	P17	Insurance Other Than Group	$ 71,553		$ 71,553	40.02	-83.68	123.71	0.3389	$ 24,251	
10	P18	Customer Accounting	$ 183,101		$ 183,101	40.02	10.09	29.93	0.0820	$ 15,017	
11	P19	Rents	$ 33,826		$ 33,826	40.02	0.00	40.02	0.1097	$ 3,709	
12	P21	Miscellaneous	$ 229,300		$ 229,300	40.02	8.89	31.13	0.0853	$ 19,556	
13	P25	Maintenance Expense	$ 140,803		$ 140,803	40.02	33.61	6.41	0.0176	$ 2,474	
14		Other Operating Expenses	$ 124,533	$ (30,253)	$ 94,280	40.02	30.00	10.02	0.0275	$ 2,589	
15	P29	Property Taxes	$ 288,011		$ 288,011	40.02	191.29	-151.27	(0.4144)	$ (119,363)	
16	P29	Taxes Other than Income	$ 34,882		$ 34,882	40.02	13.35	26.68	0.0731	$ 2,550	
17	P30	Income Tax	$ 1,996,536	$ 2,135,623	$ 4,132,159	40.02	30.13	9.89	0.0271	$ 112,010	
18	P56	Interest	$ 1,722,960	$ 26,731	$ 1,749,690	40.02	106.25	-66.23	(0.1814)	$ (317,466)	
19		Total	$ 9,043,161	$ 1,920,534	$ 10,963,695						

20	Working Cash Requirement	$ (32,502)
21	Working Cash Requirement per Company	$ 75,089
22	Adjustment to Cash Working Capital	$ (107,591)

Notes and Source

AAWC Filing, Schedule B-6
Col. D: RUCO recommending revenue lag days of 40.02. Company used 46.11 revenue lag days
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

Line 17, Col. C, Current Income Taxes:

23	Per AAWC	$ 1,996,536	
24	RUCO adjustments to current income taxes	$ 79,375	Schedule C.1 (A), line 17
25	Income Taxes for Revenue Increase	$ 2,056,248	Schedule A-1 (A), lines 12 & 13
26	Total current income taxes for CWC calculation	$ 4,132,159	

Arizona American Water Company - Sun City Water
Cash Working Capital/Lead Lag Study

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule B-4 (SC)
Docket No. W-01303A-09-0343

Line No.			Test Year Adjusted Results	RUCO Adjustments	RUCO Adjusted	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Working Capital Required	Reference
			(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
	OPERATING EXPENSES										
1	P08	Labor	$ 1,225,670	$ (50,258)	$ 1,175,412	39.65	12.00	27.65	0.0757	$ 89,025	
2	P09	Purchased Water	$ -		$ -	39.65	(59.03)	98.67	0.2703	$ -	
3	P10	Fuel & Power	$ 1,722,582		$ 1,722,582	39.65	22.09	17.56	0.0481	$ 82,858	
4	P11	Chemicals	$ 37,037		$ 37,037	39.65	15.09	24.56	0.0673	$ 2,492	
5	P12	Waste disposal	$ -		$ -	39.65	-	39.65	0.1086	$ -	
6	P13	Management Fees	$ 1,509,322	$ (171,633)	$ 1,337,689	39.65	12.00	27.65	0.0757	$ 101,316	a
7	P14	Group Insurance	$ 354,396	$ (2,650)	$ 351,746	39.65	(13.70)	53.35	0.1462	$ 51,412	
8	P15	Pensions	$ 251,435	$ (92,636)	$ 158,799	39.65	(2.37)	42.01	0.1151	$ 18,279	
9	P17	Insurance Other Than Group	$ 93,255		$ 93,255	39.65	(83.68)	123.33	0.3379	$ 31,510	
10	P18	Customer Accounting	$ 235,348		$ 235,348	39.65	10.09	29.56	0.0810	$ 19,057	
11	P19	Rents	$ 60,016		$ 60,016	39.65	32.82	6.82	0.0187	$ 1,122	
12	P21	Miscellaneous	$ 300,084		$ 300,084	39.65	25.96	13.69	0.0375	$ 11,253	
13	P25	Maintenance Expense	$ 652,601	$ (445,000)	$ 207,601	39.65	23.25	16.40	0.0449	$ 9,325	
14		Other Operating Expenses	$ 153,833	$ (28,541)	$ 125,292	39.65	30.00	9.65	0.0264	$ 3,311	
15	P29	Property Taxes	$ 156,074		$ 156,074	39.65	190.63	(150.99)	(0.4137)	$ (64,561)	
16	P29	Taxes Other than Income	$ 94,912		$ 94,912	39.65	13.35	26.30	0.0721	$ 6,839	
17	P30	Income Tax	$ 979,846	$ 609,598	$ 1,589,444	39.65	30.13	9.52	0.0261	$ 41,434	
18	P56	Interest	$ 845,582	$ (39,298)	$ 806,284	39.65	106.25	(66.61)	(0.1825)	$ (147,130)	
19		Total	$ 8,671,993	$ (220,418)	$ 8,451,575						

20	Working Cash Requirement	$ 257,541
21	Working Cash Requirement per Company	$ 416,111
22	Adjustment to Cash Working Capital	$ (158,570)

Notes and Source

AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 39.65. Company used 45.73 revenue lag days
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

Line 17, Col. C, Current Income Taxes:

23	Per AAWC	$ 979,846	
24	RUCO adjustments to current income taxes	$ 334,652	Schedule C.1 (SC), line 17
25	Income Taxes for Revenue Increase	$ 274,946	Schedule A-1 (SC), lines 12 & 13
26	Total current income taxes for CWC calculation	$ 1,589,444	

Arizona American Water Company
Customer Annualization Correction - Anthem Water

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-1
Docket No. W-01303A-09-0343

Line No.	Description	Anthem Water (A)	Reference
1	Adjustment to Reduce Annualized Revenue to Reflect Error Correction	$ (9,456)	A

Notes and Source

A: Testimony of RUCO witness Rodney Moore

Arizona American Water Company
Rate Case Expense

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-2
Docket No. W-01303A-09-0343

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Estimated Normalized Rate Case Expense Per Filing	$ 57,546	$ 63,081	$ 120,627	A
2	RUCO Recommended Normalized Rate Case Expense	$ 30,543	$ 38,777	$ 69,320	B
3	Adjustment to Rate Case Expense	$ (27,003)	$ (24,304)	$ (51,307)	L2 - L1

Notes and Source

A: AAWC estimated normalized rate case expense calculated as follows (amounts from Adjustment MHK-8 from AAWC filing):

		Anthem Water	Sun City Water
4	Estimated Rate Case Expense per Company	$ 678,425	$ 678,425
5	Normalized over three years	3	3
6	Estimated Normalized Rate Case Expense	$ 226,142	$ 226,142
7	2009 Group 4-Factor per Company	19.919%	25.289%
8	Allocated Rate Case Expense	$ 45,046	$ 57,190
9	Unamortized Balance of Prior Rate Case Expense	$ 37,500	$ 17,674
10	Normalized over three years	3	3
11	Annual Amortization of Unamortized Rate Case Expense	$ 12,500	$ 5,891
12	Pro Forma Rate Case Expense	$ 57,546	$ 63,081

B: RUCO recommended Rate Case Expense calculated as follows:

13	RUCO recommended Rate Case Expense	$ 460,000	$ 460,000
14	Normalized over three years	3	3
15	Normalized Rate Case Expense	$ 153,333	$ 153,333
16	2009 Group 4-Factor	19.919%	25.289%
17	Allocated Rate Case Expense	$ 30,543	$ 38,777

Arizona American Water Company
Achievement Incentive Pay

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-3
Docket No. W-01303A-09-0343

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Achievement Incentive Pay Recorded at 12/31/2008	$ 3,496	$ 4,224	$ 7,720	A
2	Corporate Allocation	$ 44,560	$ 58,075	$ 102,635	A&B
3	Total Achievement Incentive Pay	$ 48,056	$ 62,299	$ 110,355	
4	Disallowance Percentage	30%	30%		C
5	Adjustment to Achievement Incentive Pay	$ (14,417)	$ (18,690)	$ (33,107)	

Notes and Source

A: Amounts above per Company workpaper "AI-2008" for each district
B: Corporate allocation amounts also provided in AAWC's responses to RUCO 2-6 and RUCO 3-2
C: Testimony of RUCO witness Ralph Smith

Arizona American Water Company
Stock-Based Compensation

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-4
Docket No. W-01303A-09-0343

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Adjustment to Remove Stock-Based Compensation	$ (24,222)	$ (31,568)	$ (55,790)	A

Notes and Source

A: Amounts below from AAWC's response to RUCO 6-3

	Description	Service Company Portion	AAWC Non-Affiliate Portion	Total
2	Comp - Stock Options - Account 501716	$ 36,693	$ 41,909	$ 78,602
3	Comp - Restricted Stock - Account 501717	$ 28,834	$ 103,974	$ 132,808
4	Comp - Restricted Stock Units - Account 701718	$ 4,046	$ 43,232	$ 47,278
5	Total Test Year Stock-Based Compensation	$ 69,573	$ 189,115	$ 258,688

		Anthem Water	Sun City Water
6	Total Test Year Stock-Based Compensation	$ 258,688	$ 258,688
7	4 Factor Allocator	9.3634%	12.2033%
8	Total Allocated Test Year Stock-Based Compensation	$ 24,222	$ 31,568

Arizona American Water Company
Pension Expense

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-5
Docket No. W-01303A-09-0343

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Pro Forma Pension Expense Per Filing	$ 120,860	$ 267,828	$ 388,689	A
2	RUCO Recommended Pro Forma Pension Expense	$ 81,657	$ 175,192	$ 256,849	B&C
3	Adjustment to Pension Expense	$ (39,203)	$ (92,636)	$ (131,839)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-2 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

			Amount
5	Recorded Pension Expense - 2007		$ 903,222
6	Recorded Pension Expense - 2008		$ 1,734,561
7		Subtotal	$ 2,637,783
8	Normalized Over Two Years		2
9	Normalized Pension Expense		$ 1,318,892

C: RUCO calculated its pension expense adjustment by incorporating the normalized amount above to Company workpaper "AZ 2008 Labor" as shown on pages 2 and 3 of this schedule

	A	B	C	D	E	F	G	H	I	J	K	L
115	ARIZONA-AMERICAN WATER COMPANY								Exhibit			
116	SUMMARY OF PENSION PRO FORMA ADJUSTMENTS								Schedule C-2			
117	TEST YEAR ENDED DECEMBER 31, 2008								Page			
118									Witness: Hubbard			
119					RUCO					Per AAWC		
120	Line		Business		Adjusted Test Year		Test Year			Adjusted Test Year	Per RUCO	RUCO
121	No.	District	Unit		Pension Expense		Pension Expense		Difference	Pension Expense	Pension Expense	Adjustment
122	1											
123	2	Anthem Water	2381, 2383		$ 81,657.13		$ 162,414.00		$ (80,756.87)	$ 120,860.39	$ 81,657.13	$ (39,203.26)
124	3											
125	4											
126	5											
127	6											
128	7	Sun City Water	2362		$ 175,192.00		$ 211,674.00		$ (36,482.00)	$ 267,828.16	$ 175,192.00	$ (92,636.15)
129	8											
130	9											
131	10											
132	11											
133	12	Anthem Wastewater	2382, 2384		$ 70,701.52		$ 100,380.00		$ (29,678.48)	$ 106,761.98	$ 70,701.52	$ (36,060.45)
134	13											
135	14											
136	15											
137	16											
138	17	Agua Fria Wastewater	2385		$ 56,670.94		$ 113,914.00		$ (57,243.06)	$ 81,710.83	$ 56,670.94	$ (25,039.89)
139	18	Northwest Valley Regional Treatment Facility @ 32%	2346		21,784.85		-		$ 21,784.85	33,167.49	$ 21,784.85	$ (11,382.64)
140	19	Total Agua Fria Wastewater			$ 78,455.79		$ 113,914.00		$ (35,458.21)	$ 114,878.32	$ 78,455.79	$ (36,422.53)
141	20											
142	21											
143	22											
144	23											
145	24	Sun City Wastewater	2363		$ 49,093.81		$ 130,870.00		$ (81,776.19)	$ 74,280.77	$ 49,093.81	$ (25,186.96)
146	25											
147	26											
148	27											
149	28											
150	29	Sun City West Wastewater	2365		$ 51,667.97		$ 110,737.00		$ (59,069.03)	$ 78,489.93	$ 51,667.97	$ (26,821.96)
151	30	Northwest Valley Regional Treatment Facility @ 68%	2346		46,292.81		-		$ 46,292.81	70,480.92	$ 46,292.81	$ (24,188.11)
152	31	Total Sun City West Wastewater			$ 97,960.78		$ 110,737.00		$ (12,776.22)	$ 148,970.85	$ 97,960.78	$ (51,010.07)
153	32											
154	33	Total All Districts			$ 553,061.04		$ 829,989.00		$ (276,927.96)	$ 833,580.46	$ 553,061.04	$ (280,519.43)
155	34											
156	35											
157	36											
158	37											
159	38											
160	39											
161	40											
162	41											
163	42											
164	43											
165	44											
166	45	Workpapers & Supporting Documents:										
167	46	09 Sun City West WW\Workpapers\Sun City West WW AI 2008.xls			Cases\AZ RUCO AZ American Water 2009\Testimony\[AZ 2008 Labor_Pension Adjustment.xlsm]Sheet1							
168	47	\Common\Labor										
169	48											

Arizona American Water Company
Test Year Ending December 31, 2008
Pension Expense

Line No.				
1	**Average Recorded Pension, 2007-2008**			**$ 1,318,892**
2				
3	Number of Active Participants			107
4				
5	Average Cost per Participant			$ 12,326
6				
7	Average Cost Per Participant Per Hour (ln. 5 ÷ 2,080 hrs.)			$ 5.93
8				
9	Compare per AWWC:			
10	Actual Pension Funding Expense for 2009 under ERISA		$ 2,090,643	=-'2008 Pension'!D89
11	Total reduction	L1 - L10	$ (771,751)	
12				
13				
14				
15				
16				
17				
18				
19	Defined Contribution Plan for new Hires beginning 1/1/06			
20	Beginning 1/1/06, the Company no longer offers a Pension Plan to new hires.			
21	Instead, new hires get the Defined Contribution Plan as a benefit.			
22	The Company will contribute 5.25% of Base Pay into a Defined Contribution			
23	Plan.			
24			Base Pay	5.25%
25	New Hires after 1/1/2006		$ 3,954,058.36	$207,588
26				
27	Number of Active Participants			79
28				
29	Average Cost per Participant			$2,627.70
30				
31	Average Cost Per Participant Per Hour (Ln.27 ÷ 2,080 hrs.)			$ 1.26
32				
33				
34				
35				

Arizona American Water Company
OPEB Expense

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-6
Docket No. W-01303A-09-0343

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Normalized OPEB Expense Per Filing (Expensed Portion)	$ 78,238	$ 78,238		A
2	4 Factor Allocation Factor	9.363%	12.203%		
3	Adjusted Test Year OPEB Expense Per Company	$ 7,326	$ 9,548	$ 16,874	
4	RUCO Recommended Pro Forma OPEB Expense	$ 5,293	$ 6,898	$ 12,191	
5	Adjustment to OPEB Expense	$ (2,033)	$ (2,650)	$ (4,683)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-14 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

			Amount	
7	Recorded OPEB Cost - 2007		$ 62,603	
8	Recorded OPEB Cost - 2008		$ 75,723	
9		Subtotal	$ 138,326	
10	Normalized Over Two Years		2	
11	Normalized OPEB Cost		$ 69,163	
12	Capitalization Percentage		18.3%	
13	Capitalized Portion of OPEB Cost		$ (12,634)	
14	Expensed Portion of OPEB Cost		$ 56,529	L11 + L13
15	4 Factor Allocation Factor		9.363%	
16	Anthem Water Portion of OPEB Expense		$ 5,293	L14 x L15
17	4 Factor Allocation Factor		12.203%	
18	Sun City Water Portion of OPEB Expense		$ 6,898	L14 x L17

Arizona American Water Company
Dues, Donations & Miscellaneous Expenses

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-7
Docket Nos. W/SW-01303A-09-0343

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
1	Membership Dues	$ (1,774)	$ (2,313)	$ (2,341)	$ (1,430)	$ (1,210)	$ (9,068)	A
2	Charitable Contributions	$ (796)	$ (1,038)	$ (1,051)	$ (642)	$ (543)	$ (4,070)	A
3	Community Relations	$ (504)	$ (657)	$ (665)	$ (406)	$ (343)	$ (2,575)	A
4	Advertising Expense	$ (176)	$ (229)	$ (232)	$ (142)	$ (120)	$ (899)	A
5	Total	$ (3,250)	$ (4,237)	$ (4,289)	$ (2,620)	$ (2,216)	$ (16,612)	
6	Subtotal Water						$ (7,487)	
7	Subtotal Wastewater						$ (9,125)	
8	Total Adjustment						$ (16,612)	

Notes and Source

A: Amounts per AAWC's response to RUCO 2-43

		Amount	
9	Membership Dues	$ 18,951	
10	Charitable Contributions	$ 8,505	
11	Community Relations	$ 5,380	
12	Advertising Expense	$ 1,880	see below
13	Total	$ 34,716	

Breakout of Advertising Expenses being removed:

14	Public Works Financing - Corporate	$ 594
15	Hanley Wood LLC - Marketing	$ 318
16	Hanley Wood LLC - Marketing	$ 636
17	Naylor LLC - Marketing	$ 295
18	Identity Links, Inc. - Promotional	$ 8
19	Langa Resource Group-REMIT - Promotional	$ 19
20	M&N Services LLC - Promotional	$ 10
21	Total	$ 1,880

Arizona American Water Company
Tank Maintenance Expense - Sun City Water

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-8
Docket No. W-01303A-09-0343

Line No.	Description	Sun City Water (A)	Reference
1	Adjusted Test Year Tank Maintenance Expense Per Filing	$ 475,201	A
2	Adjustment to Remove Proposed Accrual for Deferred Tank Maintenance	$ (445,000)	
3	RUCO Recommended Tank Maintenance Expense	$ 30,201	

Notes and Source

A: Per Sun City Water, Schedule C-2, page 29, Adjustment No. SLH-11 from Arizona-American filing

Arizona American Water Company
Management Fees - Other Expenses

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Anthem/Agua Fria Wastewater (C)	Sun City Wastewater (D)	Sun City West Wastewater (E)	Total (F)	Reference
1	Reverse AAWC Adjustment to Annualize Management Fees - Other Expenses	$ (15,954)	$ (20,793)	$ (21,050)	$ (12,855)	$ (10,878)	$ (81,530)	A
2	Subtotal Water						$ (36,747)	
3	Subtotal Wastewater						$ (44,783)	
4	Total Adjustment						$ (81,530)	

Notes and Source
A: Per Schedule C-2, Adjustment No. MHK-4 from AAWC filing

Arizona American Water Company
Management Fees - Remove AAWC's Requested Post Test Year Increase in Affiliate Employee Benefits

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-10
Docket No. W/SW-01303A-09-0343

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
	Remove AAWC's 22.22% Post Test Year Increase in Employee Benefits							
1	Per AWWC	$ 71,343	$ 92,981	$ 94,132	$ 57,487	$ 48,643	$ 364,587	A
2	Per RUCO	$ 17,548	$ 22,871	$ 23,154	$ 14,140	$ 11,965	$ 89,678	B
3	Adjustment	$ (53,795)	$ (70,111)	$ (70,978)	$ (43,347)	$ (36,678)	$ (274,909)	
4	Subtotal Water						$ (123,905)	
5	Subtotal Wastewater						$ (151,004)	
6	Total Adjustment						$ (274,909)	

Notes and Source

A Per Schedule C-2, Adjustment No. MHK-3 from AAWC filing

B Allows 4 percent March 2009 pay increase and removes AAWC's requested 22% post test year increase in employee benefits

Arizona American Water Company
Management Fees - Remove Affiliate Incentive Compensation Expense

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-11
Docket No. W/SW-01303A-09-0343

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
	Remove AAWC's 22.22% Post Test Year Increase in Employee Benefits							
1	Per AWWC	$ 50,261	$ 65,506	$ 66,317	$ 40,500	$ 34,269	$ 256,853	A
2	Per RUCO						$ -	B
3	Adjustment	$ (50,261)	$ (65,506)	$ (66,317)	$ (40,500)	$ (34,269)	$ (256,853)	
4	Subtotal Water						$ (115,767)	
5	Subtotal Wastewater						$ (141,086)	
6	Total Adjustment						$ (256,853)	

Notes and Source

A Derived from Company's response to RUCO 4-3

Account	Description	Test Year Total Recorded	4% Pay Increase	Total Incentive Comp Removal
501711	Incentive Plan-Off-Annual	$ 497,594	$ 8,155	$ 505,749
501712	Incentive Plan-Off-Long Term	$ 30,538	$ 500	$ 31,038
	Totals	$ 528,132	$ 8,655	$ 536,787

B Reflects removal of all affiliate incentive compensation expense to AWWC in the test year

Arizona American Water Company
Management Fees - Normalize Affiliate Pension Expense

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
	Normalize Affiliate Pension Expense in Management Fees:							
1	Per AWWC	$ 46,779	$ 60,967	$ 61,722	$ 37,694	$ 31,895	$ 239,057	A
2	Per RUCO	$ 45,946	$ 59,881	$ 60,623	$ 37,022	$ 31,327	$ 234,800	B
3	Adjustment	$ (833)	$ (1,086)	$ (1,099)	$ (671)	$ (568)	$ (4,257)	
4	Subtotal Water						$ (1,919)	
5	Subtotal Wastewater						$ (2,338)	
6	Total Adjustment						$ (4,257)	

Notes and Source

A Derived from Company's response to RUCO 4-3

Account	Description	Test Year Total Recorded	4% Pay Increase	Total Incentive Comp Removal
506100	Pension	$ 491,541	$ 8,056	$ 499,596

Compare amounts from Company's response to RUCO 4-5, Service Company Charges by Object Account (O&M):

		2008
506100	Pension	$ 491,541

B Reflects three-year average of 2006-2008 for a normalized allowance for affiliated pension expense

Year	Amount	Reference
2007	$ 489,857	RUCO 4-5
2008	$ 491,541	RUCO 4-5
Average	$ 490,699	

Compare amounts from Company's response to RUCO 2-59a, Account 506100, Service Company Pension Charges:

Year	Capitalized	O&M		Total
2005	$ 23,326	$ 78,757		$ 102,083
2006	$ 100,747	$ 1,624,692	C	$ 1,725,439
2007	$ 69,871	$ 489,857		$ 559,728
2008	$ 46,979	$ 495,909		$ 542,888
Average 2006-2008		$ 870,153		

Compare amounts from Company's response to RUCO 2-61, Account 506100, Pension:

Year	Amount	
2005	$ 96,878	
2006	$ 1,624,689	C
2007	$ 489,857	
2008	$ 495,909	
Average 2006-2008	$ 870,152	

C December 2006 had an unusually large charge of $ 1,304,179

2006 YTD November $ 320,510

D 2006 YTD November - annualized $ 349,647

Arizona American Water Company
Management Fees - Normalize Affiliate OPEB Expense

Test Year Ended December 31, 2008

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
	Normalize Affiliate OPEB Expense in Management Fees:							
1	Per AWWC	$ 13,044	$ 17,000	$ 17,211	$ 10,511	$ 8,894	$ 66,659	A
2	Per RUCO	$ 11,634	$ 15,163	$ 15,350	$ 9,374	$ 7,932	$ 59,454	B
3	Adjustment	$ (1,410)	$ (1,838)	$ (1,860)	$ (1,136)	$ (961)	$ (7,206)	
4	Subtotal Water						$ (3,248)	
5	Subtotal Wastewater						$ (3,958)	
6	Total Adjustment						$ (7,206)	

Notes and Source

A Derived from Company's response to RUCO 4-3

Account	Description	Test Year Total Recorded	4% Pay Increase	Total Incentive Comp Removal
505100	PBOP	$ 137,062	$ 2,246	$ 137,062

Compare amounts from Company's response to RUCO 4-5, Service Company Charges by Object Account (O&M):

		2008
505100	PBOP	$ 137,062

B Reflects three-year average of 2006-2008 for a normalized allowance for affiliated OPEB expense

Year	Amount	Reference
2007	$ 111,438	RUCO 4-5
2008	$ 137,062	RUCO 4-5
Average	$ 124,250	

Compare amounts from Company's response to RUCO 2-59a, Account 505100, Service Company OPEB Charges:

Year	Capitalized	O&M	Total
2005	$ 29,024	$ 116,116	$ 145,140
2006	$ 37,871	$ 136,162	$ 174,033
2007	$ 15,890	$ 111,438	$ 127,328
2008	$ 13,100	$ 138,280	$ 151,380
Average 2006-2008		$ 128,627	

Compare amounts from Company's response to RUCO 2-61, Account 505100, PBOP:

Year	Amount
2005	$ 97,995
2006	$ 136,162
2007	$ 111,438
2008	$ 138,280
Average 2006-2008	$ 128,627

Arizona American Water Company
Management Fees - Remove Business Development Expense

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-14
Docket Nos. W/SW-01303A-09-0343

Line No.	Description	Anthem Water 9.3634% (A)	Sun City Water 12.2033% (B)	Anthem/ Agua Fria Wastewater 12.3543% (C)	Sun City Wastewater 7.5448% (D)	Sun City West Wastewater 6.3842% (E)	Total 47.8500% (F)	Reference
	Remove Affiliate Charges for Business Development							
1	Per AWWC	$ 9,438	$ 12,301	$ 12,453	$ 7,605	$ 6,435	$ 48,232	A
2	Per RUCO							B
3	Adjustment	$ (9,438)	$ (12,301)	$ (12,453)	$ (7,605)	$ (6,435)	$ (48,232)	
4	Subtotal Water						$ (21,739)	
5	Subtotal Wastewater						$ (26,493)	
6	Total Adjustment						$ (48,232)	

Notes and Source

A Derived from Company's response to RUCO 4-3
Total Business Development Expenses $ 100,799

Compare: AAWC's response to RUCO 2-43(g):
"Business development costs in the test year were $101,395."

B Reflects removal of affiliate charges for business development

Arizona American Water Company
Interest Synchronization

Test Year Ended December 31, 2008
(Thousands of Dollars)

Attachment RCS-2
Schedule C-15
Docket No. W-01303A-09-0343

Line No.	Description	Anthem Water (A)	Sun City Water (B)	Total Water (C)	Reference
1	Adjusted Rate Base, per RUCO	$ 57,291,754	$ 26,400,924	$ 83,692,678	Schedules B (A) and B (SC)
2	Weighted Cost of Debt, per RUCO	3.05%	3.05%		Per RUCO - Schedule D
3	Deduction for Tax Purposes	$ 1,749,690	$ 806,284	$ 2,555,974	L1 x L2
4	Interest Deduction per Company	$ 1,722,960	$ 845,582	$ 2,568,542	Note A
5	Difference (Decreased) Increased Interest Deduction	$ 26,730	$ (39,298)	$ (12,568)	L3 - L4
6	Combined Federal and State Income Tax Rates	38.60%	38.60%		
7	Increase (Decrease) to Income Tax	$ (10,318)	$ 15,169	$ 4,851	L5 x L6

Notes and Source

A: AAWC Filing, Schedule C-1 (line 32) for each wastewater district referenced above

Arizona American Water Company
Depreciation Expense - Well 5.1 - Sun City Water

Test Year Ended December 31, 2008

Attachment RCS-2
Schedule C-16
Docket No. W-01303A-09-0343

Line No.	Description	Sun City Water (A)	Reference
1	Remove Depreciation Expense Related to Post-Test Year Plant - Well 5.1	$ (48,653)	A
2	Reverse Company Adjustment to Depreciation Expense Related to Old Well 5.1	$ 11,692	A
3	Net Adjustment to Depreciation Expense	$ (36,961)	

Notes and Source

A: Per Schedule B-2, Adjustment No. LJG-5 from AAWC filing

Arizona American Water Company
Docket No. 01303A-09-0343
Attachment RCS-3
Accompanying the Direct Testimony of Ralph Smith
RUCO Accounting Schedules - Wastewater Districts

Number	Description	No. of Pages	Page No.	Note
	Revenue Requirement Summary Schedules - Total Wastewater			
A	Calculation of Revenue Deficiency (Sufficiency)	1	2	
A-1	Gross Revenue Conversion Factor	1	3	
B	Adjusted Rate Base	1	4	
B.1	Summary of Rate Base Adjustments	1	5	
C	Adjusted Net Operating Income	1	6	
C.1	Summary of Net Operating Income Adjustments	3	7-9	
D	Capital Structure and Cost Rates	1	10	
	Revenue Requirement Summary Schedules - Anthem/Agua Fria Wastewater			
A (AAF)	Calculation of Revenue Deficiency (Sufficiency)	1	11	
A-1(AAF)	Gross Revenue Conversion Factor	1	12	
B(AAF)	Adjusted Rate Base	1	13	
B.1(AAF)	Summary of Rate Base Adjustments	1	14	
C(AAF)	Adjusted Net Operating Income	1	15	
C.1(AAF)	Summary of Net Operating Income Adjustments	3	16-18	
	Revenue Requirement Summary Schedules - Sun City Wastewater			
A (SC)	Calculation of Revenue Deficiency (Sufficiency)	1	19	
A-1(SC)	Gross Revenue Conversion Factor	1	20	
B (SC)	Adjusted Rate Base	1	21	
B.1 (SC)	Summary of Rate Base Adjustments	1	22	
C (SC)	Adjusted Net Operating Income	1	23	
C.1 (SC)	Summary of Net Operating Income Adjustments	2	24-25	
	Revenue Requirement Summary Schedules - Sun City West Wastewater			
A(SCW)	Calculation of Revenue Deficiency (Sufficiency)	1	26	
A-1(SCW)	Gross Revenue Conversion Factor	1	27	
B(SCW)	Adjusted Rate Base	1	28	
B.1(SCW)	Summary of Rate Base Adjustments	1	29	
C(SCW)	Adjusted Net Operating Income	1	30	
C.1(SCW)	Summary of Net Operating Income Adjustments	3	31-33	
	Rate Base Adjustments			
B-2	Plant Retirements - Anthem/Agua Fria Wastewater	1	34	
B-3	Contributions In Aid of Construction			A
B-4	Cash Working Capital	4	35-38	
	Net Operating Income Adjustments			
C-2	Rate Case Expense	1	39	
C-3	Achievement Incentive Pay	1	40	
C-4	Stock-Based Compensation	1	41	
C-5	Pension Expense	1	42	
C-5.1	Calculations for pension expense adjustment			A
C-6	OPEB Expense	1	43	
C-7	Dues, Donations & Miscellaneous Expenses			A
C-9	Management Fees - Other Expenses			A
C-10	Management Fees - Remove AAWC's Requested Post Test Year Increase in Affiliate Employee Benefits			A
C-11	Management Fees - Remove Affiliate Incentive Compensation Expense			A
C-12	Management Fees - Normalize Affiliate Pension Expense			A
C-13	Management Fees - Normalize Affiliate OPEB Expense			A
C-14	Management Fees - Remove Business Development Expense			A
C-15	Interest Synchronization	1	44	
C-17	Depreciation Expense - Anthem/Agua Fria Wastewater Only	1	45	
	Total Pages (including Contents page)	45		

A: See Attachment RCS-2

Arizona American Water Company - Total of Wastewater Districts
Calculation of Revenue Deficiency (Sufficiency)

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule A
Docket No. SW-01303A-09-0343

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B	$ 80,321,091	$ 79,957,856	$ (363,235)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		$ 6,851,421	$ 5,416,345	$ (1,435,076)
4	Adjusted net operating income	C	$ 375,065	$ 828,315	$ 453,250
5	Net operating income deficiency		$ 6,476,356	$ 4,588,030	$ (1,888,326)
6	Gross revenue conversion factor	A-1	1.6561	1.6561	
7	Revenue deficiency (Sufficiency)		$ 10,725,216	$ 7,598,053	$ (3,127,163)
	Percentage Increase Over Current Rates				
8	Revenue from Sales to Retail Customers	Sch C, L.1	$ 20,228,926	$ 20,228,926	
9	Percentage Increase	L.7 / L.8	53.02%	37.56%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1 (Anthem/Agua Fria, Sun City and Sun City West)

Calculation of RUCO recommended percentage increase to AAWC's base rates	RUCO Proposed
AAWC's adjusted water revenues per Schedule C	$ 20,228,926
RUCO recommended rate increase (line 7 above)	$ 7,598,053
Total revenues after reflecting RUCO recommended increase	$ 27,826,979
Percentage change in revenues	37.56%

Calculation of AAWC's proposed percentage increase to base rates	AAWC Proposed
AAWC's adjusted water revenues per Schedule C	$ 20,228,926
AAWC proposed rate increase (line 7 above)	$ 10,725,216
Total revenues after reflecting AAWC proposed increase	$ 30,954,142
Percentage change in revenues	53.02%

Arizona American Water Company - Anthem/Agua Fria Wastewater
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule A-1
Docket No. SW-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.71%	0.71%
3	Bad Debt Expense	0.31%	0.31%
4	Taxable Income as a Percent	98.98%	98.98%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.35%	67.35%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.38%	60.38%
9	**Gross Revenue Conversion Factor**	**1.6561**	**1.6561**

Notes and Source

Col.A:	AAWC Filing, Schedule C-3		
	Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

		Amount	Percent
11	Net Income	$ 4,588,038	60.38%
12	Federal Income Taxes	$ 2,403,331	31.63%
13	State Income Taxes	$ 529,432	6.97%
14	Property Taxes	$ 53,674	0.71%
15	Uncollectibles	$ 23,577	0.31%
16	Total Revenue Increase	$ 7,598,052	100.00%
17	Total Revenue Increase (From Schedule A)	$ 7,598,053	

Arizona American Water Company - Total of Wastewater Districts
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B
Docket No. SW-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	$ 191,762,219	$ (52,636)	$ 191,709,583
2	Accumulated Depreciation	$ (52,782,874)	$ 52,636	$ (52,730,238)
3	**Net Utility Plant in Service**	$ 138,979,344	$ -	$ 138,979,344
	Less:			
4	Advances in Aid of Construction	$ (51,079,109)	$ -	$ (51,079,109)
5	Contributions in Aid of Construction (net of amortization)	$ (13,846,225)	$ (69,233)	$ (13,915,458)
6	Imputed Regulatory Advances	$ -	$ -	$ -
7	Imputed Regulatory Contributions	$ (947,395)	$ -	$ (947,395)
10	Deferred Income Taxes and Credits	$ 4,117,012	$ -	$ 4,117,012
11	Investment Tax Credits and Other Deferred Credits	$ -	$ -	$ -
12	**Total Reductions**	$ (61,755,717)	$ (69,233)	$ (61,824,950)
	Plus:			
13	Unamortized Finance Charges	$ -	$ -	$ -
14	Deferred Tax Assets	$ -	$ -	$ -
15	Deferred Debits	$ 2,241,558	$ -	$ 2,241,558
16	Allowance for Working Capital	$ 855,905	$ (294,000)	$ 561,905
17	Utility Plant Acquisition Adjustment	$ -	$ -	$ -
18	**Total Additions**	$ 3,097,462	$ (294,000)	$ 2,803,462
19	**Total Rate Base**	$ 80,321,091	$ (363,233)	$ 79,957,856

Notes and Source
Col.A: AAWC Filing, Schedule B-1
Col.B: Schedule B.1

Arizona American Water Company - Total of Wastewater Districts
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B.1
Docket No. SW-01303A-09-0343

Line No.	Description	RUCO Adjustments	Plant Retirements - Anthem/Agua Fria Wastewater	Contributions in Aid of Construction	Cash Working Capital
			B-2	B-3	B-4
1	Gross Utility Plant in Service	$ (52,636)	$ (52,636)		
2	Accumulated Depreciation	$ 52,636	$ 52,636		
3	**Net Utility Plant in Service**	$ -	$ -	$ -	$ -
	Less:				
4	Advances in Aid of Construction	$ -			
5	Contributions in Aid of Construction (net of amortization)	$ (69,233)		$ (69,233)	
6	Imputed Regulatory Advances	$ -			
7	Imputed Regulatory Contributions	$ -			
10	Deferred Income Taxes and Credits	$ -			
11	Investment Tax Credits and Other Deferred Credits	$ -			
12	**Total Reductions**	$ (69,233)	$ -	$ (69,233)	$ -
	Plus:				
13	Unamortized Finance Charges	$ -			
14	Deferred Tax Assets	$ -			
15	Deferred Debits	$ -			
16	Allowance for Working Capital	$ (294,000)			$ (294,000)
17	Utility Plant Acquisition Adjustment	$ -			
18	**Total Additions**	$ (294,000)	$ -	$ -	$ (294,000)
18	**Total Rate Base**	$ (363,233)	$ -	$ (69,233)	$ (294,000)

Notes and Source
See referenced exhibit for each adjustment

Arizona American Water Company - Total of Wastewater Districts
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule C
Docket No. SW-01303A-09-0403

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
	Revenues			
1	Sewer Revenues	$ 20,228,926	$ -	$ 20,228,926
2	Other Revenues	$ 10,288	$ -	$ 10,288
3	**Total Revenues**	$ 20,239,214	$ -	$ 20,239,214
	Operating Expenses			
4	Labor	$ 2,556,566	$ (110,844)	$ 2,445,722
5	Purchased Water	$ 10,524	$ -	$ 10,524
6	Fuel & Power	$ 679,980	$ -	$ 679,980
7	Chemicals	$ 709,941	$ -	$ 709,941
8	Waste Disposal	$ 3,602,842	$ -	$ 3,602,842
9	Management Fees	$ 3,250,764	$ (369,662)	$ 2,881,102
10	Group Insurance	$ 804,856	$ (5,706)	$ 799,150
11	Pensions	$ 447,520	$ (148,500)	$ 299,020
12	Regulatory Expense	$ 174,416	$ (71,206)	$ 103,210
13	Insurance Other Than Group	$ 201,008	$ -	$ 201,008
14	Customer Accounting	$ 511,824	$ -	$ 511,824
15	Rents	$ 163,430	$ -	$ 163,430
16	General Office Expense	$ 180,591	$ -	$ 180,591
17	Miscellaneous	$ 882,166	$ -	$ 882,166
18	Maintenance Expense	$ 446,357	$ -	$ 446,357
19	Depreciation & Amortization	$ 5,749,606	$ (11,978)	$ 5,737,628
20	General Taxes - Property Taxes	$ 589,432	$ -	$ 589,432
21	General Taxes - Other	$ 181,327	$ -	$ 181,327
22	Income Taxes	$ (1,279,000)	$ 264,648	$ (1,014,352)
23	**Total Operating Expenses**	$ 19,864,150	$ (453,248)	$ 19,410,902
24	**Utility Operating Income**	$ 375,064	$ 453,248	$ 828,312
	Other Income & Deductions			
25	Other Income & Deductions	$ -	$ -	$ -
26	Interest Expense	$ (2,409,633)	$ -	$ (2,409,633)
27	Other Expense	$ (39,518)	$ -	$ (39,518)
28	Gain/Loss Sale of Fixed Assets	$ 1	$ -	$ 1
29	**Total Other Additions/Deductions From Income**	$ (2,449,150)	$ -	$ (2,449,150)
30	**Net Profit (Loss)**	**$ (2,074,086)**	**$ 453,248**	**$ (1,620,838)**
31	Rate Base	$ 80,321,091	$ (363,233)	$ 79,957,858
32	Earned Rate of Return	0.47%		1.04%

Notes and Source

Col.A: AAWC Filing, Schedule C-1
Col.B: Schedule C.1
Col.C: Col.A + Col.B

Arizona American Water Company - Total of Wastewater Districts
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense	Achievement Incentive Pay	Stock-Based Compensation	Pension Expense
			C-2	C-3	C-4	C-5
	Revenues					
1	Sewer Revenues	$ -				
2	Other Revenues	$ -				
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -
	Operating Expenses					
4	Labor	$ (110,844)		$ (42,852)	$ (67,992)	
5	Purchased Water	$ -				
6	Fuel & Power	$ -				
7	Chemicals	$ -				
8	Waste Disposal	$ -				
9	Management Fees	$ (369,662)				
10	Group Insurance	$ (5,706)				
11	Pensions	$ (148,500)				$ (148,500)
12	Regulatory Expense	$ (71,206)	$ (71,206)			
13	Insurance Other Than Group	$ -				
14	Customer Accounting	$ -				
15	Rents	$ -				
16	General Office Expense	$ -				
17	Miscellaneous	$ -				
18	Maintenance Expense	$ -				
19	Depreciation & Amortization	$ (11,978)				
20	General Taxes - Property Taxes	$ -				
21	General Taxes - Other	$ -				
15	PRE-TAX OPERATING EXPENSES	$ (717,896)	$ (71,206)	$ (42,852)	$ (67,992)	$ (148,500)
16	PRE-TAX OPERATING INCOME	$ 717,896	$ 71,206	$ 42,852	$ 67,992	$ 148,500
17	Income Taxes	$ 264,648	$ 27,486	$ 16,541	$ 26,245	$ 57,321
18	TOTAL OPERATING EXPENSES	$ (453,248)	$ (43,720)	$ (26,311)	$ (41,747)	$ (91,179)
19	OPERATING INCOME	$ 453,248	$ 43,720	$ 26,311	$ 41,747	$ 91,179

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3 38.60%

Arizona American Water Company - Total of Wastewater District
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	OPEB Expense	Dues, Donations & Misc. Expenses	Management Fees - Other Expenses	Management Fees - Affiliate Employee Benefits	Management Fees - Affiliate Incentive Compensation
		C-6	C-7	C-9	C-10	C-11
	Revenues					
1	Sewer Revenues					
2	Other Revenues					
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -
	Operating Expenses					
4	Labor					
5	Purchased Water					
6	Fuel & Power					
7	Chemicals					
8	Waste Disposal					
9	Management Fees			$ (44,783)	$ (151,004)	$ (141,086)
10	Group Insurance	$ (5,706)				
11	Pensions					
12	Regulatory Expense					
13	Insurance Other Than Group					
14	Customer Accounting					
15	Rents					
16	General Office Expense					
17	Miscellaneous					
18	Maintenance Expense					
19	Depreciation & Amortization		$ (9,125)			
20	General Taxes - Property Taxes					
21	General Taxes - Other					
15	PRE-TAX OPERATING EXPENSES	$ (5,706)	$ (9,125)	$ (44,783)	$ (151,004)	$ (141,086)
16	PRE-TAX OPERATING INCOME	$ 5,706	$ 9,125	$ 44,783	$ 151,004	$ 141,086
17	Income Taxes	$ 2,203	$ 3,522	$ 17,286	$ 58,287	$ 54,459
18	TOTAL OPERATING EXPENSES	$ (3,503)	$ (5,603)	$ (27,497)	$ (92,717)	$ (86,627)
19	OPERATING INCOME	$ 3,503	$ 5,603	$ 27,497	$ 92,717	$ 86,627

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Total of Wastewater District
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Normalize Affiliate Pension Expense	Management Fees - Normalize Affiliate OPEB Expense	Management Fees - Remove Business Development Expenses	Interest Synchronization	Depreciation Expense Related to Plant Retirements
		C-12	C-13	C-14	C-15	C-17
	Revenues					
1	Sewer Revenues					
2	Other Revenues					
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -
	Operating Expenses					
4	Labor					
5	Purchased Water					
6	Fuel & Power					
7	Chemicals					
8	Waste Disposal					
9	Management Fees	$ (2,338)	$ (3,958)	$ (26,493)		
10	Group Insurance					
11	Pensions					
12	Regulatory Expense					
13	Insurance Other Than Group					
14	Customer Accounting					
15	Rents					
16	General Office Expense					
17	Miscellaneous					
18	Maintenance Expense					
19	Depreciation & Amortization					$ (2,853)
20	General Taxes - Property Taxes					
21	General Taxes - Other					
15	PRE-TAX OPERATING EXPENSES	$ (2,338)	$ (3,958)	$ (26,493)	$ -	$ (2,853)
16	PRE-TAX OPERATING INCOME	$ 2,338	$ 3,958	$ 26,493	$ -	$ 2,853
17	Income Taxes	$ 903	$ 1,528	$ 10,226	$ (12,460)	$ 1,101
18	TOTAL OPERATING EXPENSES	$ (1,435)	$ (2,430)	$ (16,267)	$ (12,460)	$ (1,752)
19	OPERATING INCOME	$ 1,435	$ 2,430	$ 16,267	$ 12,460	$ 1,752

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Wastewater Districts
Capital Structure and Cost Rates

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule D
Docket No. SW-01303A-09-0343

Line No.	Description	Amount	Percent	Cost Rate	Weighted Cost
		(A)	(B)	(C)	(D)
	Per Company				
1	Long-Term Debt	$ 188,208,140	54.85%	5.47%	3.00%
2	Short-Term Debt				
3	Stockholder's Equity	$ 154,949,595	45.15%	12.25%	5.53%
4	Total	$ 343,157,735	100.00%		8.53%
	Per RUCO				
5	Long-Term Debt	$ 188,208,140	47.56%	5.47%	2.60%
6	Short-Term Debt	$ 52,584,000	13.29%	3.41%	0.45%
7	Stockholder's Equity	$ 154,949,595	39.15%	9.50%	3.72%
8	Total	$ 395,741,735	100.00%		6.77%
9	Difference				-1.756%
10	Weighted Cost of Debt				3.05%

Notes and Source

Lines 1-4: AAWC Filing, Schedule D-1 (reflects end of projected test year capital structure)
Lines 5-8: Per RUCO witness William Rigsby (reflects end of test year capital structure)

Arizona American Water Company - Anthem/Agua Fria Wastewater
Calculation of Revenue Deficiency (Sufficiency)

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule A (AAF)
Docket No. SW-01303A-09-0343

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (AAF)	$ 47,735,732	$ 47,558,242	$ (177,490)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		$ 4,071,858	$ 3,221,595	$ (850,263)
4	Adjusted net operating income	C (AAF)	$ (191,785)	$ 23,202	$ 214,987
5	Net operating income deficiency		$ 4,263,643	$ 3,198,393	$ (1,065,250)
6	Gross revenue conversion factor	A-1 (AAF)	1.6561	1.6561	
7	Revenue deficiency (Sufficiency)		$ 7,060,837	$ 5,296,731	$ (1,764,106)
	Percentage Increase Over Current Rates				
8	Revenue from Sales to Retail Customers	Sch C, L.1	$ 8,634,567	$ 8,634,567	
9	Percentage Increase	L.7 / L.8	81.77%	61.34%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

Calculation of RUCO recommended percentage increase to AAWC's base rates	RUCO Proposed
AAWC's adjusted water revenues per Schedule C	$ 8,634,567
RUCO recommended rate increase (line 7 above)	$ 5,296,731
Total revenues after reflecting RUCO recommended increase	$ 13,931,298
Percentage change in revenues	61.34%

Calculation of AAWC's proposed percentage increase to base rates	AAWC Proposed
AAWC's adjusted water revenues per Schedule C	$ 8,634,567
AAWC proposed rate increase (line 7 above)	$ 7,060,837
Total revenues after reflecting AAWC proposed increase	$ 15,695,404
Percentage change in revenues	81.77%

Arizona American Water Company - Anthem/Agua Fria Wastewater
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule A-1 (AAF)
Docket No. SW-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.71%	0.71%
3	Bad Debt Expense	0.31%	0.31%
4	Taxable Income as a Percent	98.98%	98.98%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.35%	67.35%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.38%	60.38%
9	**Gross Revenue Conversion Factor**	**1.6561**	**1.6561**

Notes and Source

Col.A:	AAWC Filing, Schedule C-3		
	Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

		Amount	Percent
11	Net Income	$ 3,198,399	60.38%
12	Federal Income Taxes	$ 1,675,403	31.63%
13	State Income Taxes	$ 369,076	6.97%
14	Property Taxes	$ 37,417	0.71%
15	Uncollectibles	$ 16,436	0.31%
16	Total Revenue Increase	$ 5,296,731	100.00%
17	Total Revenue Increase (From Schedule A)	$ 5,296,731	

Arizona American Water Company - Anthem/Agua Fria Wastewater
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B (AAF)
Docket No. SW-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	$ 131,361,186	$ (52,636)	$ 131,308,550
2	Accumulated Depreciation	$ (22,837,366)	$ 52,636	$ (22,784,730)
3	**Net Utility Plant in Service**	$ 108,523,819	$ -	$ 108,523,819
	Less:			
4	Advances in Aid of Construction	$ (48,273,364)	$ -	$ (48,273,364)
5	Contributions in Aid of Construction (net of amortization)	$ (13,829,151)	$ (65,490)	$ (13,894,641)
6	Imputed Regulatory Advances	$ -	$ -	$ -
7	Imputed Regulatory Contributions	$ (143,475)	$ -	$ (143,475)
10	Deferred Income Taxes and Credits	$ 1,049,621	$ -	$ 1,049,621
11	Investment Tax Credits and Other Deferred Credits	$ -	$ -	$ -
12	**Total Reductions**	$ (61,196,369)	$ (65,490)	$ (61,261,859)
	Plus:			
13	Unamortized Finance Charges	$ -	$ -	$ -
14	Deferred Tax Assets	$ -	$ -	$ -
15	Deferred Debits	$ 75,382	$ -	$ 75,382
16	Allowance for Working Capital	$ 332,901	$ (112,000)	$ 220,901
17	Utility Plant Acquisition Adjustment	$ -	$ -	$ -
18	**Total Additions**	$ 408,282	$ (112,000)	$ 296,282
19	**Total Rate Base**	$ 47,735,732	$ (177,490)	$ 47,558,242

Notes and Source

Col.A: AAWC Filing, Schedule B-1
Col.B: Schedule B.1

Arizona American Water Company - Anthem/Agua Fria Wastewater
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Line No.	Description	RUCO Adjustments	Plant Retirements - Anthem/Agua Fria Wastewater	Contributions in Aid of Construction	Cash Working Capital
			B-2	B-3	B-4
1	Gross Utility Plant in Service	$ (52,636)	$ (52,636)		
2	Accumulated Depreciation	$ 52,636	$ 52,636		
3	**Net Utility Plant in Service**	$ -	$ -	$ -	$ -
	Less:				
4	Advances in Aid of Construction	$ -			
5	Contributions in Aid of Construction (net of amortization)	$ (65,490)		$ (65,490)	
6	Imputed Regulatory Advances	$ -			
7	Imputed Regulatory Contributions	$ -			
10	Deferred Income Taxes and Credits	$ -			
11	Investment Tax Credits and Other Deferred Credits	$ -			
12	**Total Reductions**	$ (65,490)	$ -	$ (65,490)	$ -
	Plus:				
13	Unamortized Finance Charges	$ -			
14	Deferred Tax Assets	$ -			
15	Deferred Debits	$ -			
16	Allowance for Working Capital	$ (112,000)			$ (112,000)
17	Utility Plant Acquisition Adjustment	$ -			
18	**Total Additions**	$ (112,000)	$ -	$ -	$ (112,000)
18	**Total Rate Base**	$ (177,490)	$ -	$ (65,490)	$ (112,000)

Notes and Source
See referenced exhibit for each adjustment

Arizona American Water Company - Anthem/Agua Fria Wastewater
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule C (AAF)
Docket No. SW-01303A-09-0343

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
	Revenues			
1	Sewer Revenues	$ 8,634,567	$ -	$ 8,634,567
2	Other Revenues	$ 2,556	$ -	$ 2,556
3	**Total Revenues**	$ 8,637,123	$ -	$ 8,637,123
	Operating Expenses			
4	Labor	$ 1,335,278	$ (49,598)	$ 1,285,680
5	Purchased Water	$ 3,368	$ -	$ 3,368
6	Fuel & Power	$ 278,664	$ -	$ 278,664
7	Chemicals	$ 303,374	$ -	$ 303,374
8	Waste Disposal	$ 199,095	$ -	$ 199,095
9	Management Fees	$ 1,528,005	$ (173,758)	$ 1,354,247
10	Group Insurance	$ 396,599	$ (2,682)	$ 393,917
11	Pensions	$ 221,640	$ (72,483)	$ 149,157
12	Regulatory Expense	$ 80,939	$ (31,679)	$ 49,260
13	Insurance Other Than Group	$ 94,566	$ -	$ 94,566
14	Customer Accounting	$ 242,170	$ -	$ 242,170
15	Rents	$ 84,483	$ -	$ 84,483
16	General Office Expense	$ 85,697	$ -	$ 85,697
17	Miscellaneous	$ 534,489	$ (4,289)	$ 530,200
18	Maintenance Expense	$ 246,204	$ -	$ 246,204
19	Depreciation & Amortization	$ 3,830,808	$ (2,853)	$ 3,827,955
20	General Taxes - Property Taxes	$ 296,804	$ -	$ 296,804
21	General Taxes - Other	$ 87,538	$ -	$ 87,538
22	Income Taxes	$ (1,020,813)	$ 122,355	$ (898,458)
23	**Total Operating Expenses**	$ 8,828,908	$ (214,987)	$ 8,613,921
24	**Utility Operating Income**	$ (191,785)	$ 214,987	$ 23,202
	Other Income & Deductions			
25	Other Income & Deductions	$ -		$ -
26	Interest Expense	$ (1,432,072)		$ (1,432,072)
27	Other Expense	$ (18,575)		$ (18,575)
28	Gain/Loss Sale of Fixed Assets	$ (4)		$ (4)
29	**Total Other Additions/Deductions From Income**	$ (1,450,651)	$ -	$ (1,450,651)
30	**Net Profit (Loss)**	**$ (1,642,436)**	**$ 214,987**	**$ (1,427,449)**
31	Rate Base	$ 47,735,732	$ (177,490)	$ 47,558,242
32	Earned Rate of Return	-0.40%		0.05%

Notes and Source

Col.A: AAWC Filing, Schedule C-1
Col.B: Schedule C.1
Col.C: Col.A + Col.B

Arizona American Water Company - Anthem/Agua Fria Wastewater
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense	Achievement Incentive Pay	Stock-Based Compensation	Pension Expense	OPEB Expense
			C-2	C-3	C-4	C-5	C-6
	Revenues						
1	Sewer Revenues	$ -					
2	Other Revenues	$ -					
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses						
4	Labor	$ (49,598)		$ (17,639)	$ (31,959)		
5	Purchased Water	$ -					
6	Fuel & Power	$ -					
7	Chemicals	$ -					
8	Waste Disposal	$ -					
9	Management Fees	$ (173,758)					
10	Group Insurance	$ (2,682)					$ (2,682)
11	Pensions	$ (72,483)				$ (72,483)	
12	Regulatory Expense	$ (31,679)	$ (31,679)				
13	Insurance Other Than Group	$ -					
14	Customer Accounting	$ -					
15	Rents	$ -					
16	General Office Expense	$ -					
17	Miscellaneous	$ (4,289)					
18	Maintenance Expense	$ -					
19	Depreciation & Amortization	$ (2,853)					
20	General Taxes - Property Taxes	$ -					
21	General Taxes - Other	$ -					
15	PRE-TAX OPERATING EXPENSES	$ (337,342)	$ (31,679)	$ (17,639)	$ (31,959)	$ (72,483)	$ (2,682)
16	PRE-TAX OPERATING INCOME	$ 337,342	$ 31,679	$ 17,639	$ 31,959	$ 72,483	$ 2,682
17	Income Taxes	$ 122,355	$ 12,228	$ 6,809	$ 12,336	$ 27,978	$ 1,035
18	TOTAL OPERATING EXPENSES	$ (214,987)	$ (19,451)	$ (10,830)	$ (19,623)	$ (44,505)	$ (1,647)
19	OPERATING INCOME	$ 214,987	$ 19,451	$ 10,830	$ 19,623	$ 44,505	$ 1,647

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3 38.60%

Arizona American Water Company - Anthem/Agua Fria Wastew
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Dues, Donations & Misc. Expenses	Management Fees - Other Expenses	Management Fees - Affiliate Employee Benefits	Management Fees - Affiliate Incentive Compensation	Management Fees - Normalize Affiliate Pension Expense	Management Fees - Normalize Affiliate OPEB Expense
		C-7	C-9	C-10	C-11	C-12	C-13
	Revenues						
1	Sewer Revenues						
2	Other Revenues						
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses						
4	Labor						
5	Purchased Water						
6	Fuel & Power						
7	Chemicals						
8	Waste Disposal						
9	Management Fees		$ (21,050)	$ (70,978)	$ (66,317)	$ (1,099)	$ (1,860)
10	Group Insurance						
11	Pensions						
12	Regulatory Expense						
13	Insurance Other Than Group						
14	Customer Accounting						
15	Rents						
16	General Office Expense						
17	Miscellaneous	$ (4,289)					
18	Maintenance Expense						
19	Depreciation & Amortization						
20	General Taxes - Property Taxes						
21	General Taxes - Other						
15	PRE-TAX OPERATING EXPENSES	$ (4,289)	$ (21,050)	$ (70,978)	$ (66,317)	$ (1,099)	$ (1,860)
16	PRE-TAX OPERATING INCOME	$ 4,289	$ 21,050	$ 70,978	$ 66,317	$ 1,099	$ 1,860
17	Income Taxes	$ 1,656	$ 8,125	$ 27,398	$ 25,598	$ 424	$ 718
18	TOTAL OPERATING EXPENSES	$ (2,633)	$ (12,925)	$ (43,580)	$ (40,719)	$ (675)	$ (1,142)
19	OPERATING INCOME	$ 2,633	$ 12,925	$ 43,580	$ 40,719	$ 675	$ 1,142

Notes and Source
Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Anthem/Agua Fria Wastew
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Remove Business Development Expenses	Interest Synchronization	Depreciation Expense Related to Plant Retirements
		C-14	C-15	C-17
	Revenues			
1	Sewer Revenues			
2	Other Revenues			
3	**Total Revenues**	$ -	$ -	$ -
	Operating Expenses			
4	Labor			
5	Purchased Water			
6	Fuel & Power			
7	Chemicals			
8	Waste Disposal			
9	Management Fees	$ (12,453)		
10	Group Insurance			
11	Pensions			
12	Regulatory Expense			
13	Insurance Other Than Group			
14	Customer Accounting			
15	Rents			
16	General Office Expense			
17	Miscellaneous			
18	Maintenance Expense			
19	Depreciation & Amortization			$ (2,853)
20	General Taxes - Property Taxes			
21	General Taxes - Other			
15	PRE-TAX OPERATING EXPENSES	$ (12,453)	$ -	$ (2,853)
16	PRE-TAX OPERATING INCOME	$ 12,453	$ -	$ 2,853
17	Income Taxes	$ 4,807	$ (7,858)	$ 1,101
18	TOTAL OPERATING EXPENSES	$ (7,646)	$ (7,858)	$ (1,752)
19	OPERATING INCOME	$ 7,646	$ 7,858	$ 1,752

Notes and Source
Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Sun City Wastewater
Calculation of Revenue Deficiency (Sufficiency)

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule A (SC)
Docket No. SW-01303A-09-0343

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (SC)	$ 14,764,087	$ 14,660,342	$ (103,745)
2	Rate of return	D (SC)	8.53%	6.77%	
3	Net operating income required		$ 1,259,377	$ 993,092	$ (266,285)
4	Adjusted net operating income	C (SC)	$ (51,593)	$ 64,724	$ 116,317
5	Net operating income deficiency		$ 1,310,969	$ 928,368	$ (382,601)
6	Gross revenue conversion factor	A-1 (SC)	1.6453	1.6453	
7	Revenue deficiency (Sufficiency)		$ 2,156,882	$ 1,527,407	$ (629,475)
	Percentage Increase Over Current Rates				
8	Revenue from Sales to Retail Customers	Sch C, L.1	$ 5,933,970	$ 5,933,970	
9	Percentage Increase	L.7 / L.8	36.35%	25.74%	

Notes and Source

Col.A: AAWC Filing, Schedule A-1

Calculation of RUCO recommended percentage increase to AAWC's base rates	RUCO Proposed
AAWC's adjusted water revenues per Schedule C	$ 5,933,970
RUCO recommended rate increase (line 7 above)	$ 1,527,407
Total revenues after reflecting RUCO recommended increase	$ 7,461,377
Percentage change in revenues	25.74%

Calculation of AAWC's proposed percentage increase to base rates	AAWC Proposed
AAWC's adjusted water revenues per Schedule C	$ 5,933,970
AAWC proposed rate increase (line 7 above)	$ 2,156,882
Total revenues after reflecting AAWC proposed increase	$ 8,090,852
Percentage change in revenues	36.35%

Arizona American Water Company - Sun City Wastewater
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule A-1 (SC)
Docket No. SW-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.54%	0.54%
3	Bad Debt Expense	0.08%	0.08%
4	Taxable Income as a Percent	99.38%	99.38%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.75%	67.75%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.78%	60.78%
9	**Gross Revenue Conversion Factor**	**1.6453**	**1.6453**

Notes and Source

Col.A:	AAWC Filing, Schedule C-3		
	Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

		Amount	Percent
11	Net Income	$ 928,369	60.78%
12	Federal Income Taxes	$ 483,132	31.63%
13	State Income Taxes	$ 106,430	6.97%
14	Property Taxes	$ 8,282	0.54%
15	Uncollectibles	$ 1,193	0.08%
16	Total Revenue Increase	$ 1,527,406	100.00%
17	Total Revenue Increase (From Schedule A)	$ 1,527,407	

Arizona American Water Company - Sun City Wastewater
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B (SC)
Docket No. SW-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	$ 24,469,337	$ -	$ 24,469,337
2	Accumulated Depreciation	$ (10,761,769)	$ -	$ (10,761,769)
3	**Net Utility Plant in Service**	$ 13,707,569	$ -	$ 13,707,569
	Less:			
4	Advances in Aid of Construction	$ (2,660,292)	$ -	$ (2,660,292)
5	Contributions in Aid of Construction (net of amortization)	$ (12,327)	$ (3,743)	$ (16,070)
6	Imputed Regulatory Advances	$ -	$ -	$ -
7	Imputed Regulatory Contributions	$ (360,708)	$ -	$ (360,708)
10	Deferred Income Taxes and Credits	$ 1,824,256	$ -	$ 1,824,256
11	Investment Tax Credits and Other Deferred Credits	$ -	$ -	$ -
12	**Total Reductions**	$ (1,209,071)	$ (3,743)	$ (1,212,814)
	Plus:			
13	Unamortized Finance Charges	$ -	$ -	$ -
14	Deferred Tax Assets	$ -	$ -	$ -
15	Deferred Debits	$ 2,057,405	$ -	$ 2,057,405
16	Allowance for Working Capital	$ 208,182	$ (100,000)	$ 108,182
17	Utility Plant Acquisition Adjustment	$ -	$ -	$ -
18	**Total Additions**	$ 2,265,587	$ (100,000)	$ 2,165,587
19	**Total Rate Base**	$ 14,764,087	$ (103,743)	$ 14,660,342

Notes and Source
Col.A: AAWC Filing, Schedule B-1
Col.B: Schedule B.1

Arizona American Water Company - Sun City Wastewater
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B.1 (SC)
Docket No. SW-01303A-09-0343

Line No.	Description	RUCO Adjustments	Contributions in Aid of Construction	Cash Working Capital
			B-3	B-4
1	Gross Utility Plant in Service	$ -		
2	Accumulated Depreciation	$ -		
3	**Net Utility Plant in Service**	$ -	$ -	$ -
	Less:			
4	Advances in Aid of Construction	$ -		
5	Contributions in Aid of Construction (net of amortization)	$ (3,743)	$ (3,743)	
6	Imputed Regulatory Advances	$ -		
7	Imputed Regulatory Contributions	$ -		
10	Deferred Income Taxes and Credits	$ -		
11	Investment Tax Credits and Other Deferred Credits	$ -		
12	**Total Reductions**	$ (3,743)	$ (3,743)	$ -
	Plus:			
13	Unamortized Finance Charges	$ -		
14	Deferred Tax Assets	$ -		
15	Deferred Debits	$ -		
16	Allowance for Working Capital	$ (100,000)		$ (100,000)
17	Utility Plant Acquisition Adjustment	$ -		
18	**Total Additions**	$ (100,000)	$ -	$ (100,000)
18	**Total Rate Base**	$ (103,743)	$ (3,743)	$ (100,000)

Notes and Source
See referenced exhibit for each adjustment

Arizona American Water Company - Sun City Wastewater
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule C (SC)
Docket No. SW-01303A-09-0343

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
	Revenues			
1	Sewer Revenues	$ 5,933,970	$ -	$ 5,933,970
2	Other Revenues	$ 6,411	$ -	$ 6,411
3	**Total Revenues**	$ 5,940,381	$ -	$ 5,940,381
	Operating Expenses			
4	Labor	$ 454,529	$ (30,290)	$ 424,239
5	Purchased Water	$ -	$ -	$ -
6	Fuel & Power	$ 15,804	$ -	$ 15,804
7	Chemicals	$ 4,885	$ -	$ 4,885
8	Waste Disposal	$ 3,300,475	$ -	$ 3,300,475
9	Management Fees	$ 933,155	$ (106,114)	$ 827,041
10	Group Insurance	$ 141,193	$ (1,638)	$ 139,555
11	Pensions	$ 75,595	$ (25,187)	$ 50,408
12	Regulatory Expense	$ 49,683	$ (20,573)	$ 29,110
13	Insurance Other Than Group	$ 57,656	$ -	$ 57,656
14	Customer Accounting	$ 145,686	$ -	$ 145,686
15	Rents	$ 40,868	$ -	$ 40,868
16	General Office Expense	$ 44,944	$ -	$ 44,944
17	Miscellaneous	$ 104,503	$ (2,620)	$ 101,883
18	Maintenance Expense	$ 61,533	$ -	$ 61,533
19	Depreciation & Amortization	$ 679,999	$ -	$ 679,999
20	General Taxes - Property Taxes	$ 157,456	$ -	$ 157,456
21	General Taxes - Other	$ 34,880	$ -	$ 34,880
22	Income Taxes	$ (310,869)	$ 70,105	$ (240,764)
23	**Total Operating Expenses**	$ 5,991,974	$ (116,317)	$ 5,875,657
24	**Utility Operating Income**	$ (51,593)	$ 116,317	$ 64,724
	Other Income & Deductions			
25	Other Income & Deductions	$ -		$ -
26	Interest Expense	$ (442,923)		$ (442,923)
27	Other Expense	$ (11,344)		$ (11,344)
28	Gain/Loss Sale of Fixed Assets	$ 3		$ 3
29	**Total Other Additions/Deductions From Income**	$ (454,264)	$ -	$ (454,264)
30	**Net Profit (Loss)**	**$ (505,857)**	**$ 116,317**	**$ (389,540)**
31	Rate Base	$ 14,764,087	$ (103,743)	$ 14,660,344
32	Earned Rate of Return	-0.35%		0.44%

Notes and Source

Col.A: AAWC Filing, Schedule C-1
Col.B: Schedule C.1
Col.C: Col.A + Col.B

Arizona American Water Company - Sun City Wastewater
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense	Achievement Incentive Pay	Stock-Based Compensation	Pension Expense	OPEB Expense	Dues, Donations & Miscellaneous Expenses
			C-2	C-3	C-4	C-5	C-6	C-7
	Revenues							
1	Sewer Revenues	$ -						
2	Other Revenues	$ -						
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses							
4	Labor	$ (30,290)		$ (10,772)	$ (19,518)			
5	Purchased Water	$ -						
6	Fuel & Power	$ -						
7	Chemicals	$ -						
8	Waste Disposal	$ -						
9	Management Fees	$ (106,114)						
10	Group Insurance	$ (1,638)					$ (1,638)	
11	Pensions	$ (25,187)				$ (25,187)		
12	Regulatory Expense	$ (20,573)	$ (20,573)					
13	Insurance Other Than Group	$ -						
14	Customer Accounting	$ -						
15	Rents	$ -						
16	General Office Expense	$ -						
17	Miscellaneous	$ (2,620)						$ (2,620)
18	Maintenance Expense	$ -						
19	Depreciation & Amortization	$ -						
20	General Taxes - Property Taxes	$ -						
21	General Taxes - Other	$ -						
15	PRE-TAX OPERATING EXPENSES	$ (186,422)	$ (20,573)	$ (10,772)	$ (19,518)	$ (25,187)	$ (1,638)	$ (2,620)
16	PRE-TAX OPERATING INCOME	$ 186,422	$ 20,573	$ 10,772	$ 19,518	$ 25,187	$ 1,638	$ 2,620
17	Income Taxes	$ 70,105	$ 7,941	$ 4,158	$ 7,534	$ 9,722	$ 632	$ 1,011
18	TOTAL OPERATING EXPENSES	$ (116,317)	$ (12,632)	$ (6,614)	$ (11,984)	$ (15,465)	$ (1,006)	$ (1,609)
19	OPERATING INCOME	$ 116,317	$ 12,632	$ 6,614	$ 11,984	$ 15,465	$ 1,006	$ 1,609

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3 38.60%

Arizona American Water Company - Sun City Wastew
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Other Expenses	Management Fees - Affiliate Employee Benefits	Management Fees - Affiliate Incentive Compensation	Management Fees - Normalize Affiliate Pension Expense	Management Fees - Normalize Affiliate OPEB Expense	Management Fees - Remove Business Development Expenses	Interest Synchronization
		C-9	C-10	C-11	C-12	C-13	C-14	C-15
	Revenues							
1	Sewer Revenues							
2	Other Revenues							
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses							
4	Labor							
5	Purchased Water							
6	Fuel & Power							
7	Chemicals							
8	Waste Disposal							
9	Management Fees	$ (12,855)	$ (43,347)	$ (40,500)	$ (671)	$ (1,136)	$ (7,605)	
10	Group Insurance							
11	Pensions							
12	Regulatory Expense							
13	Insurance Other Than Group							
14	Customer Accounting							
15	Rents							
16	General Office Expense							
17	Miscellaneous							
18	Maintenance Expense							
19	Depreciation & Amortization							
20	General Taxes - Property Taxes							
21	General Taxes - Other							
15	PRE-TAX OPERATING EXPENSES	$ (12,855)	$ (43,347)	$ (40,500)	$ (671)	$ (1,136)	$ (7,605)	$ -
16	PRE-TAX OPERATING INCOME	$ 12,855	$ 43,347	$ 40,500	$ 671	$ 1,136	$ 7,605	$ -
17	Income Taxes	$ 4,962	$ 16,732	$ 15,633	$ 259	$ 439	$ 2,936	$ (1,854)
18	TOTAL OPERATING EXPENSES	$ (7,893)	$ (26,615)	$ (24,867)	$ (412)	$ (697)	$ (4,669)	$ (1,854)
19	OPERATING INCOME	$ 7,893	$ 26,615	$ 24,867	$ 412	$ 697	$ 4,669	$ 1,854

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedı

Arizona American Water Company - Sun City West Wastewater
Calculation of Revenue Deficiency (Sufficiency)

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule A (SCW)
Docket No. SW-01303A-09-0343

Line No.	Description	Reference	Per Company (A)	Per RUCO (B)	Difference (C)
1	Adjusted rate base	B (SCW)	$ 17,821,272	$ 17,739,272	$ (82,000)
2	Rate of return	D	8.53%	6.77%	
3	Net operating income required		$ 1,520,155	$ 1,201,658	$ (318,497)
4	Adjusted net operating income	C (SCW)	$ 618,443	$ 740,390	$ 121,947
5	Net operating income deficiency		$ 901,712	$ 461,268	$ (440,444)
6	Gross revenue conversion factor	A-1 (SCW)	1.6422	1.6422	
7	Revenue deficiency (Sufficiency)		$ 1,480,756	$ 757,477	$ (723,279)
	Percentage Increase Over Current Rates				
8	Revenue from Sales to Retail Customers	Sch C, L.1	$ 5,660,389	$ 5,660,389	
9	Percentage Increase	L.7 / L.8	26.16%	13.38%	

Notes and Source

Col.A: AAWC Filing, Revised Schedule A-1

Calculation of RUCO recommended percentage increase to AAWC's base rates	RUCO Proposed
AAWC's adjusted water revenues per Schedule C	$ 5,660,389
RUCO recommended rate increase (line 7 above)	$ 757,477
Total revenues after reflecting RUCO recommended increase	$ 6,417,866
Percentage change in revenues	13.38%

Calculation of AAWC's proposed percentage increase to base rates	AAWC Proposed
AAWC's adjusted water revenues per Schedule C	$ 5,660,389
AAWC proposed rate increase (line 7 above)	$ 1,480,756
Total revenues after reflecting AAWC proposed increase	$ 7,141,145
Percentage change in revenues	26.16%

Arizona American Water Company - Sun City West Wastewater
Gross Revenue Conversion Factor

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule A-1 (SCW)
Docket No. SW-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Proposed (B)
1	Gross Revenue	100.00%	100.00%
	Less:		
2	Property Taxes	0.49%	0.49%
3	Bad Debt Expense	0.02%	0.02%
4	Taxable Income as a Percent	99.49%	99.49%
5	Less: Federal Income Taxes	31.63%	31.63%
6	Taxable Income as a Percent	67.86%	67.86%
7	Less: State Income Taxes	6.97%	6.97%
8	Change in Net Operating Income	60.90%	60.90%
9	**Gross Revenue Conversion Factor**	**1.6422**	**1.6422**

Notes and Source

Col.A: AAWC Filing, Schedule C-3

	Combined state and federal income tax rate	38.60%	38.60%

Components of Revenue Requirement Increase

		Amount	Percent
11	Net Income	$ 461,268	60.90%
12	Federal Income Taxes	$ 239,597	31.63%
13	State Income Taxes	$ 52,781	6.97%
14	Property Taxes	$ 3,699	0.49%
15	Uncollectibles	$ 132	0.02%
16	Total Revenue Increase	$ 757,477	100.00%
17	Total Revenue Increase (From Schedule A)	$ 757,477	

Arizona American Water Company - Sun City West Wastewater
Adjusted Rate Base

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B (SCW)
Docket No. SW-01303A-09-0343

Line No.	Description	Company Proposed (A)	RUCO Adjustments (B)	RUCO Proposed (C)
1	Gross Utility Plant in Service	$ 35,931,696	$ -	$ 35,931,696
2	Accumulated Depreciation	$ (19,183,739)	$ -	$ (19,183,739)
3	**Net Utility Plant in Service**	$ 16,747,956	$ -	$ 16,747,956
	Less:			
4	Advances in Aid of Construction	$ (145,453)	$ -	$ (145,453)
5	Contributions in Aid of Construction (net of amortization)	$ (4,747)	$ -	$ (4,747)
6	Imputed Regulatory Advances	$ -	$ -	$ -
7	Imputed Regulatory Contributions	$ (443,212)	$ -	$ (443,212)
10	Deferred Income Taxes and Credits	$ 1,243,135	$ -	$ 1,243,135
11	Investment Tax Credits and Other Deferred Credits	$ -	$ -	$ -
12	**Total Reductions**	$ 649,723	$ -	$ 649,723
	Plus:			
13	Unamortized Finance Charges	$ -	$ -	$ -
14	Deferred Tax Assets	$ -	$ -	$ -
15	Deferred Debits	$ 108,771	$ -	$ 108,771
16	Allowance for Working Capital	$ 314,822	$ (82,000)	$ 232,822
17	Utility Plant Acquisition Adjustment	$ -	$ -	$ -
18	**Total Additions**	$ 423,593	$ (82,000)	$ 341,593
19	**Total Rate Base**	$ 17,821,272	$ (82,000)	$ 17,739,272

Notes and Source
Col.A: AAWC Filing, Schedule B-1
Col.B: Schedule B.1

Arizona American Water Company - Sun City West Wastewater
Summary of Adjustments to Rate Base

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B.1 (SCW)
Docket No. SW-01303A-09-0343

Line No.	Description	RUCO Adjustments	Contributions in Aid of Construction B-3	Cash Working Capital B-4
1	Gross Utility Plant in Service	$ -		
2	Accumulated Depreciation	$ -		
3	**Net Utility Plant in Service**	$ -	$ -	$ -
	Less:			
4	Advances in Aid of Construction	$ -		
5	Contributions in Aid of Construction (net of amortization)	$ -	$ -	
6	Imputed Regulatory Advances	$ -		
7	Imputed Regulatory Contributions	$ -		
10	Deferred Income Taxes and Credits	$ -		
11	Investment Tax Credits and Other Deferred Credits	$ -		
12	**Total Reductions**	$ -	$ -	$ -
	Plus:			
13	Unamortized Finance Charges	$ -		
14	Deferred Tax Assets	$ -		
15	Deferred Debits	$ -		
16	Allowance for Working Capital	$ (82,000)		$ (82,000)
17	Utility Plant Acquisition Adjustment	$ -		
18	**Total Additions**	$ (82,000)	$ -	$ (82,000)
18	**Total Rate Base**	$ (82,000)	$ -	$ (82,000)

Notes and Source
See referenced exhibit for each adjustment

Arizona American Water Company - Sun City West Wastewater
Adjusted Net Operating Income

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule C (SCW)
Docket No. SW-01303A-09-0343

Line No.	Description	Per Company (A)	RUCO Adjustments (B)	Per RUCO (C)
	Revenues			
1	Sewer Revenues	$ 5,660,389	$ -	$ 5,660,389
2	Other Revenues	$ 1,321	$ -	$ 1,321
3	**Total Revenues**	$ 5,661,710	$ -	$ 5,661,710
	Operating Expenses			
4	Labor	$ 766,759	$ (30,956)	$ 735,803
5	Purchased Water	$ 7,156	$ -	$ 7,156
6	Fuel & Power	$ 385,512	$ -	$ 385,512
7	Chemicals	$ 401,682	$ -	$ 401,682
8	Waste Disposal	$ 103,272	$ -	$ 103,272
9	Management Fees	$ 789,604	$ (89,790)	$ 699,814
10	Group Insurance	$ 267,064	$ (1,386)	$ 265,678
11	Pensions	$ 150,285	$ (50,830)	$ 99,455
12	Regulatory Expense	$ 43,794	$ (18,954)	$ 24,840
13	Insurance Other Than Group	$ 48,786	$ -	$ 48,786
14	Customer Accounting	$ 123,968	$ -	$ 123,968
15	Rents	$ 38,079	$ -	$ 38,079
16	General Office Expense	$ 49,950	$ -	$ 49,950
17	Miscellaneous	$ 243,174	$ (2,216)	$ 240,958
18	Maintenance Expense	$ 138,620	$ -	$ 138,620
19	Depreciation & Amortization	$ 1,238,799	$ -	$ 1,238,799
20	General Taxes - Property Taxes	$ 135,172	$ -	$ 135,172
21	General Taxes - Other	$ 58,909	$ -	$ 58,909
22	Income Taxes	$ 52,682	$ 72,186	$ 124,868
23	**Total Operating Expenses**	$ 5,043,267	$ (121,947)	$ 4,921,320
24	**Utility Operating Income**	$ 618,443	$ 121,947	$ 740,390
	Other Income & Deductions			
25	Other Income & Deductions	$ -	$ -	$ -
26	Interest Expense	$ (534,638)	$ -	$ (534,638)
27	Other Expense	$ (9,599)	$ -	$ (9,599)
28	Gain/Loss Sale of Fixed Assets	$ 2	$ -	$ 2
29	**Total Other Additions/Deductions From Income**	$ (544,235)	$ -	$ (544,235)
30	**Net Profit (Loss)**	**$ 74,208**	**$ 121,947**	**$ 196,155**
31	Rate Base	$ 17,821,272	$ (82,000)	$ 17,739,272
32	Earned Rate of Return	3.47%		4.17%

Notes and Source

Col.A: AAWC Filing, Schedule C-1
Col.B: Schedule C.1
Col.C: Col.A + Col.B

Arizona American Water Company - Sun City West Wastewater
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	RUCO Adjustments	Rate Case Expense	Achievement Incentive Pay	Stock-Based Compensation	Pension Expense	OPEB Expense
			C-2	C-3	C-4	C-5	C-6
	Revenues						
1	Sewer Revenues	$ -					
2	Other Revenues	$ -					
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses						
4	Labor	$ (30,956)		$ (14,441)	$ (16,515)		
5	Purchased Water	$ -					
6	Fuel & Power	$ -					
7	Chemicals	$ -					
8	Waste Disposal	$ -					
9	Management Fees	$ (89,790)					
10	Group Insurance	$ (1,386)					$ (1,386)
11	Pensions	$ (50,830)				$ (50,830)	
12	Regulatory Expense	$ (18,954)	$ (18,954)				
13	Insurance Other Than Group	$ -					
14	Customer Accounting	$ -					
15	Rents	$ -					
16	General Office Expense	$ -					
17	Miscellaneous	$ (2,216)					
18	Maintenance Expense	$ -					
19	Depreciation & Amortization	$ -					
20	General Taxes - Property Taxes	$ -					
21	General Taxes - Other	$ -					
15	PRE-TAX OPERATING EXPENSES	$ (194,133)	$ (18,954)	$ (14,441)	$ (16,515)	$ (50,830)	$ (1,386)
16	PRE-TAX OPERATING INCOME	$ 194,133	$ 18,954	$ 14,441	$ 16,515	$ 50,830	$ 1,386
17	Income Taxes	$ 72,186	$ 7,316	$ 5,574	$ 6,375	$ 19,620	$ 535
18	TOTAL OPERATING EXPENSES	$ (121,947)	$ (11,638)	$ (8,867)	$ (10,140)	$ (31,210)	$ (851)
19	OPERATING INCOME	$ 121,947	$ 11,638	$ 8,867	$ 10,140	$ 31,210	$ 851

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3 38.60%

Arizona American Water Company - Sun City West Wastewater
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Dues, Donations & Miscellaneous Expenses	Management Fees - Other Expenses	Management Fees - Affiliate Employee Benefits	Management Fees - Affiliate Incentive Compensation	Management Fees - Normalized Affiliate Pension Expense	Management Fees - Normalize Affiliate OPEB Expense
		C-7	C-9	C-10	C-11	C-12	C-13
	Revenues						
1	Sewer Revenues						
2	Other Revenues						
3	**Total Revenues**	$ -	$ -	$ -	$ -	$ -	$ -
	Operating Expenses						
4	Labor						
5	Purchased Water						
6	Fuel & Power						
7	Chemicals						
8	Waste Disposal						
9	Management Fees		$ (10,878)	$ (36,678)	$ (34,269)	$ (568)	$ (961)
10	Group Insurance						
11	Pensions						
12	Regulatory Expense						
13	Insurance Other Than Group						
14	Customer Accounting						
15	Rents						
16	General Office Expense						
17	Miscellaneous	$ (2,216)					
18	Maintenance Expense						
19	Depreciation & Amortization						
20	General Taxes - Property Taxes						
21	General Taxes - Other						
15	PRE-TAX OPERATING EXPENSES	$ (2,216)	$ (10,878)	$ (36,678)	$ (34,269)	$ (568)	$ (961)
16	PRE-TAX OPERATING INCOME	$ 2,216	$ 10,878	$ 36,678	$ 34,269	$ 568	$ 961
17	Income Taxes	$ 855	$ 4,199	$ 14,158	$ 13,228	$ 219	$ 371
18	TOTAL OPERATING EXPENSES	$ (1,361)	$ (6,679)	$ (22,520)	$ (21,041)	$ (349)	$ (590)
19	OPERATING INCOME	$ 1,361	$ 6,679	$ 22,520	$ 21,041	$ 349	$ 590

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company - Sun City West Wastewater
Summary of Net Operating Income Adjustments

Test Year Ended March 31, 2008

Line No.	Description	Management Fees - Remove Business Development Expenses C-14	Interest Synchronization C-15
	Revenues		
1	Sewer Revenues		
2	Other Revenues		
3	**Total Revenues**	$ -	$ -
	Operating Expenses		
4	Labor		
5	Purchased Water		
6	Fuel & Power		
7	Chemicals		
8	Waste Disposal		
9	Management Fees	$ (6,435)	
10	Group Insurance		
11	Pensions		
12	Regulatory Expense		
13	Insurance Other Than Group		
14	Customer Accounting		
15	Rents		
16	General Office Expense		
17	Miscellaneous		
18	Maintenance Expense		
19	Depreciation & Amortization		
20	General Taxes - Property Taxes		
21	General Taxes - Other		
15	PRE-TAX OPERATING EXPENSES	$ (6,435)	$ -
16	PRE-TAX OPERATING INCOME	$ 6,435	$ -
17	Income Taxes	$ 2,484	$ (2,748)
18	TOTAL OPERATING EXPENSES	$ (3,951)	$ (2,748)
19	OPERATING INCOME	$ 3,951	$ 2,748

Notes and Source

Combined Effective Tax Rate per AAWC filing, Schedule C-3

Arizona American Water Company
Plant Retirements - Anthem/Agua Fria Wastewater

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B-2
Docket No. SW-01303A-09-0343

Line No.	Description	Amount (A)	Reference
1	Remove Two 75-HP Final Effluent Pumps From Utility Plant in Service	$ (52,636)	A
2	Reduce Accumulated Depreciation to Reflect the Retirement of Two 75-HP Final Effluent Pumps	$ 52,636	
3	Net Adjustment to Utility Plant in Service	$ -	

Notes and Source

A: Amount per AAWC's response to STF 7.3

Arizona American Water Company
Cash Working Capital

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B-4
Docket No. SW-01303A-09-0343

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Cash Working Capital Requirement Per Filing	$ 285,666	$ 129,827	$ 229,465	$ 644,958	A
2	RUCO Recommended Cash Working Capital Requirement	$ 173,247	$ 29,372	$ 147,006	$ 349,625	B
3	Adjustment to Cash Working Capital	$ (112,419)	$ (100,455)	$ (82,459)	$ (295,333)	
4	Adjustment to Cash Working Capital Rounded to Nearest $000	$ (112,000)	$ (100,000)	$ (82,000)	$ (294,000)	

Notes and Source

A: AAWC filing, Schedule B-6
B: See Schedules B-2 (AAF), B-2 (SC) and B-2 (SCW)

Arizona American Water Company - Anthem/Agua Fria Wastewater
Cash Working Capital/Lead Lag Study

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B-4 (AAF)
Docket No. SW-01303A-09-0343
Page 1 of 1

Line No.			Test Year Adjusted Results	RUCO Adjustments	RUCO Adjusted	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Cash Working Capital Required	Reference
			(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
	OPERATING EXPENSES										
1	P08	Labor	$ 1,335,278	$ (49,598)	$ 1,285,680	39.96	12.00	27.9590	0.0766	$ 98,483	
2	P09	Purchased Water	$ 3,368		$ 3,368	39.96	52.52	(12.5635)	(0.0344)	$ (116)	
3	P10	Fuel & Power	$ 278,664		$ 278,664	39.96	23.46	16.4990	0.0452	$ 12,596	
4	P11	Chemicals	$ 303,374		$ 303,374	39.96	14.63	25.3252	0.0694	$ 21,049	
5	P12	Waste disposal	$ 199,095		$ 199,095	39.96	26.90	13.0604	0.0358	$ 7,124	
6	P13	Management Fees	$ 1,528,005	$ (173,758)	$ 1,354,247	39.96	12.00	27.9590	0.0766	$ 103,735	a
7	P14	Group Insurance	$ 396,599	$ (2,682)	$ 393,917	39.96	(13.70)	53.6628	0.1470	$ 57,914	
8	P15	Pensions	$ 221,640	$ (72,483)	$ 149,157	39.96	(2.37)	42.3274	0.1160	$ 17,297	
9	P17	Insurance Other Than Group	$ 94,566		$ 94,566	39.96	(83.68)	123.6434	0.3387	$ 32,034	
10	P18	Customer Accounting	$ 242,170		$ 242,170	39.96	10.09	29.8697	0.0818	$ 19,818	
11	P19	Rents	$ 84,483		$ 84,483	39.96	(84.16)	124.1198	0.3401	$ 28,729	
12	P21	Miscellaneous	$ 534,489		$ 534,489	39.96	16.84	23.1215	0.0633	$ 33,858	
13	P25	Maintenance Expense	$ 246,204		$ 246,204	39.96	18.24	21.7202	0.0595	$ 14,651	
14		Other Operating Expenses	$ 166,636	$ (35,968)	$ 130,668	39.96	30.00	9.9590	0.0273	$ 3,565	
15	P29	Property Taxes	$ 296,804		$ 296,804	39.96	191.37	(151.4123)	(0.4148)	$ (123,123)	
16	P29	Taxes Other than Income	$ 87,538		$ 87,538	39.96	13.35	26.6128	0.0729	$ 6,383	
17	P30	Income Tax	$ 1,659,460	$ 2,166,834	$ 3,826,294	39.96	30.13	9.8290	0.0269	$ 103,037	
18	P56	Interest Sync	$ 1,432,072	$ 20,357	$ 1,452,429	39.96	106.25	(66.2910)	(0.1816)	$ (263,789)	
			$ 9,110,446	$ 1,852,702	$ 10,963,148						
19	Working Cash Requirement									$ 173,247	
20	Working Cash Requirement per Company									$ 285,666	
21	Adjustment to Cash Working Capital									$ (112,419)	

Notes and Source

AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 39.96. Company used 46.04 revenue lag days
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

Line 17, Col. C, Current Income Taxes:

23	Per AAWC	$ 1,659,460	
24	RUCO adjustments to current income taxes	$ 122,355	Schedule C.1 (AAF), line 17
25	Income Taxes for Revenue Increase	$ 2,044,479	Schedule A-1 (AAF), lines 12 & 13
26	Total current income taxes for CWC calculation	$ 3,826,294	

Arizona American Water Company - Sun City Wastewater
Cash Working Capital/Lead Lag Study

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule B-4 (SC)
Docket No. SW-01303A-09-0343

Line No.			Test Year Adjusted Results	RUCO Adjustments	RUCO Adjusted	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Working Capital Required
			(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
	OPERATING EXPENSES									
1	P08	Labor	$ 454,529	$ (30,290)	$ 424,239	39.65	12.00	27.65	0.0758	$ 32,140
2	P10	Fuel & Power	$ 15,804		$ 15,804	39.65	20.75	18.91	0.0518	$ 819
3	P11	Chemicals	$ 4,885		$ 4,885	39.65	20.35	19.30	0.0529	$ 258
4	P12	Waste Disposal	$ 3,300,475		$ 3,300,475	39.65	43.73	(4.08)	(0.0112)	$ (36,919)
5	P13	Management Fees	$ 933,155	$ (106,114)	$ 827,041	39.65	12.00	27.65	0.0758	$ 62,656
6	P14	Group Insurance	$ 141,193	$ (1,638)	$ 139,555	39.65	(13.67)	53.32	0.1461	$ 20,388
7	P15	Pensions	$ 75,595	$ (25,187)	$ 50,408	39.65	(2.37)	42.02	0.1151	$ 5,803
8	P17	Insurance Other Than Group	$ 57,656		$ 57,656	39.65	(83.68)	123.34	0.3379	$ 19,482
9	P18	Customer Accounting	$ 145,686		$ 145,686	39.65	10.09	29.56	0.0810	$ 11,800
10	P19	Rents	$ 40,868		$ 40,868	39.65	(93.42)	133.08	0.3646	$ 14,900
11	P21	Miscellaneous	$ 104,503		$ 104,503	39.65	12.47	27.18	0.0745	$ 7,782
12	P25	Maintenance Expense	$ 61,533		$ 61,533	39.65	29.75	9.91	0.0271	$ 1,670
13		Other Operating Expenses	$ 94,627	$ (23,193)	$ 71,434	39.65	30.00	9.65	0.0264	$ 1,889
14	P29	Property Taxes	$ 157,456		$ 157,456	39.65	189.67	(150.02)	(0.4110)	$ (64,716)
15	P29	Taxes Other than Income	$ 34,880		$ 34,880	39.65	13.35	26.31	0.0721	$ 2,514
16	P30	Income Tax	$ 513,251	$ 659,667	$ 1,172,918	39.65	30.13	9.52	0.0261	$ 30,599
17	P56	Interest	$ 442,923	$ 4,804	$ 447,727	39.65	106.25	(66.60)	(0.1825)	$ (81,692)
18		Total	$ 6,579,018	$ 478,049	$ 7,057,067					

19	Working Cash Requirement	$ 29,372
20	Working Cash Requirement per Company	$ 129,827
21	Adjustment to Cash Working Capital	$ (100,455)

Notes and Source

AAWC Filing, Schedule B-6
Col. D: RUCO recommending revenue lag days of 39.65. Company used 45.74 revenue lag days
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

Line 17, Col. C, Current Income Taxes:

23	Per AAWC	$ 513,251	
24	RUCO adjustments to current income taxes	$ 70,105	Schedule C.1 (SC), line 17
25	Income Taxes for Revenue Increase	$ 589,562	Schedule A-1 (SC), lines 12 & 13
26	Total current income taxes for CWC calculation	$ 1,172,918	

Arizona American Water Company - Sun City West Wastewater
Cash Working Capital/Lead Lag Study

Test Year Ended December 31, 2008

Line No.			Test Year Adjusted Results	RUCO Adjustments	RUCO Adjusted	Revenue Lag Days	Expense Lag Days	Net Lag Days	Lead/ Lag Factor	Cash Working Capital Required	Reference
			(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	
	OPERATING EXPENSES										
1	P08	Labor	$ 766,759	$ (30,956)	$ 735,803	39.61	12.00	27.6100	0.0756	$ 55,659	
2	P09	Purchased Water	$ 7,156		$ 7,156	39.61	52.52	(12.9125)	(0.0354)	$ (253)	
3	P10	Fuel & Power	$ 385,512		$ 385,512	39.61	23.18	16.4269	0.0450	$ 17,350	
4	P11	Chemicals	$ 401,682		$ 401,682	39.61	17.28	22.3345	0.0612	$ 24,579	
5	P12	WasteDisposal	$ 103,272		$ 103,272	39.61	19.93	19.6778	0.0539	$ 5,568	
6	P13	Management Fees	$ 789,604	$ (89,790)	$ 699,814	39.61	12.00	27.6100	0.0756	$ 52,937	a
7	P14	Group Insurance	$ 267,064	$ (1,386)	$ 265,678	39.61	(13.62)	53.2254	0.1458	$ 38,742	
8	P15	Pensions	$ 150,285	$ (50,830)	$ 99,455	39.61	(2.37)	41.9784	0.1150	$ 11,438	
9	P17	Insurance Other Than Group	$ 48,786		$ 48,786	39.61	(83.68)	123.2944	0.3378	$ 16,480	
10	P18	Customer Accounting	$ 123,968		$ 123,968	39.61	10.09	29.5207	0.0809	$ 10,026	
11	P19	Rents	$ 38,079		$ 38,079	39.61	(72.11)	111.7201	0.3061	$ 11,655	
12	P21	Miscellaneous	$ 243,174		$ 243,174	39.61	9.91	29.7026	0.0814	$ 19,789	
13	P25	Maintenance Expense	$ 138,620		$ 138,620	39.61	26.14	13.4742	0.0369	$ 5,117	
14		Other Operating Expenses	$ 93,744	$ (21,170)	$ 72,574	39.61	30.00	9.6100	0.0263	$ 1,911	
15	P29	Property Taxes	$ 135,000		$ 135,000	39.61	187.98	(148.3742)	(0.4065)	$ (54,878)	
16	P29	Taxes Other than Income	$ 58,909		$ 58,909	39.61	13.35	26.2638	0.0720	$ 4,239	
17	P30	Income Tax	$ 619,532	$ 364,564	$ 984,096	39.61	30.13	9.4800	0.0260	$ 25,560	
18	P56	Interest Sync	$ 534,640	$ 7,117	$ 541,757	39.61	106.25	(66.6400)	(0.1826)	$ (98,912)	
19		Total	$ 4,905,786	$ 177,549	$ 5,083,334						

20	Working Cash Requirement	$ 147,006
21	Working Cash Requirement per Company	$ 229,465
22	Adjustment to Cash Working Capital	$ (82,459)

Notes and Source

AAWC Filing, Schedule B-6

Col. D: RUCO recommending revenue lag days of 39.61. Company used 45.63 revenue lag days
a: RUCO recommending 12 expense lag days for management fees. Company used 14.77 expense lag days

Line 17, Col. C, Current Income Taxes:

23	Per AAWC	$ 619,532	
24	RUCO adjustments to current income taxes	$ 72,186	Schedule C.1 (SCW), line 17
25	Income Taxes for Revenue Increase	$ 292,378	Schedule A-1 (SCW), lines 12 & 13
26	Total current income taxes for CWC calculation	$ 984,096	

Arizona American Water Company
Rate Case Expense

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule C-2
Docket No. SW-01303A-09-0343

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Estimated Normalized Rate Case Expense Per Filing	$ 72,069	$ 44,090	$ 39,060	$ 155,219	A
2	RUCO Recommended Normalized Rate Case Expense	$ 40,390	$ 23,517	$ 20,106	$ 84,013	B
3	Adjustment to Rate Case Expense	$ (31,679)	$ (20,573)	$ (18,954)	$ (71,206)	L2 - L1

Notes and Source

A: AAWC estimated normalized rate case expense calculated as follows (amounts from Adjustment MHK-8 from AAWC filing):

		Anthem/Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
4	Estimated Rate Case Expense per Company	$ 678,425	$ 678,425	$ 678,425
5	Normalized over three years	3	3	3
6	Estimated Normalized Rate Case Expense	$ 226,142	$ 226,142	$ 226,142
7	2009 Group 4-Factor per Company	26.341%	15.337%	13.113%
8	Allocated Rate Case Expense	$ 59,569	$ 34,684	$ 29,654
9	Unamortized Balance of Prior Rate Case Expense	$ 37,500	$ 28,218	$ 28,218
10	Normalized over three years	3	3	3
11	Annual Amortization of Unamortized Rate Case Expense	$ 12,500	$ 9,406	$ 9,406
12	Pro Forma Rate Case Expense	$ 72,069	$ 44,090	$ 39,060

B: RUCO recommended Rate Case Expense calculated as follows:

13	RUCO recommended Rate Case Expense	$ 460,000	$ 460,000	$ 460,000
14	Normalized over three years	3	3	3
15	Normalized Rate Case Expense	$ 153,333	$ 153,333	$ 153,333
16	2009 Group 4-Factor	26.341%	15.337%	13.113%
17	Allocated Rate Case Expense	$ 40,390	$ 23,517	$ 20,106

Arizona American Water Company
Achievement Incentive Pay

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule C-3
Docket No. SW-01303A-09-0343

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Achievement Incentive Pay Recorded at 12/31/2008	$ -	$ -	$ 17,753	$ 17,753	A
2	Corporate Allocation	$ 58,795	$ 35,906	$ 30,382	$ 125,083	A&B
3	Total Achievement Incentive Pay	$ 58,795	$ 35,906	$ 48,135	$ 142,836	
4	Disallowance Percentage	30%	30%	30%		C
5	Adjustment to Achievement Incentive Pay	$ (17,639)	$ (10,772)	$ (14,441)	$ (42,852)	

Notes and Source

A: Amounts above per Company workpaper "AI-2008" for each district
B: Corporate allocation amounts also provided in AAWC's responses to RUCO 2-6 and RUCO 3-2
C: Testimony of RUCO witness Ralph Smith

Arizona American Water Company
Stock-Based Compensation

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule C-4
Docket No. SW-01303A-09-0343

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Adjustment to Remove Stock-Based Compensation	$ (31,959)	$ (19,518)	$ (16,515)	$ (67,992)	A

Notes and Source

A: Amounts below from AAWC's response to RUCO 6-3

	Description	Service Company Portion	AAWC Non-Affiliate Portion	Total
2	Comp - Stock Options - Account 501716	$ 36,693	$ 41,909	$ 78,602
3	Comp - Restricted Stock - Account 501717	$ 28,834	$ 103,974	$ 132,808
4	Comp - Restricted Stock Units - Account 701718	$ 4,046	$ 43,232	$ 47,278
5	Total Test Year Stock-Based Compensation	$ 69,573	$ 189,115	$ 258,688

		Anthem/Agua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater
6	Total Test Year Stock-Based Compensation	$ 258,688	$ 258,688	$ 258,688
7	4-Factor Allocator	12.354%	7.545%	6.3842%
8	Total Allocated Test Year Stock-Based Compensation	$ 31,959	$ 19,518	$ 16,515

Arizona American Water Company
Pension Expense

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule C-5
Docket No. SW-01303A-09-0343

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Pro Forma Pension Expense Per Filing	$ 221,640	$ 74,281	$ 148,791	$ 444,712	A
2	RUCO Recommended Pro Forma Pension Expense	$ 149,157	$ 49,094	$ 97,961	$ 296,212	B&C
3	Adjustment to Pension Expense	$ (72,483)	$ (25,187)	$ (50,830)	$ (148,500)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-2 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

			Amount
5	Recorded Pension Expense - 2007		$ 903,222
6	Recorded Pension Expense - 2008		$ 1,734,561
7		Subtotal	$ 2,637,783
8	Normalized Over Two Years		2
9	Normalized Pension Expense		$ 1,318,892

C: RUCO calculated its pension expense adjustment by incorporating the normalized amount above to Company workpaper "AZ 2008 Labor" as shown on pages 2 and 3 of this schedule

Arizona American Water Company
OPEB Expense

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule C-6
Docket No. SW-01303A-09-0343

Line No.	Description	Anthem/Agua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Normalized OPEB Expense Per Filing (Expensed Portion)	$ 78,238	$ 78,238	$ 78,238		A
2	4 Factor Allocation Factor	12.354%	7.545%	6.384%		
3	Adjusted Test Year OPEB Expense Per Company	$ 9,666	$ 5,903	$ 4,995	$ 20,564	
4	RUCO Recommended Pro Forma OPEB Expense	$ 6,984	$ 4,265	$ 3,609	$ 14,858	
5	Adjustment to OPEB Expense	$ (2,682)	$ (1,638)	$ (1,386)	$ (5,706)	

Notes and Source

A: Per Schedule C-2, Adjustment No. SLH-14 from AAWC's filing

B: RUCO recommended pension expense calculated as follows (amounts from AAWC's response to RUCO 2-60):

		Amount	
7	Recorded OPEB Amount - 2007	$ 62,603	
8	Recorded OPEB Amount - 2008	$ 75,723	
9	Subtotal	$ 138,326	
10	Normalized Over Two Years	2	
11	Normalized OPEB Cost	$ 69,163	
12	Capitalization Percentage	18.3%	
13	Capitalized Portion of OPEB Cost	$ (12,634)	
14	Expensed Portion of OPEB Cost	$ 56,529	L11 + L13
15	4 Factor Allocation Factor	12.354%	
16	Anthem/Agua Fria Wastewater Portion of OPEB Expense	$ 6,984	L14 x L15
17	4 Factor Allocation Factor	7.545%	
18	Sun City Wastewater Portion of OPEB Expense	$ 4,265	L14 x L17
21	4 Factor Allocation Factor	6.384%	
22	Sun City West Wastewater Portion of OPEB Expense	$ 3,609	L14 x L21

Arizona American Water Company
Interest Synchronization

Test Year Ended December 31, 2008
(Thousands of Dollars)

Attachment RCS-3
Schedule C-15
Docket No. SW-01303A-09-0343
Page 1 of 1

Line No.	Description	Anthem/Aqua Fria Wastewater (A)	Sun City Wastewater (B)	Sun City West Wastewater (C)	Total Wastewater (D)	Reference
1	Adjusted Rate Base, per RUCO	$ 47,558,242	$ 14,660,342	$ 17,739,272	$ 79,957,856	Schedules B (AAF) , B (SC) and B (SCW)
2	Weighted Cost of Debt, per RUCO	3.05%	3.05%	3.05%		Per RUCO - Schedule D
3	Interest Deduction for Tax Purposes	$ 1,452,429	$ 447,727	$ 541,757	$ 2,441,913	L1 x L2
4	Interest Deduction per Company	$ 1,432,072	$ 442,923	$ 534,638	$ 2,409,633	Note A
5	Difference (Decreased) Increased Interest Deduction	$ 20,357	$ 4,804	$ 7,119	$ 32,280	L3 - L4
6	Combined Federal and State Income Tax Rates	38.60%	38.60%	38.60%		
7	Increase (Decrease) to Income Tax	$ (7,858)	$ (1,854)	$ (2,748)	$ (12,460)	L5 x L6

Notes and Source

A: AAWC Filing, Schedule C-1 (line 32) for each wastewater district referenced above

Arizona American Water Company
Depreciation Expense - Anthem/Agua Fria Wastewater Only

Test Year Ended December 31, 2008

Attachment RCS-3
Schedule C-17
Docket No. SW-01303A-09-0343

Line No.	Description	Amount (A)	Reference
1	Two 75-HP Final Effluent Pumps Removed From Utility Plant in Service	$ (52,636)	A
2	Depreciation Rate	5.42%	B
3	Adjustment to Depreciation Expense	$ (2,853)	

Notes and Source

A: See Exhibit LA-1, Schedule B-1

B: Depreciation rate taken from rate base Adjustment No. SLM-1 from AAWC's filing

Arizona-American Water Company
Docket No. W-01303A-09-0343 & SW-01303A-09-0343
Attachment RCS-4
Copies of AAWC's Responses to Data Requests
and Workpapers Referenced in the Direct Testimony and Schedules of
Ralph C. Smith

Data Request/ Workpaper No.	Subject	Confidential	No. of Pages	Page No.
STF 7.3	Retirement of Two Effluent Pumps form Agua-Fria Wastewater District	No	1	2
RUCO 2-74	Calculations of AAWC Revenue Lag (Attachment 2-74(j) included)	No	3	3 - 5
APS Docket No. E-01315A-08-0172, Workpaper JCL_WP11, p. 9	Revenue Lag used in previous Arizona rate cases	No	1	6
TEP Docket No. E-01933A-07-0402 Schedule B-5 (Cost of Service), p. 3	Revenue Lag used in previous Arizona rate cases	No	1	7
UNSG Docket No. G-0402A-08-0571 Schedule B-5, p. 3	Revenue Lag used in previous Arizona rate cases	No	1	8
UNSE Docket No. E-04204A-09-0206 Schedule B-5, p. 3	Revenue Lag used in previous Arizona rate cases	No	1	9
UNSE Docket No. E-04204A-06-0783 Schedule B-5, p. 3	Revenue Lag used in previous Arizona rate cases	No	1	10
SWG Docket No. G-01551A-07-0504 Schedule B-5, p. 2	Revenue Lag used in previous Arizona rate cases	No	1	11
RUCO 2-75	Revenue Lag - Prepayments for Management Fees to Affiliated Service Company (without attachments)	No	1	12
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RUCO 2-40	Supporting Documentation of AAWC's request for an increase in rate case expense in comparison with Docket No. E-01303A-08-0227 (without voluminous attachments)	No	2	29 - 30
RUCO 2-78	Amounts of rate case expense allowed by the the Commission in previous AAWC rate cases	No	7	31 - 37
RUCO 2-6	Copy of incentive compensation plan for the test year	No	21	38 - 58
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RUCO 6-1	Test year Incentive compensation expense in the current filing	No	2	60 - 61
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RUCO 2-60	Actual Pension expense for years 2006 - 2008	No	2	86 - 87
RUCO 2-43	Donations, Membership dues, Advertising, and Miscellaneous expense; removal of Business Development expense	No	7	88 - 94
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RUCO 4-3	Management Fees - Affiliate incentive compensation, pension, and OPEB expense, Business Development expenses	No	4	100 - 103
RUCO 4-5	Management Fees - Affiliate pension and OPEB expense	No	4	104 - 107
RUCO 2-59	Management Fees - Affiliate OPEB expense (without voluminous attachments)	No	3	108 - 110
RUCO 2-61	Management Fees - Affiliate OPEB expense (Attachment RUCO 2-61 AZAWC Service Co Charges-Updated thru Dec 2009 included)	No	11	111 - 121
	Total Pages Including this Page		121	

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Linda Gutowski
Title: Senior Rate Analyst

Address: 19820 N. 7th Street, Suite 201
Phoenix, AZ 85024

Company Response Number: STF 7.3

Agua Fria Wastewater District

Q: Two 75-HP final effluent pumps in Verrado WWTP were retired since 2007. According to Schedule B-2 (referenced to workpaper SLM-1 page 4, Witness Sandra Murrey), $3,355 were removed from the plant addition/retirement sheet under the pumping equipment account (Object Account #101000, Subject Account #371100). Please confirm if the $3,355 is for the two pumps. If not, please state the original costs for the two pumps.

A: The $3,355 is not for the 2 effluent pumps at Verrado. The original cost for the 2 pumps is $52,636.25 and our Engineering Department has been notified that a retirement work order should be created to retire the pumps as soon as possible.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-74

Q: For each AzAWC rate area please provide the following information:

a. A copy of a sample billing for each type of customer.

b. Does the billing state when the bill is due? If not, explain fully why not.

c. When is the bill due for each type of customer?

d. How does the Company determine what "due date" to show on customer billings?

e. Are customers subject to any late charge if the bill payment is not received by the due date printed on the bill? If not, explain fully why not. If so, please identify the amount (or percentage) of late charge, and describe when it begins to apply.

f. Do AzAWC customers, on average, pay their bills by the due date printed on the bill? If not, explain fully why not.

g. What amount of Late Charge revenue has AzAWC reflected in the test year for each rate area? Please break out between residential and commercial if possible.

h. What number of residential and commercial customers did AzAWC use for the test year by rate area?

i. How many late payments per average customer does the Late Charge revenue projected by AzAWC for the test year represent? Please respond for each rate area, if different.

j. Please provide an aging of accounts receivable by rate area, for each month of 2007, 2008 and 2009.

k. Please provide the average daily amount of (1) Accounts Receivable and (2) Allowance for Doubtful Accounts for each rate area for 2008.

A: a. Customer bills are confidential and will be provided subject to the Confidentiality Agreement between the Company and RUCO.

b. Yes.

c. Due dates are 20 days after the billing date and it does not differ by type of customer.

d. It is 20 days after the bill date. Since we bill on Mondays through Fridays only, the due date is on Mondays through Fridays 4 weeks later.

e. Customers are subject to a 1-1/2% late charge. It begins by being posted to the account on day 21.

f. Yes.

g. Late Charge Revenue reflects actual experience for the test year. No change in level of Late Charge Revenue is included in the adjusted test year figures. The breakdown between residential and commercial Late Charge Revenue is not available.

	403101	Oth Rev-Forfeited Discou
Anthem Water		$25,193
Sun City Water		$10,368

Water and Sewer Late Charges are booked to the Water District. The amounts subject to late charges include Water Charges, Sewer Charges, Other Charges and Fixed Charges. Other Charges are items such as Establishment Fees or Reconnect Fees. Fixed Charges are fire services.

h. Please see Schedule H-2 for the average customers by Rate Schedule, and see the specific tab for the rate schedule in the H Schedules for the total number of bills in the test year by rate schedule.

i. Unadjusted actual experience during the test year was used in the Company's filing. Please see the attachment, RUCO 2-74i Late Payments.xls.

j. The aging reports are deleted from the system after a short period of time. We are investigating what is required to to restore the aging reports by district. The reports are available for the Company as a whole, but not at the district specific level of detail. If the Company as a whole would suffice, please let the me know.

k. Please see the lead/lag study for the average daily balance of accounts receivable for each district. The Provision for the Allowance for Doubtful Accounts is booked once each month to the Corporate account. See the attachment RUCO 2-74k Allow Dbtfl Accts.xls for the average daily balance.

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Daily Aging Summary-September 2009

Response to Data Request No. RUCO 2-74 (j)

Daily Aging Summary
Period End: 200909

	District Code	Utility Code	Aging 0-30	Aging 31-60	Aging 61-90	Aging 91-120	Aging 121-180	Aging 180+	Total Balance	Unbilled Misc Charge	Total Adjustment Amount
Agua Fria	2340	D	(73,639.77)	-	-	-	-	-	(73,639.77)	(80.78)	(73,720.55)
Sun City	2341	D	(3,795.88)	-	-	-	-	-	(3,795.88)	-	(3,795.88)
Sun City West	2342	D	(3,106.73)	-	-	-	-	-	(3,106.73)	(2.81)	(3,109.54)
Anthem	2360	D	-	-	-	-	-	-	-	-	-
Anthem	2361	D	(24,434.02)	-	-	-	-	-	(24,434.02)	-	(24,434.02)
Agua Fria	2340	O	(36,813.13)	8,046.62	2,606.99	1,469.43	694.98	426.75	(23,568.36)	3,655.15	(19,913.21)
Sun City	2341	O	(45,158.77)	1,263.03	363.89	397.27	35.60	50.80	(43,048.18)	5,169.94	(37,878.24)
Sun City West	2342	O	(190,665.53)	327.93	32.91	64.79	-	-	(190,239.90)	320.35	(189,919.55)
Anthem	2360	O	(18.28)	-	-	-	-	-	(18.28)	-	(18.28)
Anthem	2361	O	(5,222.75)	4,450.60	1,284.96	2,245.16	492.11	69.89	3,319.97	5,631.31	8,951.28
Agua Fria WW	2340	S	158,452.98	13,063.93	3,912.42	3,361.52	609.55	289.51	179,689.91	-	179,689.91
Sun City WW	2341	S	130,357.72	5,421.88	2,024.15	846.34	490.27	163.71	139,304.07	(45,476.11)	93,827.96
Sun City West WW	2342	S	313,771.63	5,729.57	1,986.18	397.91	412.93	2,613.36	324,911.58	(19,419.82)	305,491.76
Anthem WW	2360	S	205.52	-	-	-	-	-	205.52	-	205.52
Anthem WW	2361	S	370,564.46	109,007.77	67,202.52	67,748.32	97,542.23	351,851.64	1,063,916.94	(3.71)	1,063,913.23
Sun City Water	2341	W	291,382.48	39,799.61	27,305.14	111,630.37	649.17	4,253.22	475,019.99	(79,555.37)	395,464.62
Anthem Water	2360	W	100,329.41	-	-	-	-	-	100,329.41	-	100,329.41
Anthem Water	2361	W	402,389.89	44,375.17	14,264.71	10,385.20	12,069.42	58,566.25	542,050.64	(28.02)	542,022.62
			1,384,599.23	231,486.11	120,983.87	198,546.31	112,996.26	418,285.13	2,466,896.91	(129,789.87)	2,337,107.04

ARIZONA PUBLIC SERVICE COMPANY
CASH WORKING CAPITAL REQUIRED FOR OPERATING EXPENSES - LEAD LAG STUDY
TWELVE MONTHS ENDED DECEMBER 31, 2007

LINE	DESCRIPTION	ORIGINAL AMOUNT (1)	PRO FORMA (2)	APPLIED AMOUNT (3)	REVENUE LAG DAYS (4)	EXPENSE LAG DAYS (5)	NET LAG DAYS (6)	CWC FACTOR (7)	WORKING CAPITAL REQUIREMENT (8)
1	FUEL FOR ELECTRIC GENERATION:								
2	COAL B-5(12)	221,310,726		221,310,726	38.17076	34.94111	3.22965	0.00885	1,958,600
3	NATURAL GAS	462,349,260		462,349,260	38.17076	43.80915	-5.63839	-0.01545	(7,143,296)
4	GAS MTM AND FUTURES	23,389,836		23,389,836	0.00000	0.00000	0.00000	0.00000	0
5	HANDLING	5,043,000		5,043,000	38.17076	14.48095	23.68981	0.06490	327,291
6	FUEL OIL	902,574		902,574	38.17076	23.94757	14.22319	0.03897	35,173
7	NUCLEAR:								
8	AMORTIZATION	37,872,125		37,872,125	0.00000	0.00000	0.00000	0.00000	0
9	SPENT FUEL	12,522,328		12,522,328	38.17076	76.29351	-38.12275	-0.10445	(1,307,957)
10	TOTAL NUCLEAR FUEL	50,394,453	0	50,394,453					(1,307,957)
11									
12	TOTAL FUEL	763,389,848	0	763,389,848					(6,130,189)
13									
14	PURCHASED POWER	282,572,972		282,572,972	38.17076	36.84700	1.32376	0.00363	1,025,740
15	POWER MTM	-34,736,004		(34,736,004)	0.00000	0.00000	0.00000	0.00000	0
16	POWER SUPPLY ADJUSTER	110,668,577		110,668,577	0.00000	0.00000	0.00000	0.00000	0
17	TRANSMISSION BY OTHERS	29,496,669		29,496,669	38.17076	38.08435	0.08641	0.00024	7,079
18	TOTAL PURCHASED POWER & TRANSMISSION	388,002,213	0	388,002,213					1,032,819
19									
20	TOTAL FUEL AND PURCHASED POWER	1,151,392,061 B-5(1)A	0	1,151,392,061					(5,097,370)
21									
22	OTHER OPERATIONS & MAINTENANCE:								
23	PAYROLL B5 (13) A	287,820,209		287,820,209	38.17076	14.48095	23.68981	0.06490	18,679,532
24	INCENTIVE (13) B	25,074,490		25,074,490	38.17076	212.50000	-174.32924	-0.47761	(11,975,827)
25	PENSION AND OPEB (17) C	32,520,715		32,520,715	38.17076	55.88928 (17)	-17.71852	-0.04854	(1,578,555)
26	EMPLOYEE BENEFITS (17) A	38,507,056		38,507,056	38.17076	9.62000 D	28.55076	0.07822	3,012,022
27	PAYROLL TAXES (17) B	21,324,598		21,324,598	38.17076	11.77424 E	26.39652	0.07232	1,542,195
28	MATERIALS & SUPPLIES (19) A	72,730,213		72,730,213	38.17076	29.54000	8.63076	0.02365	1,720,070
29	VEHICLE LEASE PAYMENTS (22) A	5,268,300		5,268,300	38.17076	10.54665	27.62411	0.07568	398,705
30	RENTS (26) A	7,652,343		7,652,343	38.17076	-24.08181	62.25257	0.17055	1,305,107
31	PALO VERDE LEASE (23) A	45,785,066		45,785,066	38.17076	110.33117 (23)	-72.16041	-0.19770	(9,051,708)
32	PALO VERDE S/L GAIN AMORT (24) A	4,575,722		4,575,722	0.00000	0.00000	0.00000	0.00000	0
33	INSURANCE (27) A	8,671,658		8,671,658	0.00000	0.00000	0.00000	0.00000	0
34	OTHER	160,146,748		160,146,748	38.17076	34.72000	3.45076	0.00945	1,513,387
35	TOTAL	710,077,118 B-5(1)B	0	710,077,117					5,564,928
36									
37	DEPRECIATION & AMORTIZATION B5(32) A	370,935,700		370,935,700	0.00000	0.00000	0.00000	0.00000	0
38	AMORT OF ELECTRIC PLT ACQ ADJ	0		-	0.00000	0.00000	0.00000	0.00000	0
39	AMORT OF PROP LOSSES & REG STUDY COSTS B	(5,505,458)		(5,505,458)	0.00000	0.00000	0.00000	0.00000	0
40	TOTAL	365,430,242 B-5(1)C	0	365,430,242					0
41									
42	INCOME TAXES:								
43	CURRENT:								
44	FEDERAL B5(34) A	172,125,000		172,125,000	38.17076	59.05000 (34) D	-20.87924	-0.05720	(9,845,550)
45	STATE B	27,729,000		27,729,000	38.17076	64.92526 E	-26.75450	-0.07330	(2,032,536)
46	DEFERRED C	(44,119,000)		(44,119,000)	0.00000	0.00000	0.00000	0.00000	0
47	TOTAL	155,735,000 B-5(1)D	0	155,735,000					(11,878,086)
48									
49	OTHER TAXES:								
50	PROPERTY TAXES B5(30) A	127,653,604 B-5(1)E		127,653,604	38.17076	204.79734 (36) B	-166.62657	-0.45651	(58,275,147)
51	SALES TAXES (38) A	222,899,867		222,899,867	19.83546	40.20833 (38) B	-20.37287	-0.05582	(12,442,271)
52	FRANCHISE TAXES (59) A	44,378,558		44,378,558	19.83546	52.10812 A (59)	-32.27266	-0.08842	(3,923,952)
55	TOTAL	394,932,029	0	394,932,029					(74,641,370)
56									
53	INTEREST EXPENSE B5(66) A	175,232,969 B-5(1)F	-	175,232,969	38.17076	15.25411	-36.14352	-0.09902	(17,351,569)
54									
55	TOTAL	2,952,799,419	0	2,952,799,419					(103,403,467)

TO B5(1)

B-5(9)

Tucson Electric Power Company
Cash Working Capital - Lead/Lag Study
Test Year Ended December 31, 2006
Based on the Year Ended December 31, 2005
(Thousands of Dollars)

Line No.	Description	Pro Forma Test Year Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days (Col. C - Col. D)	Lead/Lag Factor (Col. E/365)	Cash Working Capital Required (Col. F x Col. B)	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
	Operating Expenses							
	Non-Cash Expenses							
1	Bad Debts Expense	$2,490,991						1
2	Depreciation	82,440,295						2
3	Amortization	12,587,778						3
4	Deferred Income Taxes	(8,038,493)						4
	Other Operating Expenses							
5	Salaries and Wages	60,946,931	33.79	13.26	20.53	0.0562	$3,425,218	5
6	Incentive Compensation	3,838,440	33.79	244.32	(210.53)	(0.5768)	(2,214,012)	6
7	Fuel Expense	257,956,425	33.79	24.10	9.69	0.0265	6,835,845	7
8	Purchased Power	70,668,694	33.79	35.70	(1.91)	(0.0052)	(367,477)	8
9	Purchased Transmission	4,771,517	33.79	39.50	(5.71)	(0.0156)	(74,436)	9
10	Lease Expense	102,740,975	33.79	95.32	(61.53)	(0.1686)	(17,322,128)	10
11	Remote Generating Plant O&M	31,798,784	33.79	(0.70)	34.49	0.0945	3,004,985	11
12	Office Supplies and Expenses	6,542,004	33.79	5.10	28.69	0.0786	514,202	12
13	Outside Services	6,361,869	33.79	35.90	(2.11)	(0.0058)	(36,899)	13
14	Property Insurance	2,091,138	33.79	7.40	26.39	0.0723	151,189	14
15	Injuries and Damages	3,635,397	33.79	19.70	14.09	0.0386	140,326	15
16	Pensions and Benefits	15,825,396	33.79	11.40	22.39	0.0613	970,097	16
17	Miscellaneous General Expenses	9,269,497	33.79	48.40	(14.61)	(0.0400)	(370,780)	17
18	Rents	660,232	33.79	46.10	(12.31)	(0.0337)	(22,250)	18
19	Property Taxes	30,751,385	33.79	213.78	(179.99)	(0.4931)	(15,163,508)	19
20	Payroll Taxes	5,508,194	33.79	12.91	20.88	0.0572	315,069	20
21	Current Income Taxes	(4,221,970)	33.79	42.30	(8.51)	(0.0233)	98,372	21
22	Other Taxes	179,866	33.79	90.81	(57.02)	(0.1562)	(28,095)	22
23	Interest on Customer Deposits	574,863	33.79	182.50	(148.71)	(0.4074)	(234,199)	23
24	Other Operations and Maintenance	58,358,617	33.79	14.30	19.49	0.0534	3,116,350	24
25	Total Operating Expenses	$757,738,825						25
	Other Cash Working Capital Elements:							
26	Interest On Long-Term Debt	$43,417,161	33.79	74.60	(40.81)	(0.1118)	(4,854,039)	26
27	Revenue Taxes and Assessments	$59,055,220	33.79	51.75	(17.96)	(0.0492)	(2,905,517)	27
28	Total Cash Working Capital						($25,021,687)	28

Supporting Schedules	Recap Schedules
N/A	B-2, B-3

UNS Gas, Inc.
Cash Working Capital - Lead/Lag Study
Test Year Ended June 30, 2008

Line No.	Description	Pro Forma Test Year Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days (Col. C - Col. D)	Lead/Lag Factor (Col. E/365)	Cash Working Capital Required (Col. F x Col. B)	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
	Operating Expenses							
	Non-Cash Expenses							
1	Bad Debts Expense	$688,379						1
2	Depreciation	9,057,437						2
3	Amortization	(817,432)						3
4	Deferred Income Taxes	2,869,418						4
	Other Operating Expenses							
5	Salaries and Wages	7,750,405	40.70	24.50	16.20	0.0444	$344,118	5
6	Incentive Compensation	310,278	40.70	267.00	(226.30)	(0.6200)	(192,372)	6
7	Purchased Gas Costs	87,528,793	40.70	27.89	12.81	0.0351	3,072,261	7
8	Office Supplies and Expenses	1,057,383	40.70	20.72	19.98	0.0547	57,839	8
9	Injuries and Damages	508,477	40.70	64.75	(24.05)	(0.0659)	(33,509)	9
10	Pensions and Benefits	1,544,121	40.70	54.66	(13.96)	(0.0382)	(58,985)	10
11	Support Services - TEP	7,079,463	40.70	44.75	(4.05)	(0.0111)	(78,582)	11
12	Property Taxes	3,610,079	40.70	213.00	(172.30)	(0.4721)	(1,704,318)	12
13	Payroll Taxes	560,124	40.70	19.41	21.29	0.0583	32,655	13
14	Current Income Taxes	734,254	40.70	41.42	(0.72)	(0.0020)	(1,469)	14
15	Interest on Customer Deposits	137,200	40.70	182.50	(141.80)	(0.3885)	(53,302)	15
16	Other Operations and Maintenance	6,212,916	40.70	53.10	(12.40)	(0.0340)	(211,239)	16
17	Total Operating Expenses	$128,831,296						17
	Other Cash Working Capital Elements:							
18	Interest On Long-Term Debt	$5,924,526	40.70	89.50	(48.80)	(0.1337)	(792,109)	18
19	Revenue Taxes and Assessments	$13,847,423	40.70	50.70	(10.00)	(0.0274)	(379,419)	19
20	Total Cash Working Capital						$1,568	20

Supporting Schedules	Recap Schedules
N/A	B-2, B-3

UNS Electric, Inc.
Cash Working Capital - Lead/Lag Study
Test Year Ended December 31, 2008

Line No.	Description	Pro Forma Test Year Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days (Col. C - Col. D)	Lead/Lag Factor (Col. E/365)	Cash Working Capital Required (Col. F x Col. B)	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
	Operating Expenses							
	Non-Cash Expenses							
1	Bad Debts Expense	$764,063						1
2	Depreciation	17,810,236						2
3	Amortization	(3,575,014)						3
4	Deferred Income Taxes	3,384,947						4
	Other Operating Expenses							
5	Salaries and Wages (UNSE Direct Employees)	4,828,118	35.59	23.33	12.26	0.0336	$162,225	5
6	Incentive Pay (UNSE Direct Employees)	109,736	35.59	267.00	(231.41)	(0.6340)	($69,573)	6
7	Purchased Power	95,598,854	35.59	33.79	1.80	0.0049	$468,434	7
8	Transmission Other	8,082,997	35.59	40.67	(5.08)	(0.0139)	($112,354)	8
9	Meter Reading	839,177	35.59	33.67	1.92	0.0053	$4,448	9
10	Customer Records & Collection Expenses (excluding allocations)	1,389,213	35.59	34.94	0.65	0.0018	$2,501	10
11	Office Supplies and Expenses	505,643	35.59	50.89	(15.30)	(0.0419)	($21,186)	11
12	Injuries and Damages	309,105	35.59	70.52	(34.93)	(0.0957)	($29,581)	12
13	Pensions and Benefits	1,166,579	35.59	51.37	(15.78)	(0.0432)	($50,396)	13
14	Support Services - TEP (Direct Labor, Burdens, System Alloc.)	6,217,822	35.59	44.77	(9.18)	(0.0252)	($156,689)	14
15	Property Taxes	3,307,989	35.59	213.00	(177.41)	(0.4848)	($1,603,548)	15
16	Payroll Taxes	445,648	35.59	19.87	15.72	0.0431	$19,207	16
17	Current Income Taxes	(1,263,680)	35.59	41.42	(5.83)	(0.0160)	$20,219	17
18	Interest on Customer Deposits	14,499	35.59	182.50	(146.91)	(0.4025)	($5,836)	18
19	Other Operations and Maintenance	10,986,786	35.59	41.21	(5.62)	(0.0154)	($169,197)	19
20	Total Operating Expenses	$150,922,718						20
	Other Cash Working Capital Elements:							
21	Interest On Long-Term Debt	$6,716,282	35.59	78.97	(43.38)	(0.1188)	(797,894)	21
22	Revenue Taxes and Assessments	$12,430,745	35.59	49.43	(13.84)	(0.0379)	(471,125)	22
23	Total Cash Working Capital						($2,810,346)	23

Supporting Schedules	Recap Schedules
N/A	B-2, B-3

UNS Electric, Inc.
Cash Working Capital - Lead/Lag Study
Test Year Ended June 30, 2006

Line No.	Description	Pro Forma Test Year Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days (Col. C - Col. D)	Lead/Lag Factor (Col. E/365)	Cash Working Capital Required (Col. F x Col. B)	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
	Operating Expenses							
	Non-Cash Expenses							
1	Bad Debts Expense	$579,538						1
2	Depreciation	15,594,232						2
3	Amortization	(3,781,658)						3
4	Deferred Income Taxes	494,521						4
	Other Operating Expenses							
5	Salaries and Wages (UNSE Direct Employees)	4,571,466	35.59	23.33	12.26	0.0336	$153,601	5
6	Incentive Pay (UNSE Direct Employees)	98,247	35.59	267.00	(231.41)	(0.6340)	($62,289)	6
7	Purchased Power	106,021,950	35.59	33.79	1.80	0.0049	$519,508	7
8	Transmission Other	7,009,878	35.59	40.67	(5.08)	(0.0139)	($97,437)	8
9	Meter Reading	730,556	35.59	33.67	1.92	0.0053	$3,872	9
10	Customer Records & Collection Expenses (excluding allocations)	2,982,604	35.59	34.94	0.65	0.0018	$5,369	10
11	Office Supplies and Expenses	535,854	35.59	50.89	(15.30)	(0.0419)	($22,452)	11
12	Injuries and Damages	512,417	35.59	70.52	(34.93)	(0.0957)	($49,038)	12
13	Pensions and Benefits	1,172,133	35.59	51.37	(15.78)	(0.0432)	($50,636)	13
14	Support Services - TEP (Direct Labor, Burdens, System Alloc.)	5,631,155	35.59	44.77	(9.18)	(0.0252)	($141,905)	14
15	Property Taxes	3,096,371	35.59	213.00	(177.41)	(0.4848)	($1,500,966)	15
16	Payroll Taxes	348,088	35.59	19.87	15.72	0.0431	$15,003	16
17	Current Income Taxes	1,342,818	35.59	41.42	(5.83)	(0.0160)	($21,485)	17
18	Interest on Customer Deposits	217,492	35.59	182.50	(146.91)	(0.4025)	($87,540)	18
19	Other Operations and Maintenance	2,587,216	35.59	41.21	(5.62)	(0.0154)	($39,843)	19
20	Total Operating Expenses	$149,744,879						20
	Other Cash Working Capital Elements:							
21	Interest On Long-Term Debt	$5,819,157	35.59	90.22	(54.63)	(0.1497)	(871,128)	21
22	Revenue Taxes and Assessments	$13,983,561	35.59	45.71	(10.12)	(0.0277)	(387,345)	22
23	Total Cash Working Capital						($2,634,713)	23

Supporting Schedules	Recap Schedules
N/A	B-2, B-3

SCHEDULE B-5
Sheet 2 of 4

SOUTHWEST GAS CORPORATION
ARIZONA
LEAD-LAG STUDY
FOR THE TWELVE MONTHS ENDED APRIL 30, 2007

Line No.	Description [1] (a)	Cost (b)	Lag Days (c)	Dollar Days (d)	Line No.
1	Cost of Gas [2]	$ 540,064,385	42.30	22,842,405,297	1
2	Labor Cost	117,038,570	12.33	1,443,650,156	2
3	Provision for Uncollected Accounts	2,977,729	120.00	357,327,523	3
4	Other O & M Expenses	54,826,860	8.40	460,689,209	4
5	Total O & M Expenses	$ 714,907,545	35.12	25,104,072,186	5
6	Interest	48,035,008	84.65	4,066,302,142	6
7	Taxes Other Than Income Taxes	33,124,880	185.34	6,139,365,177	7
8	Income Taxes-Current	21,699,571	37.00	802,884,115	8
9	Total Operating Expenses	$ 817,767,003	44.16	36,112,623,619	9
10	Number of Days in Test Period	365			10
11	Average Daily Operating Expense	$ 2,240,458			11
12	Lag in Receipt of Revenue		39.53		12
13	Net Difference Revenue-Expense Lag	(4.63)			13
14	Cash Working Capital	$ (10,379,937)			14
		B-5, Sh 1			

[1] Supporting Workpapers B-5.
[2] Gas costs adjusted for present volumes and rates to synchronize with gas cost adjustment.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Linda Gutowski
Title: Senior Rate Analyst

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-75

Q: Does AzAWC pre-pay the affiliated Service Company for services provided by the Service Company?

a. If not, explain fully why not. If so, please identify the basis for such prepayment and identify and provide a copy of all documents relied upon.

b. Please identify for how many days, on average, the Service Company has the use of AzAWC payments before the Service Company remits funds to the ultimate payees. Include supporting calculations.

A: Yes.

a. Arizona American pays an estimate for the current month (based on the actual for the prior month) plus a true up between what was paid as an estimate in the prior month and the actual for the prior month. The payment is done on the first Monday of the current month. So, there are 2 parts to each payment – a large part that is a prepayment for the current month paid on the first Monday of the month and a true up to last month's estimate, paid on the same date.

b. There is a lead of (11.25) days on average. Please see the revised Management Fees lead/lag study. This revision will change the Cash Working Capital by adding the following amounts:

Anthem Water	$ 82,573
Sun City Water	$107,618
Anthem / Agua Fria	$108,950
Sun City Wastewater	$ 66,536
Sun City West WW	$ 56,300

See the attached files RUCO 2-75 Mgmt Fee Rvsd Lead Lag.xls and RUCO 2-75 serv co bills 2008.pdf.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Thomas M. Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-76

Q: Has the Commission approved any agreement between AzAWC and the affiliated Service Company? If not, explain fully why not. If so, please identify and provide a complete copy of such agreement. Include all amendments and changes thereto since AzAWC's last rate case.

a. Please identify and describe in detail all steps that would be needed for the Commission to modify the payment terms of the Service Company Service Agreement.

b. Provide all Documents relied upon for your response.

A: Prior approval of an affiliate arrangement is not required in Arizona. The Company has searched the Commission's decisions listing and has not been able to locate a case decision in which either the Company requested approval of or such approval was granted of the agreement between Arizona American and the Service Company ("Agreement"). We believe neither has occurred, but we are not 100% certain at this time whether or not the ACC has approved the Agreement because the Company was providing utility services in Arizona for many years but only in the Paradise Valley district and readily available decisions for the 1990's are not complete.

The Commission has, however, reviewed and approved the costs incurred in relation to the Service Company bill in numerous recent proceedings.

A copy of the 1989 Service Company Agreement is attached and labeled RUCO 2-76 Service Company Agreement.pdf. The agreement has not been amended since 1989.

a. This question should be directed at the Commission to answer. The Company has not researched what steps the Commission would need to take to attempt to unilaterally modify the payment terms as this may be outside the scope of the Commission's authority. The Company is strongly opposed to changing the agreement. For all practical purposes, the agreements that are in use in all of the states in which American Water provides regulated utility service are essentially identical and a number of state PUC's have approved the agreement.

b. The Service Company Agreement was provided herein and various recent Commission decisions are provided in other responses or are available publicly on the Commissions web site.

AGREEMENT

Agreement dated January 1, 1989, between AMERICAN WATER WORKS SERVICE COMPANY, INC., a Delaware corporation (hereinafter "Service Company"), and PARADISE VALLEY WATER COMPANY, a Arizona corporation (hereinafter "Water Company").

The background of this Agreement is that:

1. Both Service Company and Water Company are subsidiaries of American Water Works Company, Inc., a Delaware corporation (hereinafter "American").
2. Water Company has been organized for and is presently engaged in the business of providing potable water as a public utility in the State of Arizona.
3. Service Company maintains an organization whose officers and employees are familiar with all facets of the water utility business, including the development, business and property of Water Company, and are experienced in the efficient management, financing, accounting and operation of water utility properties and the extension and improvement thereof. The officers and employees of Service Company are qualified to aid, assist and advise Water Company in its business operations through the services to be performed under this Agreement.
4. Service Company has provided administrative and operating services to Water Company for many years, the past 17 years pursuant to an agreement dated January 1,

1971. Because Water Company is of the opinion that it cannot obtain the same quality and diversification of services on a comparable economic basis elsewhere, it proposes to enter into a new agreement with Service Company more specifically defining the types of services available to it.

5. Service Company has entered or proposes to enter into agreements similar to this agreement with other affiliated water companies (hereinafter collectively "Water Companies").

6. The services to be rendered under this agreement are to be rendered by Service Company to Water Companies at their cost to Service Company, as hereinafter provided.

NOW, THEREFORE, in consideration of the premises and mutual agreements herein contained, the Water Company and Service Company agree that:

ARTICLE 1. PERSONNEL AND SERVICES TO BE PROVIDED

1.1 During the term of this agreement and upon the terms and conditions hereinafter set forth, Service Company shall provide corporate guidance for Water Company. In addition to the guidance provided by the officers and employees of Service Company through the coordination of functional activities for all subsidiaries of American, the officers and employees of Service Company shall furnish and Water Company shall purchase from Service Company, the following services: Accounting, Administration, Communication, Corporate Secretarial, Engineering, Financial, Human Resources,

Information Systems, Operation, Rates and Revenue, Risk Management and Water Quality, together with such other services as Water Company and Service Company may agree; provided, however, that Water Company may perform the service with its own personnel or engage another company or person to provide those services on its behalf. Service Company by mutual consent may engage another Company or person to provide such services on its behalf.

1.2 Service Company shall employ qualified officers and employees and those persons shall be available for election by Water Company to serve as officers of Water Company.

1.3 Without limitation, services to be provided by the Service Company shall be rendered as follows:

A. **Accounting**: Service Company shall assist in the preparation and implementation of accounting methods and procedures to determine that they conform fully to the requirements, rules and regulations of governmental authorities having jurisdic- tion and review Water Company's monthly financial reports, annual reports and other reports to stockholders and to any governmental authorities. It shall advise and assist in the establishment and maintenance of current record keeping techniques; review accounting procedures, methods and forms; and evaluate systems of internal control for receipt and disbursement of funds, materials and supplies, and other assets. Service Company shall maintain accounting records as required by Water Company. When appropriate, Service Company shall cooperate and consult with Water Company's independent certified public accountants.

Service Company shall assist in the preparation of operating and construction budgets and monitor the control over such budgets by comparing experienced costs to the projections.

Service Company shall prepare or assist in the preparation of federal, state and local tax returns for and to the extent required by Water Company.

B. **Administration**: Service Company shall make qualified employees available to perform or assist in the performance of Water Company's corporate activities. Those employees shall keep themselves informed on all aspects of Water Company's operations and shall regularly visit Water Company's facilities. They shall make recommendations to Water Company for operating expenditures and for additions to and improvements of property, plant and equipment. They shall keep abreast of economic, regulatory, governmental and operational developments and conditions that may affect Water Company; and advise Water Company of any such devel- opments and conditions to the extent that they may be important to Water Company. Service Company shall provide an internal audit staff for periodic audits of accounts, records, policies and procedures of Water Company and submit reports thereon.

C. **Communications**: Service Company shall recommend procedures to promote satisfactory relations with employees, customers, communities and the general public and assist in the preparation of communication materials, (including press releases, brochures, audio visual presentations and speeches) plant tours,

public exhibits and displays and other related services to inform the public.

D. Corporate Secretarial: Service Company shall maintain, in such places and manner as may be required by applicable law, documents of Water Company, such as minute books, charters, by-laws, contracts, deeds and other corporate records, and shall administer an orderly program of records retention. It shall maintain, or arrange for the maintenance of, records of stockholders of Water Company, prepare or arrange for the preparation of stock certificates, perform duties relating to the transfer of stock and perform other corporate secretarial functions as required including preparation of notices of stockholder and director meetings and the minutes thereof.

Service Company shall review and may assist in the preparation of documents and reports required by Water Company such as deeds, easements, contracts, charters, franchises, trust indentures and regulatory reports and filings.

E. Engineering: Service Company shall advise, and provide engineering services to assist Water Company in planning for, operating, maintaining and constructing its facilities.

It shall conduct distribution system surveys and hydraulic analyses and prepare or review maps, charts, operating statistics, reports and other pertinent data.

It shall assist Water Company in the proper maintenance and protection of Water Company properties by periodic inspection of its structures, tanks, reservoirs, dams, wells and electrical and mechanical equipment.

obtain engineering information and, when required, the preparation of studies, reports, designs, drawings, cost estimates, specifications, and contracts for the construction of additions to or improvements of Water Company's source of supply, treatment plant, pumping stations, distribution system, and such other facilities as Water Company may request. Service Company shall provide a Materials Management Program to arrange for the purchase of equipment, materials, and supplies in volume on a basis advantageous to Water Company and assist in the evaluation of new and existing products and application procedures.

F. **Financial**: Service Company shall assist in the development and implementation of financing programs for Water Company, including the furnishing of advice from time to time on securities market conditions and the form and timing of financing; advise concerning arrangements for the sale of its securities; and assist in the preparation of necessary papers, documents, registration statements, prospectuses, petitions, applications and declarations. It shall prepare reports to be filed with, and reply to inquiries made by, security holders and bond and mortgage trustees.

Service Company shall assist Water Company in cash management including arrangements for bank credit lines, establishment of collection policies, and development of temporary investment programs.

Service Company shall provide assistance to Water Company in the preparation of all financial reports.

G. **Human Resources**: Service Company shall assist in obtaining qualified personnel for Water Company; in establishing appropriate rates of pay for those employees; and in negotiating with bargaining units representing Water Company employees. It shall carry out training programs for the development of personnel and advise and assist Water Company regarding personnel. It shall also advise and assist Water Company in regard to group employee insurance, pension and benefit plans and in the drafting or revising of those plans when required. It will keep Water Company apprised of all employment laws and develop procedures and controls to assure compliance.

H. **Information Systems**: Service Company shall make available to Water Company electronic data processing services. Those services shall include customer billing and accounting, preparation of financial statements and other reports including those required by Federal and State agencies.

I. **Operation**: Service Company shall develop and assist in the implementation of operating procedures to promote the efficient and economic operation of Water Company. Periodic operational reviews will be performed by Service Company personnel and any deviations from adopted procedures will be reported to Water Company.

J. **Rates and Revenue**: Service Company personnel shall make recommendations for changes in rates, rules and regulations and shall assist Water Company in the conduct of proceedings before, and in its compliance with the rulings of, regulatory bodies having jurisdiction over its operation. These personnel

shall keep abreast of economic and regulatory developments and conditions that may affect Water Company; and advise Water Company of any such developments and conditions to the extent that they may be important to Water Company. Rates and Revenue personnel shall assist in the preparation of rate filings or applications and the supporting documents and exhibits requested or required by the Water Company and their respective regulatory commissions. Service Company shall also provide qualified personnel to testify on Water Company's behalf as required during any regulatory proceedings.

K. **Risk Management**: Service Company shall provide a Risk Management Program to review the exposures to accidental loss of the Water Company, recommend efficient methods of protection either through the purchase of insurance, self-insurance or other risk management techniques and arrange for the purchase of insurance coverage. It shall also supervise investigation procedures; review claims; and negotiate and assist in, and evaluate proposals for, settlement at the request of Water Company. It shall assist in the establishment of safety and security programs to avoid or minimize risk and loss.

L. **Water Quality**: Service Company shall assist Water Company to comply with standards of governmental agencies and establish and attain water quality objectives of the Water Company. It shall assist in providing design criteria for processes, coordinating with public agencies, developing approaches and solutions to water quality problems, and providing

technical assistance and general direction for Water Company personnel.

It shall also provide laboratory services for programmed analyses as required by drinking water regulations, and special analyses as required by Water Company.

ARTICLE II. PAYMENT FOR SERVICES

2.1 In consideration for the services to be rendered by Service Company as hereinabove provided, Water Company agrees to pay to Service Company the cost thereof determined as provided in this Article II and in Article III.

2.2 All costs of service rendered by Service Company personnel for Water Company or in common with other Water Companies shall be charged to Water Company based on actual time spent by those personnel as reflected in their daily time sheets or other mutually acceptable means of determination.

2.3 All costs of Service Company incurred in connection with services rendered by Service Company which can be identified and related exclusively to Water Company, shall be charged directly to Water Company.

2.4 All costs incurred in rendering services to Water Company in common with similar services to other Water Companies which cannot be identified and related exclusively to services rendered to a particular Water Company, shall be allocated among all Water Companies so served, or, in the case of costs incurred with respect to services rendered to a particular group of Water

Companies, among the members of such group, based on the number of customers served at the immediately preceding calendar year end.

2.5 Cost for support personnel (secretaries, clerical personnel, clerks, messengers, telephone operators, mail clerks, and other incidental support personnel of the Service Company) as well as the cost of lease payments, depreciation, utilities and other costs associated with leasing office space and equipment by Service Company shall be allocated among the Water Companies on the basis of the proportion of the aggregate cost allocated under Sections 2.3 and 2.4.

ARTICLE III. ALLOWANCE FOR OVERHEAD

3.1 In determining the cost to be assessed by Service Company for the rendering of services to Water Company as herein provided, there shall be added to the salaries of all officers and employees for whose services charges are to be made, a percentage sufficient to cover the general overhead of Service Company, as defined below, properly allocable thereto. Such percentage shall be calculated each month and shall be the ratio of the total general overhead of the Service Company for the month to the total salaries of the employees for whose service charges are to be made to the Water Companies. No general overhead of Service Company shall be added to costs incurred for services of non-affiliated consultants employed by Service Company.

3.2 The term "general overhead" shall include:

(a) pension and insurance premiums paid for the benefit of Service Company employees,

(b) legal and other fees for services rendered to the Service Company,

(c) taxes,

(d) other general office supplies and other similar expenses, and

(e) interest on working capital.

ARTICLE IV. BILLING PROCEDURES AND BOOKS AND RECORDS

4.1 As soon as practicable after the last day of each month, Service Company shall render a bill to Water Company for all amounts due from Water Company for services and expenses for such month plus an amount equal to the estimated cost of such services and expenses for the current month, all computed pursuant to Articles II and III. Such bill shall be in sufficient detail to show separately the charge for each class of service rendered. All amounts so billed shall reflect the credit for payments made on the estimated portion of the prior bill and shall be paid by Water Company within a reasonable time after receipt of the bill therefore.

4.2 Service Company agrees to keep its books and records available at all times for inspection by representatives of Water Company or by regulatory bodies having jurisdiction over Water Company.

4.3 Service Company shall at any time, upon request of Water Company, furnish any and all information required by Water Company with respect to the services rendered by Service Company

hereunder, the costs thereof, and the allocation of such costs among Water Companies.

ARTICLE V. OTHER AGREEMENTS

5.1 It is understood by Water Company that Service Company has entered or may enter into similar agreements with other Water Companies that are affiliated with American to which similar services are to be furnished. Service Company will not enter into agreements to perform similar services for other companies on terms more favorable than those provided herein.

5.2 It is understood by Water Company that Service Company has entered or may enter into an agreement or agreements with American and certain other companies not engaged in the water or sewer service business to which limited services are to be furnished; Water Company consents to such additional agreements, provided, however, that no part of the cost of furnishing such services will be charged to Water Company.

ARTICLE VI. TERM OF AGREEMENT

This agreement shall become effective as of the later of (a) the date first mentioned above or (b) the date the parties receive the last of any necessary approvals of governmental regulatory agencies having jurisdiction in the premises. Upon becoming effective, this agreement shall be the sole agreement between the parties concerning the subject matter hereof and shall supersede all prior agreements, written or oral, including the agreement dated January 1, 1971, which shall terminate on the date this

agreement becomes effective. This agreement shall continue in full force and effect until terminated by either of the parties hereto giving the other party hereto ninety day's notice in writing; provided, however, that this agreement shall terminate as of the date Water Company or Service Company ceases to be an affiliate of American.

IN WITNESS WHEREOF, Service Company and Water Company have caused this agreement to be signed in their respective corporate names by their respective Presidents or Vice Presidents, and impressed with their respective corporate seals attested by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

ATTEST:

AMERICAN WATER WORKS SERVICE COMPANY, INC.

By _____
President

ATTEST:

PARADISE VALLEY WATER COMPANY

By _____
President

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Tom Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-48

Q: Filing Information. As the Company discovers errors in its filing, identify such errors and provide documentation to support any changes. Please update this response as additional information becomes available.

A: As the Company or another party discovers errors and points them out, the Company admits to such errors in discovery responses as well as automatically incorporates them into its revised revenue requirement submitted as part of its rebuttal testimony.

Rodney Moore of RUCO found errors in the calculation of the pro forma adjustment for customer annualization for Anthem Water and he can easily provide the corrections to RUCO's consultant. The corrections have been incorporated in the Company's draft rebuttal schedules which will be submitted along with the Company's rebuttal testimony. (We anticipate accepting RUCO's corrections when their witness causes them to be included in RUCO's direct case presentation currently scheduled for February 22, 2010).

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Tom Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-40 Page 1 of 2

Q: Rate Case Expense.

a. Please provide supporting documentation (e.g. invoices, quotes, etc.) for each of the rate case expenses that totals the amount being requested by the Company for the current rate case.

b. Please identify the test year and filing data in the Company's last five rate cases.

c. Please provide the level of rate case expense incurred for the last five rate cases broken down by payee or type of activity.

d. Please explain fully and in detail why the Company normalized rate case expense over two years versus some other period.

A:

a. Exhibit TMB-2 requests $678,425 in rate case expenses based on a budget prepared by Mr. Broderick formulated relying on his knowledge of a number of recent Arizona American rate cases and based on recent conversations with external witnesses and counsel regarding the likely level of effort for this case. To-date, $152,545.44 has been spent and accumulated in a deferred account. (Please note Mr. Broderick has not yet reviewed the recorded rate case expenses to-date for completeness.) As regards invoices for legal expenses, please see response to RUCO 2-57. As regards non-legal (e.g., consultant invoices) to-date, please find attached invoices already received and paid. Overall, to-date, expenses are running slightly under budget because the initial required public notice was sent as a bill insert and not as a separately mailed letter. However, legal expenses are expected to later be over budget. The Company always updates its rate case expense budget later in the case, usually at hearing, for actual to-date and remaining cost estimates.

COMPANY: ARIZONA AMERICAN WATER COMPANY

DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Tom Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-40

b. The test year and filing dates since Arizona American has owned the districts that are the subject of this proceeding are summarized below.

District	Filing Date	Test Year	Filing Date	Test Year
Sun City Water	4/2/07	2006	11/22/02 & 12/13/02	2001
Sun City Wastewater	7/28/06	2005	11/22/02 & 12/13/02	2001
Sun City West Wastewater	7/28/06	2005	11/22/02 & 12/13/02	2001
Anthem Water	7/16/06	2005	11/22/02 & 12/13/02	2001
Anthem / Agua Fria Wastewater	7/16/06	2005	11/22/02 & 12/13/02	2001

c. The rate case expenses for the last five rate cases except for the 2008 AZ Rate Case (Docket 08-0227) are attached as "RUCO 2-40 (Docket 06-0403)-AN-AF_WW.pdf", "RUCO 2-40 (Docket 06-0403)-AN_W.pdf" "RUCO 2-40 (Docket 07-0209)-SC_W.pdf", "RUCO 2-40 (Docket 06-0491)-SCW_WW.pdf", "RUCO 2-40 (Docket 06-0491)-SC_WW.pdf", "RUCO 2-40 (Docket 06-0014)-MO_WW.pdf", and "RUCO 2-40 (Docket 06-0014)-MO_W.pdf". The 2008 Rate Case expenses are being provided in response to data request number RUCO 2-78.

d. The Company proposes to amortize rate case expense over three years – not two years - based on prior precedent, even though it is well known that the Company has been filing rate cases on a more frequent schedule and has been unfairly forced to write-off unamortized prior case expenses as the Commission has likewise not allowed pancaking of rate case expense.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Tom Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix 85027

Company Response Number: RUCO 2-78

Q: Rate case expense.

a. Please provide a detailed listing of all consultant fees and legal expense from AzAWC's last rate case.

b. Please provide the Company's understanding of the amount of rate case expense that was allowed by the Commission in its last three rate cases.

c. Please state fully AzAWC's understanding of the amount allowed for rate case expense, by component, and the normalization or amortization period applied by the Commission to each such component.

d. Please identify all other Arizona utility rate cases that AzAWC reviewed for rate case expenses.

e. Provide all Documents relied upon for your response.

A: Arizona-American object to these requests to the extent they seeks documents or information protected from discovery by the attorney-client privilege, the work-product doctrine, or any other applicable privilege, immunity, or doctrine. Arizona-American further objects to the extent these requests seek a legal conclusion. Subject to and without waiving these objections, Arizona-American responds as follows:

a. Arizona-American's last rate case was Docket Nos. W-01303A-08-0227 and SW-01303A-08-0227. Attached as "RUCO 2-78a Rate Case Expenses (08-0227).pdf" is a detailed listing of actual rate case expenses through 11/30/09. Since the expenditures exceeded the allowed amount, charges incurred in December 2009 are not reflected.

b. Decision No. 71410, dated December 8, 2009 allowed $456,275 in a seven district rate case. Decision No. 70372, dated June 13, 2008 allowed $300,000 in a three district rate case. Decision No. 70351, dated May 16, 2008 allowed $94,264 in a one district rate case.

c. This sub-part is not clear, but is interpreted to seek more information regarding sub-part b. The amortization period for Decisions 71410 and 70372 was three years and Decision 70351 was four years. The Commission authorized a total rate case expense recovery and did not specify in the order the sub-part component authorizations.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Tom Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix 85027

Company Response Number: RUCO 2-78

d. None. Arizona-American does not base its rate case expense requests on any other Arizona utility.

e. Decisions 71410, 70372 and 70372 were relied upon in this response and are available including from the Commission's edocket function.

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DT	Document	Date	Explanation	Batch	Subl/WO# .	Debit	Credit	
PV	42129476	01/28/09	Marks, Craig A PLC INV# 420	4319209 Batch Date 01/28/09	42549400 W	1,440.00		P User ID SCHAFFCE Invoice 420
CC	5577	01/30/09	RICHARDSON'S CUISINE OF N THOMAS M BRODERICK	4321048 Batch Date 01/30/09	42549400 W	93.23		P User ID ZACCARLM
CC	5577	01/30/09	ZOE'S THOMAS M BRODERICK	4321048 Batch Date 01/30/09	42549400 W	12.13		P User ID ZACCARLM
PV	42136070	02/04/09	Gannett Fleming Companies INV# 04933*8129	4324420 Batch Date 02/04/09	42549400 W	3,257.50		P User ID MARRISWR Invoice 04933081290126
CC	5613	02/05/09	MOODY'S QUICK COURTNEY L APPELHANS	4325971 Batch Date 02/05/09	42549400 W	31.65		P User ID MARRISWR
CC	5613	02/05/09	MOODY'S QUICK COURTNEY L APPELHANS	4325971 Batch Date 02/05/09	42549400 W	20.20		P User ID MARRISWR
CC	5613	02/05/09	MOODY'S QUICK COURTNEY L APPELHANS	4325971 Batch Date 02/05/09	42549400 W	26.51		P User ID MARRISWR
CC	5613	02/05/09	MOODY'S QUICK COURTNEY L APPELHANS	4325971 Batch Date 02/05/09	42549400 W	26.51		P User ID MARRISWR
PV	42140825	02/11/09	Bob Nelson Associates Inc INV# 202082	4328743 Batch Date 02/11/09	42549400 W	487.50		P User ID MARRISWR Invoice 202082
PV	42140827	02/11/09	Bob Nelson Associates Inc INV# 202084	4328743 Batch Date 02/11/09	42549400 W	3,953.19		P User ID MARRISWR Invoice 202084
PV	42140828	02/11/09	Bob Nelson Associates Inc INV# 202088	4328743 Batch Date 02/11/09	42549400 W	379.55		P User ID MARRISWR Invoice 202088
ST	30871128	02/12/09	SABRIX NO TAX CHARGED ACR 42140825	4329359 Batch Date 02/12/09	42549400 W	27.30		P User ID MARRISWR
ST	30871128	02/12/09	SABRIX NO TAX CHARGED ACR 42140827	4329359 Batch Date 02/12/09	42549400 W	221.38		P User ID MARRISWR
ST	30871128	02/12/09	SABRIX NO TAX CHARGED ACR 42140828	4329359 Batch Date 02/12/09	42549400 W	21.25		P User ID MARRISWR
PV	42150272	02/23/09	Brattle Group INV# 014791	4333723 Batch Date 02/23/09	42549400 W	1,520.00		P User ID MARRISWR Invoice 014791
PV	42150323	02/23/09	Marks, Craig A PLC INV# 433	4333794 Batch Date 02/23/09	42549400 W	10,260.00		P User ID MARRISWR Invoice 433
PV	42150326	02/23/09	Marks, Craig A PLC INV# 432	4333794 Batch Date 02/23/09	42549400 W	792.00		P User ID MARRISWR Invoice 432
PV	42154763	02/27/09	GDS Associates Inc 0034805	4336408 Batch Date 02/27/09	42549400 W	3,373.00		P User ID MARRISWR Invoice 0070016
PV	42154766	02/27/09	Brattle Group 014975	4336408 Batch Date 02/27/09	42549400 W	7,605.12		P User ID MARRISWR Invoice 014975
CC	5725	03/12/09	STAPLES BUSINE COURTNEY L APPELHANS	4344816 Batch Date 03/12/09	42549400 W	81.42		P User ID ZACCARLM
CC	5725	03/12/09	STAPLES BUSINE COURTNEY L APPELHANS	4344816 Batch Date 03/12/09	42549400 W	595.15		P User ID ZACCARLM
CC	5725	03/12/09	STAPLES BUSINE	4344816	42549400 W	595.15		P

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DT	Document	Date	Explanation	Batch	Subl/WO# .	Debit	Credit	P	
			COURTNEY L APPELHANS	Batch Date 03/12/09				User ID	ZACCARLM
CC	5725	03/12/09	LIS DOON VARNA	4344816	42549400 W	54.17		P	
			SHERYL L HUBBARD	Batch Date 03/12/09				User ID	ZACCARLM
PV	42165421	03/16/09	Gannett Fleming Companies	4345556	42549400 W	1,637.50		P	
			INV# 049330 901	Batch Date 03/16/09				User ID	SCHINDCA
								Invoice	04933090112
PV	42167294	03/17/09	Gannett Fleming Companies	4346402	42549400 W	6,267.50		P	
			INV# 0493309025	Batch Date 03/17/09				User ID	SCHAFFCE
								Invoice	04933090258
PV	42167295	03/17/09	Brattle Group	4346402	42549400 W	22,946.23		P	
			INV# 015373	Batch Date 03/17/09				User ID	SCHAFFCE
								Invoice	015373
PV	42172324	03/25/09	Bob Nelson Associates Inc	4349653	42549400 W	275.00		P	
			INV# 202106	Batch Date 03/25/09				User ID	ZACCARLM
								Invoice	202106
PV	42172349	03/25/09	Bob Nelson Associates Inc	4349653	42549400 W	187.50		P	
			INV# 202115	Batch Date 03/25/09				User ID	ZACCARLM
								Invoice	202115
PV	42172351	03/25/09	Bob Nelson Associates Inc	4349653	42549400 W	6,538.81		P	
			INV# 202111	Batch Date 03/25/09				User ID	ZACCARLM
								Invoice	202111
JE	230329	03/31/09	RECLS RATE CASE EXP TO 182000	4359640	42549400 W	2,499.74		P	
			RCLS RC EXP	Batch Date 04/07/09				User ID	PETERMMT
PV	42181266	03/31/09	Marks, Craig A PLC	4352642	42549400 W	14,832.00		P	
			INV# 442	Batch Date 03/31/09				User ID	ZACCARLM
								Invoice	442
PV	42181304	03/31/09	Lewis & Roca LLP	4352642	42549400 W	1,013.50		P	
			INV# 877141	Batch Date 03/31/09				User ID	ZACCARLM
								Invoice	877141
PV	42182313	03/31/09	Marks, Craig A PLC	4353048	42549400 W	36.00		P	
			INV# 420	Batch Date 03/31/09				User ID	ZACCARLM
								Invoice	420A
PV	42189074	04/09/09	GDS Associates Inc	4360457	42549400 W	742.50		P	
			INV# 0071129	Batch Date 04/09/09				User ID	SCHAFFCE
								Invoice	0071129
CC	5840	04/16/09	MOODY'S QUICK	4363335	42549400 W	20.60		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID	ZACCARLM
CC	5840	04/16/09	MOODY'S QUICK	4363335	42549400 W	20.40		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID	ZACCARLM
CC	5840	04/16/09	STAPLES BUSINE	4363335	42549400 W	793.54		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID	ZACCARLM
CC	5840	04/16/09	STAPLES BUSINE	4363335	42549400 W	337.83		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID	ZACCARLM
CC	5840	04/16/09	MOODY'S QUICK	4363335	42549400 W	20.20		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID	ZACCARLM
CC	5840	04/16/09	MOODY'S QUICK	4363335	42549400 W	20.60		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID	ZACCARLM
CC	5840	04/16/09	BOBBIES CAFE	4363335	42549400 W	20.64		P	
			THOMAS M BRODERICK	Batch Date 04/16/09				User ID	ZACCARLM
CC	5840	04/16/09	MOODY'S QUICK	4363335	42549400 W	26.78		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID	ZACCARLM
CC	5840	04/16/09	MOODY'S QUICK	4363335	42549400 W	26.78		P	
			COURTNEY L APPELHANS	Batch Date 04/16/09				User ID	ZACCARLM

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DT	Document	Date	Explanation	Batch	Subl/WO# .	Debit	Credit	P
CC	5840	04/16/09	TUBAC DELI & COFFEE CO THOMAS M BRODERICK	4363335 Batch Date 04/16/09	42549400 W	14.06		P User ID ZACCARLM
CC	5840	04/16/09	THE FRY BREAD HOUSE THOMAS M BRODERICK	4363335 Batch Date 04/16/09	42549400 W	16.19		P User ID ZACCARLM
CC	5840	04/16/09	THE BREADFRUIT THOMAS M BRODERICK	4363335 Batch Date 04/16/09	42549400 W	40.66		P User ID ZACCARLM
CC	5840	04/16/09	MOODY'S QUICK COURTNEY L APPELHANS	4363335 Batch Date 04/16/09	42549400 W	18.82		P User ID ZACCARLM
CC	5840	04/16/09	MY FLORIST CAFE/NILLO GR THOMAS M BRODERICK	4363335 Batch Date 04/16/09	42549400 W	40.16		P User ID ZACCARLM
CC	5840	04/16/09	AIELLOS THOMAS M BRODERICK	4363335 Batch Date 04/16/09	42549400 W	51.40		P User ID ZACCARLM
CC	5884	04/30/09	AQUARIUS RESERVATIONS CHRISTOPHER C BULS	4369891 Batch Date 04/30/09	42549400 W	34.87		P User ID ZACCARLM
PV	42216842	05/06/09	Brattle Group CL-02361	4374011 Batch Date 05/06/09	42549400 W	10,836.96		P User ID SCHAFFCE Invoice 015567
PV	42216843	05/06/09	Gannett Fleming Companies 049330	4374011 Batch Date 05/06/09	42549400 W	11,281.46		P User ID SCHAFFCE Invoice 04933090316
PV	42216867	05/06/09	AZ Reporting Service Inc 37269	4374011 Batch Date 05/06/09	42549400 W	210.00		P User ID SCHAFFCE Invoice 8861
PV	42216869	05/06/09	AZ Reporting Service Inc 37268	4374011 Batch Date 05/06/09	42549400 W	413.50		P User ID SCHAFFCE Invoice 8871
PV	42216871	05/06/09	AZ Reporting Service Inc 37267	4374011 Batch Date 05/06/09	42549400 W	625.25		P User ID SCHAFFCE Invoice 8869
PV	42216875	05/06/09	AZ Reporting Service Inc 37265	4374011 Batch Date 05/06/09	42549400 W	663.75		P User ID SCHAFFCE Invoice 8867
PV	42216877	05/06/09	AZ Reporting Service Inc 37264	4374011 Batch Date 05/06/09	42549400 W	542.75		P User ID SCHAFFCE Invoice 8865
PV	42216880	05/06/09	AZ Reporting Service Inc 35834	4374011 Batch Date 05/06/09	42549400 W	292.50		P User ID SCHAFFCE Invoice 8863
PV	42216884	05/06/09	Marks, Craig A PLC 2008 MEGA RATE	4374011 Batch Date 05/06/09	42549400 W	31,860.00		P User ID SCHAFFCE Invoice 450
CC	5908	05/07/09	AQUARIUS RESERVATIONS THOMAS M BRODERICK	4375425 Batch Date 05/07/09	42549400 W	34.87		P User ID SCHINDCA
PV	42219859	05/11/09	Gannett Fleming Companies ACCT # 50031656	4376591 Batch Date 05/11/09	42549400 W	290.00		P User ID SCHINDCA Invoice 0493309046
PV	42223138	05/14/09	Bob Nelson Associates Inc INV# 202136	4378193 Batch Date 05/14/09	42549400 W	3,674.78		P User ID SCHAFFCE Invoice 202136
JE	39997	05/20/09	To correct P Card Errors SHERYL L HUBBARD	4380585 Batch Date 05/20/09	42549400 W	35.65		P User ID HOUSEMJL
JE	39997	05/20/09	To correct P Card Errors SHERYL L HUBBARD	4380585 Batch Date 05/20/09	42549400 W	6.43		P User ID HOUSEMJL

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DT	Document	Date	Explanation	Batch	Subl/WO# .	Debit	Credit	P
JE	30883277	05/20/09	BP Account Adjustment	4380974	42549400 W	320,725.51		P
				Batch Date 05/20/09				User ID WRIGHTTP
JE	30883277	05/20/09	BP Account Adjustment	4380974	42549400 W		293,704.57-	P
				Batch Date 05/20/09				User ID WRIGHTTP
CC	5953	05/21/09	MR J'S SNACK BAR INC	4381444	42549400 W	12.82		P
			SHERYL L HUBBARD	Batch Date 05/21/09				User ID SCHINDCA
CC	5953	05/21/09	AIELLOS	4381444	42549400 W	184.35		P
			SHERYL L HUBBARD	Batch Date 05/21/09				User ID SCHINDCA
CC	5953	05/21/09	MR J'S SNACK BAR INC	4381444	42549400 W	8.47		P
			SHERYL L HUBBARD	Batch Date 05/21/09				User ID SCHINDCA
CC	5953	05/21/09	MOODY'S QUICK	4381444	42549400 W	20.60		P
			COURTNEY L APPELHANS	Batch Date 05/21/09				User ID SCHINDCA
CC	5953	05/21/09	AQUARIUS RESERVATIONS	4381444	42549400 W	34.87		P
			SHERYL L HUBBARD	Batch Date 05/21/09				User ID SCHINDCA
CC	5953	05/21/09	MOODY'S QUICK	4381444	42549400 W	20.60		P
			COURTNEY L APPELHANS	Batch Date 05/21/09				User ID SCHINDCA
CC	5953	05/21/09	AQUARIUS RESERVATIONS	4381444	42549400 W		34.87-	P
			THOMAS M BRODERICK	Batch Date 05/21/09				User ID SCHINDCA
CC	5953	05/21/09	AQUARIUS COFFEE CART	4381444	42549400 W	2.59		P
			CHRISTOPHER C BULS	Batch Date 05/21/09				User ID SCHINDCA
CC	5953	05/21/09	OUTBACK	4381444	42549400 W	99.13		P
			CHRISTOPHER C BULS	Batch Date 05/21/09				User ID SCHINDCA
CC	5953	05/21/09	SHOGUN	4381444	42549400 W	47.11		P
			CHRISTOPHER C BULS	Batch Date 05/21/09				User ID SCHINDCA
CC	5953	05/21/09	MOODY'S QUICK	4381444	42549400 W	20.60		P
			COURTNEY L APPELHANS	Batch Date 05/21/09				User ID SCHINDCA
JB	30885177	05/31/09	CP	4389620	42549400 W	1,391.51		P
			23 Expenses	Batch Date 06/04/09				User ID HOUSEMJL
	Units		17.65					
PV	42240785	06/03/09	Marks, Craig A PLC	4388732	42549400 W	15,408.00		P
			INV# 456	Batch Date 06/03/09				User ID SCHAFFCE
								Invoice 456
CC	5999	06/04/09	AQUARIUS FRONT DESK	4389730	42549400 W	11.99		P
			SHERYL L HUBBARD	Batch Date 06/04/09				User ID ZACCARLM
CC	5999	06/04/09	TEXACO	4389730	42549400 W	24.87		P
			SHERYL L HUBBARD	Batch Date 06/04/09				User ID ZACCARLM
CC	5999	06/04/09	AQUARIUS COFFEE CART	4389730	42549400 W	5.23		P
			SHERYL L HUBBARD	Batch Date 06/04/09				User ID ZACCARLM
CC	5999	06/04/09	MOODY'S QUICK	4389730	42549400 W	20.80		P
			COURTNEY L APPELHANS	Batch Date 06/04/09				User ID ZACCARLM
CC	5999	06/04/09	STARBUCKS USA	4389730	42549400 W		13.75-	P
			SHERYL L HUBBARD	Batch Date 06/04/09				User ID ZACCARLM
PV	42241096	06/04/09	Lewis & Roca LLP	4389176	42549400 W	4,460.00		P
			INV# 888549	Batch Date 06/04/09				User ID SCHINDCA
								Invoice 888549
PV	42247344	06/15/09	Marks, Craig A PLC	4393851	42549400 W	2,448.00		P
			INV# 465	Batch Date 06/15/09				User ID SCHAFFCE
								Invoice 465
PV	42247493	06/15/09	Bob Nelson Associates Inc	4393851	42549400 W	211.87		P
			INV# 202144	Batch Date 06/15/09				User ID SCHAFFCE
								Invoice 202144
JE	230601	06/24/09	recls exp to 08 mega rate case	4397989	42549400 W	50,550.92		P
			recls to subledger	Batch Date 06/24/09				User ID RUSSOTL

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PV	42272494	07/16/09	Marks, Craig A PLC	4410639	42549400 W	4,752.00		P
			ARIZONIA AMERIC	Batch Date 07/16/09				User ID SCHINDCA
								Invoice 472
PV	42272518	07/16/09	Lewis & Roca LLP	4410639	42549400 W	691.50		P
			ACCT#49764-0000	Batch Date 07/16/09				User ID SCHINDCA
								Invoice 893231
CC	6179	07/23/09	STAPLES BUSINE	4413588	42549400 W		44.02-	P
			COURTNEY L APPELHANS	Batch Date 07/23/09				User ID ZACCARLM
CC	6179	07/23/09	STAPLES BUSINE	4413588	42549400 W		56.31-	P
			COURTNEY L APPELHANS	Batch Date 07/23/09				User ID ZACCARLM
CC	6179	07/23/09	STAPLES BUSINE	4413588	42549400 W		56.31-	P
			COURTNEY L APPELHANS	Batch Date 07/23/09				User ID ZACCARLM
JE	230705	07/28/09	RECLS WHITE TANKS TO 2008 RC	4415631	42549400 W		.16-	P
			RECLS WHITE TANKS	Batch Date 07/28/09				User ID RUSSOTL
JB	30892518	07/31/09	CP	4422436	42549400 W	487.52		P
			23 Expenses	Batch Date 08/06/09				User ID SHINNDL
	Units		7.75					
RI	10131410	08/12/09	Marks, Craig A PLC	4425162	42549400 W		2,448.00-	P
			Overpayment Vou	Batch Date 08/12/09				User ID PERHACBS
PV	42314410	09/08/09	Lewis & Roca LLP	4439122	42549400 W	152.00		P
			ACCT # 49761-00	Batch Date 09/08/09				User ID SCHAFFCE
								Invoice 897627
PV	42327783	09/24/09	Marks, Craig A PLC	4447395	42549400 W	396.00		P
			2008 MEGA RATE	Batch Date 09/24/09				User ID SCHINDCA
								Invoice 485
						556,310.48	296,357.99-	

---- Account Balances ----

Ledger Total	259,952.49
Unposted	
Year-to-Date	259,952.49
Cumulative	460,303.34

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-6

Q: Please provide a copy of all incentive compensation/bonus plans and provide the level of related bonus payments included in the test year cost of service, and all pro forma adjustments.

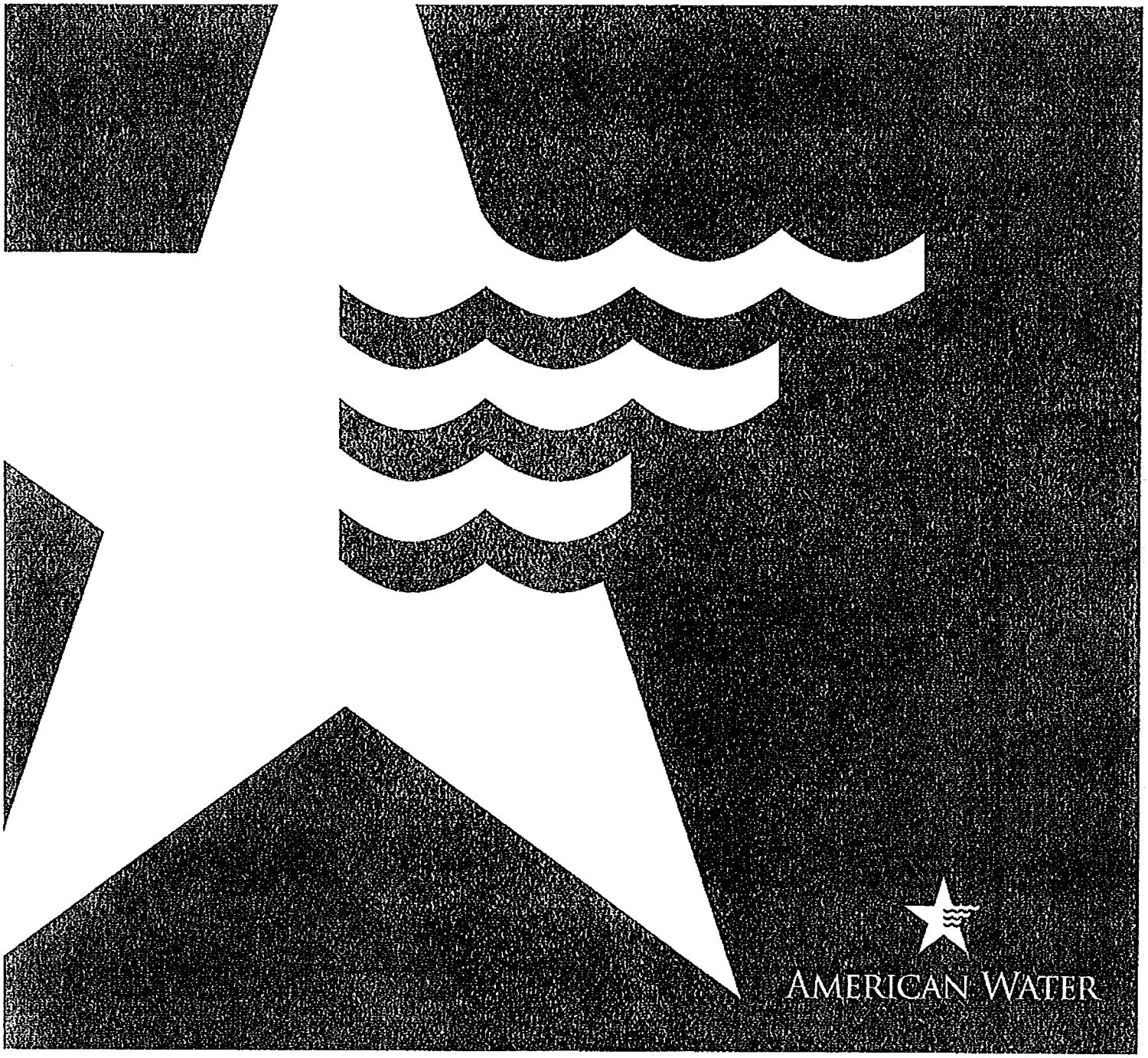
A: Please see the attached 2008 incentive plan brochure labeled RUCO 2-6 AIP 2008 Brochure.pdf. The incentive plan expense included in the test year is listed in the table below. No pro forma adjustments were made to the test year expense.

AIP expense for Arizona American employees recorded to the Arizona Corporate business unit was allocated as follows:

District	Amount
Sun City WW	$35,906
Sun City West WW	30,382
Anthem / Agua Fria WW	58,795
Sun City Water	58,075
Anthem Water	44,560

THE 2008 ANNUAL INCENTIVE PLAN

REWARDING ACHIEVEMENT



2008 American Water Annual Incentive Plan

The 2008 American Water Annual Incentive Plan (AIP) recognizes the opportunity and the accountability we share for achieving our goals. Your accomplishments have helped to build American Water's success to this point, and the AIP will reward you for the contribution you make to the achievement of our 2008 goals.

Who Is Eligible for the 2008 AIP

American Water employees eligible to participate in the 2008 AIP include: (a) all full-time management, professional and technical (exempt from overtime) employees; and (b) all full-time employees who are in a position that is reclassified by American Water from exempt to non-exempt status in 2008.

Eligible employees who join American Water on or before September 30th of a plan year (January 1 – December 31) are also eligible to participate in the plan on a prorated basis. Employees transferred from non-exempt to exempt status on or after September 30th are not eligible in the transfer year.

Individuals who do not meet their individual performance expectations will not be eligible to receive an incentive award. The American Water Board, or its designee for these purposes, reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in certain circumstances.

Your Award Opportunity

All employees eligible for an award will receive written confirmation of their award opportunity from their manager. Awards for all full-time management, professional and technical (exempt from overtime) employees will be based on their salary as of December 31, 2008. Awards for all full-time employees who are in a position that is reclassified by American Water from exempt to non-exempt status in 2008 will be based on their salary as of April 1, 2008.

If you are promoted during the plan year to a position with a higher target level, your bonus plan will be prorated to reflect participation at each award level. Similarly, if you are reclassified to a position with a lower AIP award level, your bonus plan will be prorated to reflect your participation at each award level.

What the Plan Measures

The AIP is designed to reward participants for the performance results they and the Company attain during the plan year. There are three performance components: 'Financial' (Corporate, Divisional/Regional and State), 'Operational' and 'Individual'.

- The **Financial** component is based on Operating Income. The performance level will be determined at the Corporate and Divisional/Regional/State levels. For 2008, more than 85% of the Operating Income target for the entire Company must be achieved before any payment will be made on the Corporate financial component of the Plan (although a payment could be made on the Divisional/Regional/State financial component if the Divisional/Regional/State operating income exceeds 85% of target). In addition, more than 75% of the Corporate Operating Income target must be achieved before any payment will be made on any component of the Plan for the entire Company (including Divisional/Regional/State financial, operational and individual components).

  Operating Income – is defined as earnings before interest, taxes and other non-operating expenses.

  See Attachment A for the 2008 Target Level Achievement Schedule.

  Your AIP letter will provide you with your Company component targets.

- The **Operational** component is based on the following:

  Environmental Compliance (NOV)

  Environmental Compliance is measured by "Notice of Violation" (NOV) count defined as the number of times an official notice is issued by a primacy agency for failure to comply with a federal, state, or local environmental statute or regulation that is covered under the scope of the American Water Environmental Management Policy.

  Safety Performance

  Safety performance will be measured on an OSHA Total Recordable Incident Rate (ORIR) which is defined as the rate of total injuries requiring treatment beyond first aid per 200,000 hours worked. ORIR focuses on total injury reduction which by extension improves Lost Work Day Case Rate (LWCR) and correlates more closely to workers compensation claims and costs. LWCR will remain a personal performance goal for the Operations and Operational Risk Management functions.

  Customer Satisfaction

  Customer Satisfaction is based on the results of the annual Customer Satisfaction Survey (CSS) conducted in the fourth quarter each year through randomly selected customer contacts in each State. This survey will ask our customers "Overall, how satisfied have you been with (Company Name) in general during the past twelve months?" This has a

five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied).

Service Quality

Service Quality is based on the annual results of the Service Quality Surveys (SQS) conducted throughout the year with customers having had recent contact with an AW Customer Service (CSR) or Field Service (FSR) Representative. This survey will ask the customer, "Overall, how satisfied were you with the outcome of your service contact?" having a five point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied), is used to measure performance by evaluating the response percentage total for the top two categories (extremely or very satisfied).

Service Level

- Percentage of calls answered in the Customer Service Center within a certain timeframe.

Quality Measures (Shared Services Center - SSC):

- SSC Error Rate - Number of Financial Statements errors (Annual).
- Reconciliations - Calendar Year Average of accounts beyond policy.
- Timeliness of Processes - Annual percentage of processes conducted according to schedule -Tax Filings, Financial Statements available for consolidation, External Audit information submissions, days to image and process invoices, and Orcom rate changes.

Compliance (Shared Services Center - SSC):

- External Audit Findings - Number of unrecorded differences and topside entries.
- Internal Audit Findings - Number of instances of deviations from policy/procedures during SOX testing.
- External Filing Requirements - Annual Reports and Commission Reports completed by established deadlines for SSC.

- The **Individual** component includes Performance Targets as agreed by you and your manager within the companywide standard performance management process.

  Your AIP letter will provide you with your Company component targets.

How Your Award Is Weighted

Your award opportunity is based on two, three or four performance components (see pages 3 and 4), depending on your role. However, you could earn part of your award based on individual, operational and divisional/regional/state financial components if Corporate

Operating Income is more than 75%. If Corporate Operating Income is 75% or less, no award will be paid on any component.

The portion of your award opportunity you can earn for each component is reflected in weightings assigned to each, based on your role in the organization, as the following charts show. The award has a target and a maximum opportunity.

BUSINESS CENTER 2008			
Level	**Corporate Financial (30%)**	**Individual [1] (70%)**	**Target Opportunity**
L5 – L6	6.00%	14.00%	20%
L7	4.50%	10.50%	15%
L8 – L9	3.00%	7.00%	10%
*L10 – L14	1.50%	3.50%	5%

- **Exempt only**

(1) This component is defined as Target Agreement or Performance Targets.

DIVISION/REGION/STATE 2008					
Level	**Corporate Financial (30%)**	**Divisional/ Regional/ State Financial (10%)**	**Individual [1] (30%)**	**Operational [2] (30%)**	**Target Opportunity**
Financial 30% / Individual/ Operational/ Divisional/ Regional/ State Financial 70%					
L5 – L6	6.00%	2.00%	6.00%	6.00%	20%
L7	4.50%	1.50%	4.50%	4.50%	15%
L8 – L9	3.00%	1.00%	3.00%	3.00%	10%
*L10 – L14	1.50%	0.50%	1.50%	1.50%	5%

- **Exempt only**

(1) This component is defined as Target Agreement or Performance Targets.
(2) This component is defined by Customer Service Center as: 34% Customer Satisfaction; 33% Service Quality; 33% Service Level.

Note that award opportunities for all Business Center (Voorhees) roles will have a mix of Financial and Individual measures, but no Operational component.

Your manager will discuss these with you and confirm in writing the performance measures, weightings and target maximums that apply to you.

SHARED SERVICES CENTER / CUSTOMER SERVICE CENTER 2008				
Level	**Corporate Financial (30%)**	**Individual [1] (35%)**	**Operational [2] (35%)**	**Target Opportunity**
Financial 30% Individual/ Operational 70%				
L5 – L6	6.00%	7.00%	7.00%	20%
L7	4.50%	5.25%	5.25%	15%
L8 – L9	3.00%	3.50%	3.50%	10%
*L10 – L14	1.50%	1.75%	1.75%	5%

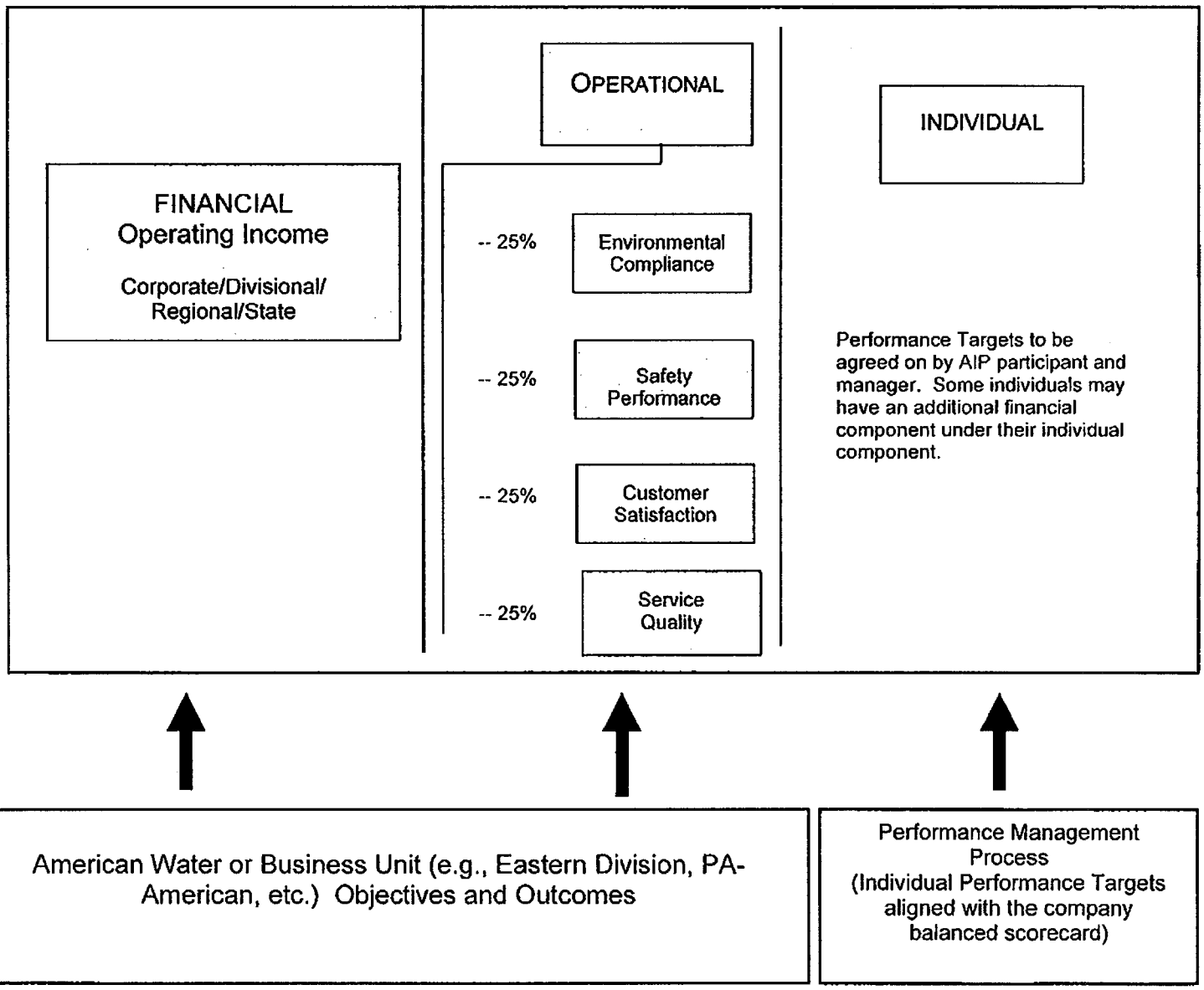
*** Exempt only**

(1) This component is defined as Target Agreement or Performance Targets.
(2) 50% of the Operational component is allocated to Customer Satisfaction/Customer Service Quality.

How the Weightings Come Together

Here is an **example** of how the performance components and their weightings come together. As you can see, the measures within each component are also weighted.

EXAMPLE



Operational

Divisional/Regional/State Operational components are performance measures tied to the American Water objectives. Each component percentage is as follows: Service Quality (25%); Environmental Compliance (NOVs) (25%); Safety Performance (25%); Customer Satisfaction (25%); and Shared Services and Customer Service operational components are described in Attachments B & C.

Operational components are evaluated on a range from 0 to 120%.

Performance You Can Impact

We believe it is essential that you are accountable for, measured on and rewarded for performance that you can directly impact or influence.

You and your manager have agreed on your individual performance targets. These targets should relate back to the performance scorecard for your business unit, division/region/state and should directly reflect your role.

Individual Performance

Individual performance will be assessed using American Water's Performance Management and Development Review (PDR) process. The first section of the PDR form contains a scorecard in which your individual Performance Targets will be documented. You and your supervisor will jointly identify and agree to your individual Performance Targets and relative weightings to be achieved during the year.

In overview, the PDR requires each individual to have 5 Performance Targets. The Performance Targets should be specific and measurable and aligned with the Company performance targets. Each target needs to be evaluated on a range of 0 to 120% according to its importance relative to other targets. In this way excelling at your highest priority target, which has the heaviest weighting, will drive a bigger award. At least one of the targets should be linked to a personal development objective. At the beginning of 2009, a structured performance review will be conducted to determine how well you performed against your targets in 2008. **It will be the Performance Scorecard Summary Rating for these 5 Performance Targets and NOT the "overall" performance rating that will be used for AIP award purposes (see below).**

Annual Performance and Development Review

Name: Location:
Position Title: Appraisal Period:
Performance Ratings: E=Exceeds Expectations, M=Meets Expectations, P=Progressing, D=Does Not Meet Expectations, T=Too Soon To Rate

Double-click here to make selections.

Performance Scorecard

BSC Quadrant	Performance Target	Target Measure	Weight %	Results/ Comments	Emp. Rating	Sup. Rating
Finance						
Customer						
Process						
Employee						

Scorecard Summary Rating (click one box) ☐ Exceeds ☐ Meets ☐ Progressing ☐ Does Not Meet ☐ Too Soon

Performance Category

Each participant in the AIP plan should have 5 performance targets. An assessment should be made of performance against each target. Once evaluated, each individual performance target rating will be added and averaged to determine an overall rating.

Example #1

Performance Target Rating (PT)	AIP Performance Rating	Percentage Amount		Weighting		Subtotal
PT#1 (Meets Expectations)	Target fully achieved	100	x	20%	=	20
PT#2 (Meets Expectations)	Target largely achieved	85	x	20%	=	17
PT#3 (Does Not Meet Expectations)	Target not achieved	0	x	20%	=	0
PT #4 (Progressing)	Target partially achieved	60	x	20%	=	12
PT #5 (Exceeds Expectations)	Target exceeds expectations	120	x	20%	=	24

Take each performance target percentage amount and multiply it by its assigned weight. Add the subtotal numbers = 73 (Individual Weighting Factor) 73% would be used as the INDIVIDUAL weighting factor in the AIP plan.

Example #2

Performance Target Rating (PT)	AIP Performance Rating	Percentage Amount		Weighting		Subtotal
PT#1 (Exceeds Expectations)	Target exceeds expectations	120	x	10%	=	12
PT#2 (Meets Expectations)	Target largely achieved	90	x	20%	=	18
PT#3 (Does Not Meet Expectations)	Target not achieved	0	x	10%	=	0
PT #4 (Progressing)	Target partially achieved	55	x	20%	=	11
PT #5 (Meets Expectations)	Target fully achieved	100	x	40%	=	40

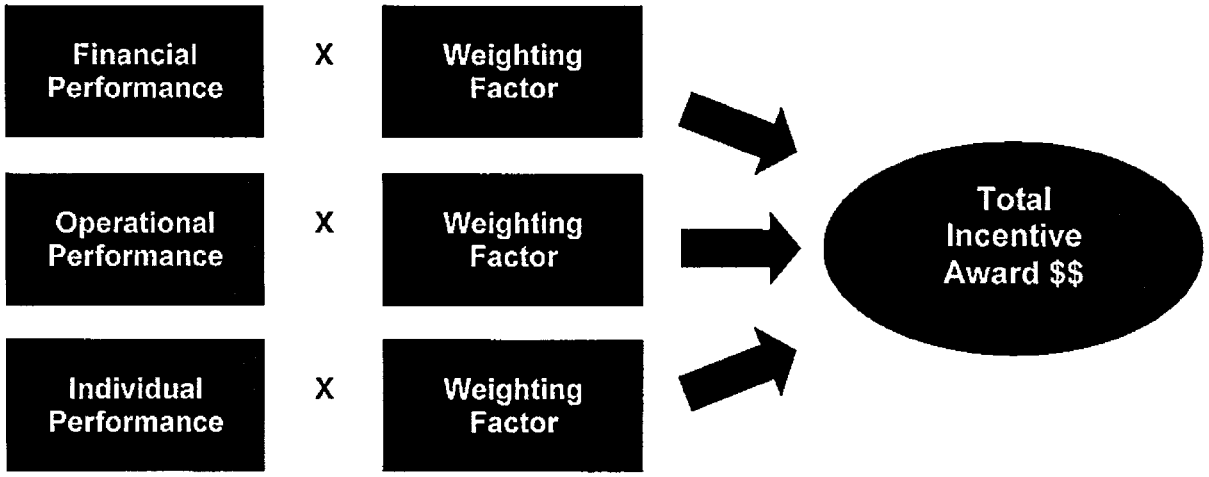
81 would be the subtotal and 81% would be used as the INDIVIDUAL weighting factor in the AIP plan.

2008 Target Rating Scale	
Rating	**Scale**
Exceeds Expectations	101 – 120%
Meets Expectations	
- Target Fully Achieved	100%
- Target Largely Achieved	75 – 99%
Progressing	
- Target Partially Achieved	25 – 74%
Does Not Meet Expectations	0%
- Not Achieved	
Too Soon to Rate	0%

Performance ratings can range from 0% - 120%. The degree of percentage given will be based on the supervisor's assessment of performance on the performance target. The maximum payment you can receive under the Individual component is 120%. This would only be awarded if an individual exceeded all 5 performance targets. This should be used only in cases of exceptional and outstanding performance against a target. If an individual received a "too soon to rate" or "does not meet expectations" on their performance scorecard they would not be eligible for an AIP award.

How Your Payout Is Determined

At the end of the year, the amount for each component is based on performance against each goal within the component and its relative weighting. Here is a simplified way to think of it.



(See example on page 11.)

2008 AIP Payout Example

L9 REGION EXAMPLE:

Target Opportunity is 10% with 30% Corporate Operating Income, 10% Divisional/Regional/State Operating Income, 30% Operational and 30% Individual Components

Financial Performance

Corporate (Operating Income)

Achievement against financial target = 103.000% x 3.000% (Target) =3.090%

Divisional/Regional/State (Operating Income)

Achievement against financial target = 101.000% x 1.000% (Target) =1.010%

Operational Performance

Achievement against operational targets = 97.95% x 3.000% (Target) =2.939%

Individual Performance

Achievement against 5 Performance targets = 98.70% x 3.000% (Target) = 2.961%

Total AIP payable is 3.090% (Corporate Operating Income) + 1.010% (Divisional/Regional/State Operating Income) + 2.939% (Operational) + 2.961% (Individual) is 10.00% of annual base salary of $65,000 or $6,500

Salary	x	AIP Target	equals	Target Payout	Maximum Payout
$65,000		10%		$6,500	$8,580
Corporate Operating Income (30%)				Financial/ Operational/ Individual (70%)	
Corporate Operating Income =3%		Divisional/Regional/State Operating Income =1.00%		Operational Results =3.00%	Individual Performance Targets =3.00%
Target		Target		Target	Target
$1,950		$650		$1,950	$1,950
Actual		Actual		Actual	Actual
$2,009		$657		$1,910	$1,925
Maximum = 150%		Maximum = 150%		Maximum= 120%	Maximum= 120%
$2,925		$975		$2,340	$2,340

Target Bonuses

You will have received a letter which states your target bonus opportunity. Target bonus is defined as the bonus paid at 100% for both financial and individual awards. This means business plan is achieved for the financial and operational element, and the employee has met his/her objectives for the individual element.

The maximum bonus you can receive is 150% of your Financial element (both Corporate and Divisional/Regional/State), 120% of Operational and 120% of your Individual element.

Adjustments for Uncontrollable Events

The financial data included in the appendices has been prepared on the basis of the business plans agreed in 2008, using the assumptions set at that time. As in previous years, the actual results used for assessment may be amended to reflect the impact of events that are not considered to be within the control of local management. Any such amendments will require the explicit approval of the Chief Executive Officer and the Chief Financial Officer, and if material, the Board, whose decision will be final. The following items are those most likely to be considered for amendment:

- Weather conditions having a material impact on the financial results
- The impact of movements in foreign exchange rates
- Disposal/acquisition of businesses not anticipated in the business plan, but subsequently mandated by the Board of Directors
- Goodwill impairments
- Costs related to the public offering

Award Payments

To be eligible to receive an AIP award, you must be actively employed on the date the payment is made. However, in case of disability, retirement, layoff or death during the plan year, a prorated award based on participation in the plan may be payable. Employees who resign or are terminated for cause at any time prior to payment are not eligible.

Awards are usually determined and paid in cash as soon as possible after the release of financial results. Awards are paid by March 15th of the following year. Awards are subject to all federal, state and local income tax withholdings.

If you become eligible to join the AIP during a plan year, any payout for that year will be prorated to reflect your participation in the plan.

The American Water Board, or its designee for these purposes, reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in certain circumstances, such as failing to reach minimum financial goals. Individuals who do not meet their individual performance expectations will not be eligible to receive an incentive award.

Rewarding Achievement

Our AIP goals are challenging, but with your focus and contribution and effective teamwork, they can be achieved. Remember, your individual results do matter; our overall performance is the collective results of all our employees.

It is important that you clearly understand your goals, how we are performing against the goals, and how the AIP works so you know how you personally affect our performance. Be sure to talk to your manager or your local HR representative if you have questions.

This brochure describes the 2008 American Water Annual Incentive Plan. The American Water Board or its Designee, whose decisions will be final and binding, will determine interpretations of the Plan. The Company reserves the right to amend, modify, or discontinue the Plan during the plan year or at any time in the future. Participation in the Plan does not convey any commitment to ongoing employment. If there are any differences between the information contained here and the Plan Document, the Plan Documents will govern.

Attachment A

Company bonus 2008 for American Water will be based on Operating Income. If the Operating Income results are met, the award payout will be based on the following:

Bonus payout curve: Range between 0% and 150%	
% of Operating Income Achieved	% Payout
115%	150%
112%	140%
109%	130%
106%	120%
103%	110%
100% *	100%
97%	80%
94%	60%
91%	40%
88%	20%
85%	0%

* Business Plan Operating Income

Operating Income is defined as earnings before interest, taxes and other non-operating expenses. The bonus payout curve applies to Corporate, Divisional/Regional and State Operating Income.

Attachment B

2008 AIP OPERATIONAL MEASURES & TARGETS

Environmental Compliance

For determining the Environmental Compliance AIP component, American Water will count Notices of Violation for which the Company is responsible as described in the Environmental Non-Compliance reporting Practice. Target allocation of NOV's is as follows: Eastern Division - 8, Western Division - 8, AWE - 4. AW Corporate holds 1 NOV in reserve for a total AW target of 21. For award, if the AW total is at or below the total target of 21 the AIP is awarded to all based on the AW total result. If the total AW target is exceeded the AIP will be evaluated and awarded by the individual Division and AWE target allocations.

Environmental Compliance Award Scale

% of Target	Award
≤ 50%	120%
75%	110%
100%	100%
110%	70%
120%	30%
≥ 130%	0%

Attachment B

Safety Performance

For the OSHA Total Recordable Incident Rate (ORIR), year over year reduction targets are as follows: 2008 - 5%, 2009 - 10%, 2010 - 10%. Performance will be evaluated individually for New Jersey, Pennsylvania, West Virginia, Kentucky, Illinois, Indiana, Missouri, Arizona, California, AWE Contract Operations, AWE Military Services, AWM, and AWE Canada. Performance evaluations will also be made for the following smaller State groupings: 1. Long Island Water Company, Tennessee, Maryland and Virginia (Eastern Division); 2. Ohio, Iowa, Michigan, Texas, New Mexico and Hawaii (Western Division).

ORIR Targets for 2008		
Business Unit	2007 Actual ORIR	2008 AIP Target
AWE	5.61	5.33
AWM	4.07	3.87
Military	6.67	6.34
NE Canadian O&M	4.86	4.62
AWE Total	**5.24**	**4.98**
Kentucky	6.06	5.76
New Jersey	10.38	9.86
Pennsylvania	8.62	8.19
West Virginia	5.8	5.51
LI, MD, TN, VA Consolidated	6.7	6.37
Eastern Total	**8.09**	**7.69**
Illinois	10.59	10.06
Indiana	10.2	9.69
Missouri	11.63	11.05
Arizona	9.11	8.65
California	11.29	10.73
IA, MI, OH, HI, NM, TX Consolidated	7.81	7.42
Western Total	**9.68**	**9.20**
American Water Total	**7.11**	**6.75**

Safety Performance Award Scale

Result	Award
> 20% Reduction from YE 2007	120%
> 10% Reduction from YE 2007	110%
>= 5% Reduction from YE 2007	100%
> 2.5% Reduction from YE 2007	70%
< 2.5% reduction from YE 2007	30%
Increase from YE 2007	0%

Attachment B

Customer Satisfaction

This operational metric measures through a survey the following question, "Overall, how satisfied have you been with (Company Name) in general during the past twelve months", which has a five-point response scale (Extremely Satisfied, Very Satisfied, Somewhat Satisfied, Somewhat Dissatisfied, Very Dissatisfied), response percentages within the top two categories (extremely and very satisfied) are indicative of customer satisfaction levels associated with brand/product/service loyalty and advocacy. Focusing attention in this area will drive both this and overall satisfaction in a positive direction. For 2008 a challenging goal of 70% has been set for customer satisfaction in the top two response categories. Individual State targets will be used except for smaller States who historically have small sample sizes making results somewhat erratic. These States will be grouped by management team structure as follows: MD will be grouped with VA; MI with IN; HI and NM with AZ; and TX with MO.

Note: The top three response category % for this measure (extremely, very & somewhat satisfied) is also a meaningful measure for overall customer satisfaction and correlates to the former AIP metric and goal of 95% for survey question, "Overall, how satisfied are you with the service or services offered by (Company Name)?". While not an AIP metric for 2008, the existing overall customer satisfaction goal of 95% remains as a performance target from the COO and is to be cascaded throughout AW as personal performance targets.

Customer Satisfaction Award Scale

% Achieved	Award
≤ 65%	0%
66%	10%
67%	20%
68%	40%
69%	80%
70%	100%
71%	110%
≥ 72%	120%

Attachment B

Service Quality

The AW goal is to achieve "world class" status of performance system-wide within the next three years (market survey professionals indicate achieving 85% is approaching "world class" status). For 2008, targets will be based on actual 2007 performance levels as follows. For Companies not achieving the 2007 goal of 80%, 2008 is a performance improvement year with the target remaining at 80%. For Companies achieving 80% or better in 2007, 2008 targets are your 2007 final result with a target cap of 85%. These Companies will use a graduated incentive payout scale shown below. Individual State targets will be used except for smaller States who historically have small sample sizes making results somewhat erratic. These States will be grouped by management team structure as follows. MD will be grouped with VA; MI with IN; HI with AZ; and TX with MO.

Service Quality Satisfaction - 2008 Targets		
State	2007 Result	Target
New Jersey	78	80
New York	71	80
West Virginia	80	80
Kentucky	87	85
Tennessee	84	84
Pennsylvania	84	84
Virginia/Maryland	87	85
Indiana/Michigan	86	85
Ohio	85	85
Illinois	80	80
Iowa	86	85
Missouri/Texas	84	84
California	83	83
New Mexico	89	85
Arizona/Hawaii	84	84
American Water	83	

Service Quality Award Scale

2007 Result < 80%		**Target Between 80% & 84%**		**Target = 85%**	
Award	**% Achieved**	**Award**	**% point change from 2007**	**Award**	**Actual % Achieved**
120%	≥ 83%	120%	3%	120%	87%
110%	82%	110%	2%	110%	86%
100%	80%	100%	0%	100%	85%
70%	79%	70%	-1%	70%	83%
30%	78%	30%	-2%	30%	82%
0%	77%	0%	-3%	0%	81%

Attachment C

Operational Parameters for 2008 AIP - Payout Scale and Relative Weighting – Customer Service Centers

I. Relative Weighting

34%	33%	33%

II. Payout Scales

CUSTOMER SATISFACTION		SERVICE QUALITY		SERVICE LEVEL	
% Achieved	Payout (%)	% Achieved	Payout (%)	% Achieved	Payout (%)
See Page 17		See Page 18		< 72%	0%
				72% - <80%	75%
				80%	100%
				>80% - <84%	105%
				84% - < 86%	110%
				86%	120%

Attachment C

Operational Parameters for 2008 AIP - Payout Scale and Relative Weighting -- Shared Services Center

I. Relative Weighting

55%	45%

II. Payout Scales

QUALITY		COMPLIANCE	
% Achieved *	Payout (%)	% Achieved *	Payout (%)
<75%	0%	<75%	0%
75%	25%	75%	25%
80%	50%	80%	50%
85%	75%	85%	75%
90%	100%	90%	100%
95%	110%	95%	110%
100%	120%	100%	120%

* If the percentage achieved is between the range parameters of the scale, the payout percentage will be derived from the actual percentage achieved. For example, if the percentage achieved is 88%, the payout percentage will be 90%.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 3-2

Q: Achievement Incentive Pay (AIP). Refer to the direct testimony of Company witness Paul G. Townsley at page 13. Please provide a breakout, by amount and account, of the test year AIP expense of $475,900 between each of the two water and three wastewater districts that are included in the Company's filing.

A: The amount of the test year Arizona American employees' AIP expense of $475,900 allocated to each of the districts in this case are shown below. The expense was recorded in Account 501711.

District	Annual Expense
Anthem Water	$44,560
Sun City Water	58,075
Anthem / Agua Fria WW	58,795
Sun City Wastewater	35,906
Sun City West Wastewater	30,382

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Miles H. Kiger

Title: Rate Analyst

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 6-1

Q. Payroll/Incentive Pay. Refer to the responses to RUCO 2-6, RUCO 2-87, RUCO 3-2, Schedule C-2, Adjustment No. SLH-1 for all five districts, Company workpaper "AI 08" for each district and the tables below. RUCO 2-6 requested the following:

"Please provide a copy of all incentive compensation/bonus plans and provide the level of related bonus payments included in test year cost of service, and all pro forma adjustments." Emphasis supplied

In response to RUCO 2-6, the Company provided a copy of its 2008 incentive plan, the amounts shown in column B of the table below and also stated the following: *"No pro forma adjustments were made to the test year expense."*

a. Please confirm that the amounts listed in the Company's responses to RUCO 2-6 and RUCO 3-2 are just the "corporate allocation amounts from Account 501711 and that AAWC has included in its request, amounts which include "12/31/2008 recorded" plus the "corporate allocation" amounts in Account 501711, which are shown in columns A, B and C.

Incentive Plan Expense Requested by AAWC: Account 501711

District	12/31/08 Recorded	Corporate Allocation	12/31/08 Actual	Per RUCO 2-6 & RUCO 3-2	Difference
	(A)	(B)	(C)	(D)	(E)
Anthem Water	$ 3,496	$ 44,560	$ 48,056	$ 44,560	$ 3,496
Sun City Water	$ 4,224	$ 58,075	$ 62,299	$ 58,075	$ 4,224
Anthem/Aqua Fria Wastewater	$ -	$ 58,795	$ 58,795	$ 58,795	$ -
Sun City Wastewater		$ 35,906	$ 35,906	$ 35,906	$ -
Sun City West Wastewater	$ 17,753	$ 30,382	$ 48,135	$ 30,382	$ 17,753
Total	$ 25,473	$ 227,718	$ 253,191	$ 227,718	$ 25,473

b. Please explain fully and in detail why the amounts totaling $25,473 were not included in AAWC's responses to RUCO 2-6 and RUCO 3-2 as amounts that AAWC included in the test year including pro forma adjustments.

A: (a) Confirmed. The amounts listed in the Company's responses to RUCO

2-6 and RUCO 3-2 are just the "corporate allocation" amounts from Account 501711. There are district-level amounts from Account 501711 that are also included as part of the Company's request. The district-level amounts match the ones listed in column (A) in the table presented above.

(b) It was an unintentional oversight. The Company did not realize that there were Incentive Plan costs being booked at the district level. Please see Company response to RUCO 6-3.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: **Paul Townsley**
Title: President

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-25

Q: Stock-Based Compensation.

a. List, by amount and account, all stock-based compensation expense charged to the Company during the test year, including but not limited to executive stock options, performance share awards, accruals made pursuant to SFAS 123R and any other stock-based compensation awards that resulted in cost being charged to the Company during the test year.

b. Please provide a description of each distinct stock-based compensation program that resulted in charges to the Company during the test year.

c. List, by amount and account, all stock-based compensation expense in the Company's cost of service for the test year with pro forma adjustments, including but not limited to executive stock options, performance share awards, accruals made pursuant to SFAS 123R and any other stock-based compensation awards that are projected to be charged to the Company during the test year.

d. Please provide a description of each distinct stock-based compensation program that is projected to be included in the charges to the Company during the test year.

A:

a.

Account Number	Description	Amount
501716	Comp – Stock options	$36,693
501717	Comp – Restricted Stock	28,834
501718	Comp – Restricted Stock Units	4,046

b. The plan provides for grants of Non Qualified Stock Options, Company Stock and Stock Units[1] which may have certain restrictions placed upon them. All such grants of stock based compensation are subject to terms and conditions of a Grant Agreement which may include performance requirements or other requirements.

c. Please see response to part a) as actual amounts had no pro forma adjustments.

d. Please see part b.

[1] A Stock Unit means an award of a phantom unit representing a share of Company stock.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Miles H. Kiger

Title: Rate Analyst

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 6-3

Q. Stock-Based Compensation. Refer to the response to RUCO 2-25, Company workpaper "08 A of I-AZ Corp Summary w/ Proformas Distributed to Distri" and the table below. The response to RUCO 2-25 indicated that for Account No. 501717 – Comp-Restricted Stock, the Company recorded a test year amount of $28,834. However, as shown in the table below, the referenced Company workpaper indicated that AAWC recorded a total of $49,751 for the districts that are the subject of this proceeding. Please explain and reconcile this discrepancy. Identify, quantify and explain each reconciling item.

			Anthem Water	Sun City Water	Anthem/Aqua Fria Wastewater	Sun City Wastewater	Sun City West Wastewater	Total
501717	16	Comp Exp-Restricted Stk	$ 9,735	$ 12,688	$ 12,845	$ 7,845	$ 6,638	$ 49,751

A: In the Company's response to RUCO 2-25 the Company accidentally provided only the Service Company portion of stock-based compensation. However, in addition, the Company made a mistake in its statement of stock based compensation for the test year due to an accounting error in the test year. Some stock based compensation was erroneously booked to an AAWC district (instead of the Corporate account) in the test year which is not a part of this case.

The following table breaks down all stock-based compensation in test-year, including the Service Company portion.

Table 1.

Account	Description	Service Co. Portion	AAWC Non-Affiliate Portion	Test Year Total
501716	Comp – Stock Options	$ 36,693	$ 41,909	$ 78,602
501717	Comp – Restricted Stock	$ 28,834	$ 103,974	$ 132,808
501718	Comp – Restricted Stock Units	$ 4,046	$ 43,232	$ 47,278
				$ 258,688

The next table breaks down the portion of stock-based compensation allocated to the districts in the test year.

Table 2.

District	4 Factor Percentage	Portion of Stock Based Comp
Anthem Water	9.363%	$ 24,222
Sun City Water	12.203%	$ 31,568
Anthem/Agua Fria Wastewater	12.354%	$ 31,959
Sun City Wastewater	7.545%	$ 19,517
Sun City West Wastewater	6.384%	$ 16,515
	47.850%	**$ 123,782**

The referenced amount of $28,834 in the question above relates to the Service Company portion of Restricted Stock (as can be seen in Table 1) and the referenced amount of $49,751 relates to the allocated portion of Restricted Stock from Non-Affiliates (47.85% of $103,974, from Table 1).

Thus for Comp – Stock Options the Company had $37,611 in expense (47.85% of $78,602). Similarly for Comp - Restricted Stock, and Comp – Restricted Stock Units, the Company had $63,548 and $22,623 in expense, respectively. These amounts include the Service Company portion of stock-based compensation.

Because the Company did not include any allocation of AAWC non-affiliate Comp – Stock Options or Comp – Restricted Stock Units in its filing request (due to the aforementioned accounting error), it will update its case consistent with these changes in its rebuttal testimony.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-52

Q: Pension Expense. Please reconcile the amount of pension expense in the test year to the most recent actuarial reports concerning the determination of the net periodic benefit cost for each pension plan in which the Company employees participate. Identify, quantify and explain each reconciling item.

A: The pension expense in the test year is based upon the funding requirement for the upcoming year based upon the actuarial report of Towers Perrin. See response to data request number RUCO 2-96 for explanations. A copy of the Plan is attached as RUCO 2-52 – AW 2009 Pension Qualified Plan Report.pdf.

American Water Works Company, Inc.
Pension Plan

Actuarial Valuation Report

Pension Cost for Fiscal Year Ending December 31, 2009

Employer Contributions for Plan Year Beginning July 1, 2008

March 2009

This report is confidential and intended solely for the information and benefit of the immediate recipient thereof. It may not be distributed to a third party unless expressly allowed under the "Actuarial Certification, Reliances and Distribution" section herein.

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Financial Results

This report summarizes financial results for American Water Works Company, Inc. ("American Water" or AW") Pension Plan based on actuarial valuations as of January 1, 2009 and January 1, 2008 for determination of pension accounting cost, and valuations as of July 1, 2008 and July 1, 2007 for determination of plan contributions.

FAS 87 Pension Cost[1]	**January 1, 2009**	**January 1, 2008**
Amount	$ 81,116,478	$ 39,625,996
FAS 87 Funded Position		
Accumulated benefit obligation [ABO]	$ 866,421,615	$ 772,542,892
Projected benefit obligation [PBO]	993,097,131	893,123,743
Fair value of assets [FV]	513,283,024	627,988,678
Overfunded (underfunded) PBO	(479,814,107)	(265,135,065)
PBO funded percentage [FV ÷ PBO]	51.7%	70.3%
Employer Contributions	**July 1, 2008**	**July 1, 2007**
Minimum funding requirement	$ 64,177,894	$ 75,996,105
Remaining cash requirement (assuming sponsor elects full use of available credit balance)	64,177,894	75,996,105
Maximum deductible contribution[2]	737,279,013	673,880,639
ERISA Funded Position		
Funding target [FT]	$ 812,174,413	$ 801,432,166[4]
Actuarial value of assets [AVA]	634,664,895	591,972,484
Net actuarial value of assets [NAVA][3]	631,285,122	N/A
Funding shortfall/(excess assets) [FT – NAVA]	180,889,291	N/A
Actuarial value of asset as a percentage of funding target	78.1%	73.9%[4]
Funding target attainment percentage	77.7%	N/A

(1) All FAS 87 results shown in this report were prepared before application of purchase accounting due to the sale of American Water to RWE.

(2) Estimated amount, pending issuance of Treasury/IRS guidance.

(3) Net actuarial value of assets is equal to the actuarial value of assets less the Plan's total credit balance.

(4) Results for 2008 are based on the plan's current liability.

FAS 87 Pension Cost and Funded Position

Pension cost is the amount recognized in AW's financial statement as the cost of the pension plan and is determined in accordance with Financial Accounting Standard No. 87. The Fiscal 2009 pension cost for the plan is $81,116,478, or 26.1% of covered pay.

Under FAS 87, as amended by FAS 158, the projected benefit obligation (PBO) funded status of each pension plan at the plan's measurement date is required to be reported as an asset (for overfunded plans) or a liability (for underfunded plans). The PBO is the actuarial present value of benefits attributed to service rendered prior to the measurement date, measured using expected future pay increases for pay-related plans. The plan's underfunded PBO as of January 1, 2009 was $479.8 million, based on the fair value of plan assets of $513.3 million and a PBO of $993.1 million.

Fiscal year-end financial reporting and disclosures are prepared before detailed participant data and the full valuation results are available. Therefore, the December 31, 2008 postretirement benefit asset (liability) was derived from the July 1, 2008 valuation results. The 2009 financial reporting information will be developed based on the results of the July 1, 2008 valuation, rolled forward to the end of 2008 and adjusted for the year-end discount rate and asset values, as well as significant changes in plan provisions and participant population.

Change in Pension Cost and Overfunded (Underfunded) PBO

The pension cost increased from $39,625,996 in fiscal 2008 to $81,116,478 in fiscal 2009 and the underfunded PBO increased from $(265,135,065) on January 1, 2008 to $(479,814,107), as set forth below:

	Pension Cost	Funded Position
Prior year	$ 39,625,996	$ (265,135,065)
Change due to:		
▸ Expected based on prior valuation	(2,982,015)	42,493,168
▸ Loss (gain) from noninvestment experience	1,762,793	(16,002,728)
▸ Loss (gain) from asset experience	37,809,962	(209,099,734)
▸ Assumption changes	4,899,742	(32,069,748)
▸ Plan amendments	0	0
Current year	$ 81,116,478	$ (479,814,107)

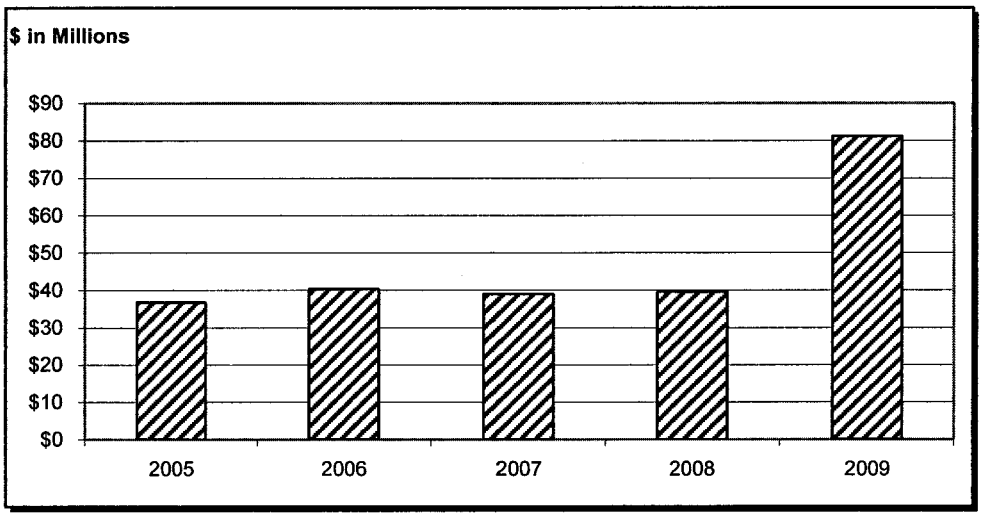
Significant reasons for these changes include the following:

- The return on the fair value of plan assets since the prior measurement date was less than expected, which increased the underfunded PBO and increased pension cost.
- The assumed rate of future salary increases was lowered by 25 basis points, which decreased pension cost and decreased the underfunded PBO.
- The overtime assumption for union participants and nonunion, nonexempt participants was increased, which increased the underfunded PBO and decreased pension cost.
- The discount rate for benefit obligations was changed from 6.27% to 6.12%, which increased pension cost and increased underfunded PBO.
- Minor losses from what was assumed for plan demographics occurred, which increased pension cost and increased underfunded PBO.

History of Pension Cost

The following chart shows the history of the plan's pension cost.

History of Pension Cost



History of Pension Cost

Fiscal year	Amount	Percent of covered pay	Discount rate
	-------Pension cost-------		
2009*	$ 81,116,478	26.1%	6.12%
2008*	39,625,996	13.4	6.27
2007*	38,968,697	13.5	5.90
2006	40,327,960	16.7	5.65
2005	36,845,672	15.5	6.00

* All values on or after 2007 reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

Employer Contributions and ERISA Funded Position

Under the Pension Protection Act of 2006 (PPA), the funded position is measured by comparing the actuarial value of assets, reduced by the plan's credit balance, with the funding target. The amount by which the funding target exceeds the net actuarial value of assets is the plan's funding shortfall. If the net actuarial value of assets exceeds the funding target, the difference is the plan's excess assets. The actuarial value of assets is an average of the fair market value over a three-month period, adjusted for contributions and disbursements. The funding target is the present value of benefits accrued or earned as of the valuation date. The target normal cost is the present value of benefits expected to be earned during the plan year. Plans that do not meet certain funded status criteria are considered to be at-risk and are required to use specific actuarial assumptions, and in some cases additional loads, that will generally increase the funding target and target normal cost.

The plan's funding shortfall is $180,889,291 as of July 1, 2008. The plan's actuarial value of assets, including the credit balance, is 78.1% of the funding target as of July 1, 2008. This percentage is based on an actuarial value of assets of $634,664,895 and a funding target of $812,174,413.

The minimum funding requirement under the PPA is generally equal to the target normal cost plus amortization of the plan's funding shortfall and any funding waivers. For overfunded plans, the minimum funding requirement is reduced by the amount of the plan's excess assets. The minimum funding requirement for 2008 is $64,177,894, or 20.6% of covered pay.

Plan sponsors that have in the past contributed more than the minimum may have a credit balance. Sponsors can elect to apply the plan's credit balance to offset the minimum funding requirement if certain other requirements are met.

Because the plan does not meet these requirements, the plan's credit balance of $3,379,773 as of July 1, 2008 may not be used to offset the minimum funding requirement during this plan year. The credit balance may, by plan sponsor election on or before June 30, 2009, be forfeited or, alternatively, carried forward and potentially used in future years.

The maximum deductible contribution under the PPA is generally equal to 150% of the funding target, plus the target normal cost, plus an allowance for future pay or benefit increases, less the actuarial value of assets. For plans that are not at-risk, the deductible limit will not be less than the unfunded funding target plus the target normal cost, both determined as if the plan were at-risk. For all plans, the deductible limit will not be less than the minimum funding requirement. Pending issuance of Treasury/IRS guidance, the estimated maximum deductible contribution for the plan is $737,279,013.

Timing of Contributions

If a plan has a funding shortfall for the current plan year, quarterly contributions will be required in the following plan year. Because the plan has a funding shortfall, quarterly contributions for the 2008 plan year are required. The required amount is $14,440,026, due on or before each of October 15, 2008, January 15, 2009, April 15, 2009, and July 15, 2009.

Funding Policy

American Water's funding policy is to contribute an amount equal to the minimum required contribution under ERISA. American Water may increase its contribution above the minimum if appropriate to its tax and cash position and the plan's funded position. American Water makes plan contributions each plan year in four installments, one in August, one in November, one in February, and one in May, which, in total, suffice to cover the minimum funding requirement for the plan year, and, individually, suffice to cover the quarterly requirements in October, January, April, and July respectively of each plan year.

Plan year contributions were made in the amounts of $15,000,000 during August of 2008, $15,000,000 during November of 2008, and $17,100,000 during February of 2009. Additionally, $17,100,000 is expected to be funded during May of 2009.

Benefit Limitations

Under the PPA, a plan may become subject to various benefit limitations if its funded status falls below certain thresholds. Plan amendments that increase benefits are prohibited if the effect of the amendment would be to reduce the adjusted funding target attainment percentage (AFTAP) below 80%. Benefit accruals must cease and shutdown benefits are prohibited if the AFTAP falls below 60%. To avoid these benefit limitations, a plan sponsor may either contribute certain additional amounts for the current plan year or provide security outside the plan.

Plans are prohibited from paying lump sums or other accelerated forms of distribution if the AFTAP is below 60%, and only reduced amounts are allowed to be paid if the AFTAP is between 60% and 80%.

The AFTAP for 2008 is 77.7% as of July 1, 2008.

However, per American Water's legal counsel, American Water is considered a collectively bargained plan and as such is exempt from potential benefit restrictions until the plan year beginning July 1, 2010.

PBGC Reporting Requirements

For plan years beginning after 2006, the PPA eliminated the PBGC participant notification requirements for plans that are required to pay a PBGC variable premium and have a funded percentage below a specified "gateway" percentage. For plan years beginning in 2008, all defined benefit plans subject to Title IV of ERISA are required to issue annual funding notices (due 120 days after the end of the plan year).

With respect to reporting years beginning before 2008, additional financial and actuarial information must be provided to the PBGC if, at the end of the year, all defined benefit plans within the controlled group have an unfunded vested liability of $50 million or more using assumptions mandated by the PBGC.

As of year end 2007, unfunded vested liabilities for all defined benefit plans within the controlled group were more than $50 million. Consequently, additional financial and actuarial information was provided to the PBGC.

For reporting years beginning after 2007, the PPA changed the $50 million threshold. A filing will now be required if the funding target attainment percentage (FTAP) for the year is less than 80% for any plan

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Asset Values

Asset Values for Calculating Pension Cost and Funded Position

Fair value (excludes contributions receivable):	
► As of January 1, 2008	$ 627,988,678
► Contributions	76,000,000
► Disbursements	(30,666,719)
► Investment return	(160,038,935)
► As of January 1, 2009	$ 513,283,024
► Rate of return	(24.6)%
Market-related value:	
► As of January 1, 2008	$ 627,988,678
► As of January 1, 2009	513,283,024
► Rate of return	(24.6)%

Asset Values for Calculating Employer Contributions

Market value (includes contributions receivable):	
► As of July 1, 2007	$ 613,302,064
► Contributions	76,631,850
► Disbursements	(32,132,123)
► Investment return	(41,917,693)
► As of July 1, 2008	$ 615,884,098
► Rate of return	(6.6)%
Actuarial value:	
► As of July 1, 2007	$ 591,972,484
► As of July 1, 2008	634,664,895
► Rate of return	(0.5)%
► Rate of return (assuming mid-year cash flow) for Schedule SB of form 5500	(0.5)%

Basic Results for Pension Cost and Funded Position

	January 1, 2009	January 1, 2008
Service Cost	$ 28,170,353	$ 25,892,330
Obligations		
Accumulated benefit obligation [ABO]:		
▸ Participants currently receiving benefits	$ 330,657,804	$ 305,427,668
▸ Deferred inactive participants	79,646,589	77,443,963
▸ Active participants	456,117,222	389,671,261
Total ABO	$ 866,421,615	$ 772,542,892
Obligation due to future salary increases	126,675,516	120,580,851
Projected benefit obligation [PBO]	$ 993,097,131	$ 893,123,743
Assets		
Fair value [FV]	$ 513,283,024	$ 627,988,678
Unamortized investment losses (gains)	0	0
Market-related value	$ 513,283,024	$ 627,988,678
Funded Position		
Overfunded (underfunded) PBO [FV – PBO]	$ (479,814,107)	$ (265,135,065)
PBO funded percentage [FV ÷ PBO]	51.7%	70.3%
Amounts Not Yet Recognized in Net Periodic Cost		
Net actuarial loss (gain)	$ 423,099,577	$ 171,339,010
Prior service cost (credit)	2,605,296	3,312,817
Total	$ 425,704,873	$ 174,651,827
Prepaid (accrued) pension cost as of January 1	(54,109,234)	(90,483,238)
Key Economic Assumptions		
Discount rate	6.12%	6.27%
Rate of return on assets	7.90%	7.90%
Salary increase rate	4.00%	4.25%

Pension Cost

	Fiscal 2009	Fiscal 2008
Pension Cost		
Service cost	$ 28,170,353	$ 25,892,330
Interest cost	61,493,551	56,675,301
Expected return on assets	(42,224,081)	(51,701,245)
Amortization:		
► Transition obligation (asset)	0	0
► Prior service cost (credit)	707,521	707,521
► Net loss (gain)	32,969,134	8,052,089
Pension cost	$ 81,116,478	$ 39,625,996
Percent of covered pay	26.1%	13.4%
Per active participant	$ 16,626	$ 7,842

Minimum Required Employer Contribution

	July 1, 2008	July 1, 2007
Minimum Required Employer Contribution		
Target normal cost	$ 33,967,724	N/A
Net shortfall amortization charge	30,210,170	N/A
Waiver amortization charge	0	N/A
Excess assets	0	N/A
Minimum funding requirement	$ 64,177,894	N/A
Available credit balance	0	N/A
Final cash requirement*	64,177,894	$ 75,996,105
Percent of covered pay	20.6%	25.8%
Per active participant	$ 13,154	$ 15,040

Additional details regarding the calculation of the minimum required employer contribution may be obtained from the Form 5500 Schedule SB filings and attachments.

* Note that the plan does not meet the requirements which would otherwise allow for optionally electing to use credit balance to reduce the minimum cash funding requirement for the plan year beginning July 1, 2008.

Maximum Deductible Employer Contribution

	July 1, 2008	July 1, 2007
Basic Funding Limit		
Funding target	$ 812,174,413	N/A
Target normal cost	33,967,724	N/A
Statutory cushion amount	525,801,771	N/A
Basic funding limit	$ 1,371,943,908	N/A
Maximum Deductible Employer Contribution		
Maximum funding limit	$ 1,371,943,908	N/A
Actuarial value of assets	634,664,895	N/A
Preliminary maximum contribution	$ 737,279,013	N/A
Minimum funding requirement	64,177,894	N/A
Maximum deductible contribution	$ 737,279,013*	$ 673,880,639
Percent of covered pay	237.1%	228.5%
Per active participant	$ 151,113	$ 133,362

* Estimated amount, pending issuance of Treasury/IRS guidance

The following union groups are excluded from this benefit freeze provision:

- Union employees at Sterling or Alton, Illinois
- Union employees at Pensacola, Florida
- Union employees as of January 15, 2002 who were included in the Citizens Utility acquisition
- Elizabethtown Water Company employees of Local 423 hired before April 1, 2006 or Local 68 hired before May 1, 2006

Note: Years of service for purposes of determining eligibility for benefits (vesting, disability, early retirement and preretirement death benefits) continue to accrue for all union participants whose benefits are frozen as of December 31, 2005.

(n) Recent acquisitions — service credit from dates shown below:

Location	Date
Country Place Water	June 30, 1995
Hawaii American Water	July 1, 1998
City of Florissant, MO (nonunion employees)	November 1, 2001
Texas American Water	July 1, 2002
City of Webster Groves, MO	February 8, 2002
LP Water and Sewer Company (nonunion employees)	April 3, 2002

3. Eligibility for Participation: Each employee commences participation on the first day of the calendar month next following completion of one Year of Service. The following groups of employees are not eligible to participate in the plan:

   (a) Nonunion employees hired or rehired on or after January 1, 2006

   (b) Union employees hired or rehired on or after January 1, 2006 (April 1, or May 1, 2006 for employees of Elizabethtown Water unions 423 and 68 respectively)

   (c) Any employee who was not eligible to accrue a benefit as of January 1, 2006 (with noted exceptions for certain union groups).

4. Benefits:

   (a) Normal Retirement Benefit:

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: **Jim Bozman**
Title: Senior Financial Analyst

Address: 131 Woodcrest Road
Cherry Hill, NJ 08003-3620

Company Response Number: RUCO 2-95

Q: Please provide all documents showing the performance of the defined benefit pension plan in 2009.

A: Attached is the most recent (Q3) report from our investment advisor Callan. Page 16 provides a performance summary for various ending periods and includes information on all pension amounts from various funds by each asset class.

The last four pages of the report are confidential and proprietary to Callan and have been eliminated. It is a list of managers that do business with Callan and does not impact the nature of the question.

As displayed on page 16, the total return year-to-date 2009 is 20.34%.

Callan Associates Inc.
Investment Measurement Service
Quarterly Review

American Water Works Company
Pension Plan
September 30, 2009

The following report was prepared by Callan Associates Inc. ("CAI") using information from sources that include the following: fund trustee(s); fund custodian(s); investment manager(s); CAI computer software; CAI investment manager and fund sponsor database; third party data vendors; and other outside sources as directed by the client. CAI assumes no responsibility for the accuracy or completeness of the information provided, or methodologies employed, by any information providers external to CAI. Reasonable care has been taken to assure the accuracy of the CAI database and computer software. In preparing the following report, CAI has not reviewed the risks of individual security holdings or the compliance/non-compliance of individual security holdings with investment policies and guidelines of a fund sponsor, nor has it assumed any responsibility to do so. Copyright 2009 by Callan Associates Inc.

CAI

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Investment Manager Returns

The table below details the rates of return for the Sponsor's investment managers over various time periods ended September 30, 2009. Negative returns are shown in red, positive returns in black. Returns for one year or greater are annualized. The first set of returns for each asset class represents the composite returns for all the fund's accounts for that asset class.

Returns for Periods Ended September 30, 2009

	Last Quarter	Last 3/4 Year	Last Year	Last 3 Years	Last 5 Years
Large Cap Equity	**15.63%**	**19.43%**	**(6.73%)**	**(5.35%)**	**1.02%**
Vanguard Inst. Index Fund	15.63%	19.43%	(6.73%)	(5.35%)	1.02%
S&P 500	15.61%	19.26%	(6.91%)	(5.43%)	1.02%
Small Cap Equity	**21.41%**	**32.26%**	**(2.00%)**	**(2.03%)**	**4.15%**
Eagle Asset	19.41%	32.25%	-	-	-
Fisher	23.49%	32.24%	-	-	-
Russell 2000 Index	19.28%	22.43%	(9.55%)	(4.57%)	2.41%
International Equity	**18.11%**	**23.68%**	**0.73%**	**(4.68%)**	**5.53%**
Pyramis	18.47%	24.72%	-	-	-
Principal	17.75%	22.66%	-	-	-
MSCI EAFE Index	19.47%	28.97%	3.23%	(3.60%)	6.07%
Domestic Fixed-Income	**4.78%**	**12.35%**	**7.78%**	**3.71%**	**4.03%**
Evergreen Core Bond	11.04%	16.76%	16.24%	5.56%	4.78%
Custom Benchmark*	3.74%	5.72%	10.56%	6.41%	5.08%
John Hancock	3.41%	15.36%	0.17%	4.33%	5.41%
BC Govt/Credit Bd	4.16%	4.74%	11.46%	6.25%	4.92%
BC Agg	3.74%	5.72%	10.56%	6.41%	5.13%
Principal Group	9.23%	18.91%	10.88%	-	-
Total Fund	**13.88%**	**20.34%**	**4.26%**	**0.11%**	**3.73%**
Total Fund w/o John Hancock	16.22%	22.20%	5.67%	-	-
Total Fund Target	13.65%	19.18%	3.00%	0.29%	3.90%

* Current Quarter Target = 36.0% S&P 500 Index, 30.0% BC Aggregate Index, 22.0% MSCI EAFE Index and 12.0% US Small Cap 1750 Index.
* Custom benchmark is BC Govt/Credit up until 09/30/2005 and BC Agg thereafter.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Thomas M. Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-60

Q: AzAWC pension and OPEB expense.

a. Provide the amount of actual expense AzAWC recorded for pensions each year from 2004 through 2009.

b. Provide the amount of actual expense AzAWC recorded for OPEBs each year from 2004 through 2009.

c. Provide the amount of actual AWWSC charges to AzAWC for OPEBs each year from 2004 through 2009.

d. Has any examination ever been conducted regarding whether and how AzAWC's funding for pensions and OPEBs has minimized costs? If not, explain fully why not. If so, please identify how this was done, and provide a copy of all Documents.

e. Has AzAWC ever examined converting its defined benefit pension plan to some other type of retirement benefit in order to help control costs? If not, explain fully why not. If so, please identify how this was done, and provide a copy of all Documents.

A:

a. Pension

2004	2005	2006	2007	2008
$146,893	$317,798	$1,013,141	$903,222	$1,734,561

b. OPEBs

2004	2005	2006	2007	2008
$73,823	$63,196	$74,032	$62,603	$75,723

c. Please see response to question RUCO 2-59 a & b.

d. Please Company response to RUCO 2-59c.

e. Please see Company response to RUCO 2-59d.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Tom Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-43

Q: Please identify the amounts included in cost of service during the test year from each affiliated company, including but not limited to the American Water Works Service Company for the following items:

a. Membership dues in service, social and professional organization (identify);

b. Lobbying expenses;

c. Charitable contributions;

d. Investor relations expenses;

e. Public relations expense, including an explanation of the nature and purpose of the activities, and

f. Advertising expenses broken down by categories including project, marketing, corporate, institutional, informational, etc.

g. Business development.

h. Executive compensation.

A:

a. See attachment labeled RUCO 2-43a Membership Dues.xls.

b. There were no lobbying expenses charged to Arizona by affiliates during the test year period.

c. See attachment labeled RUCO 2-43c Charitable Contributions.xls.

d. Investor relations expenses for the test year were $19,172.

e. See attachment labeled RUCO 2-43e Public Relations.xls.

f. See attachment labeled RUCO2-43f Advertising.xls.

g. Business development expenses for the test year were $101,395.

h. Please see response to data request number RUCO 2-25.

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Service Company - 12 months ended December 2008

Response to Data Request No. RUCO 2-43 (a)

Account 575240 - Company Dues & Memberships Deductible

Account	Vendor	Amount
575240	ACTEVA Event Registration	2
575240	AICPA	27
575240	American Bar Association	12
575240	American Water Works Association	12
575240	AMTRACK	4
575240	Association of Certified Fraud Examiners	7
575240	Association of Corporate Counsel	108
575240	Corporate Executive Board	1,034
575240	DELTA AIR	21
575240	Dun & Bradstreet Inc	119
575240	Grandview NTP Media	5
575240	Information Systems Audit and Control Assoc	17
575240	Institute for Supply Mgmt	29
575240	Institute of Certified Management Accountants	8
575240	National Investor Relations Institute	26
575240	NJ Lawyers Fund	9
575240	NJ Society of CPA's	5
575240	Propurchaser.com Inc	79
575240	REASON MAGAZINE	1
575240	SALARIESREVIEW.COM	7
575240	Six Sigma Academy International	37
575240	Society for Human Resource Mgmt	7
575240	State of NJ Board of Accountancy	4
575240	The State Bar of California	212
575240	USAIRWAYS	9
575240	Misc & Adjustments	530
575240 Total		**2,331**

Account 575241 - Company Dues & Memberships Non-Deductible

Account	Vendor	Amount
575241	Boston College Center for Corporate Citizenship	862
575241	University Club atop Symphony Towers	524
575241 Total		**1,386**

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Service Company - 12 months ended December 2008

Response to Data Request No. RUCO 2-43 (a)
Account 575242 - Company Dues Deductible American Water Works Association

Account	Vendor	Amount
575242	American Water Works Association	39
575242 Total		39

Account 575280 - Dues & Memberships Deductible

Account	Vendor	Amount
575280	Accuity Inc	(4)
575280	AICPA	17
575280	American Bar Association	195
575280	American Chemical Society	25
575280	American Management Association	10
575280	American Payroll Association	31
575280	American Society for Industrial Security	21
575280	American Society of Microbiology	3
575280	American Society of Training and Development	85
575280	American Water Works Association	83
575280	APICS Association for Operations Management	5
575280	Association for Financial Professionals	18
575280	Association of Certified Fraud Examiners	7
575280	Association of Metropolitan Water Agencies	577
575280	Burton Group Inc	6,129
575280	Business for Social Responsibility	421
575280	Central Coast Human Resources Association	32
575280	Corporate Executive Board	1,633
575280	Dun & Bradstreet Inc	60
575280	Economic Engine	8
575280	Foundation of Cross Connection Control and Hydraulic Resea	46
575280	GANTTHEAD COM	7
575280	Greater Phila Chamber of Commerce	1,057
575280	Growth Association of SW Illinois	6
575280	Harvard Business School	3
575280	Human Resource Management Association	10
575280	Human Resources Certification Institute	5
575280	Information Systems Audit and Control Assoc	28
575280	Institute for Supply Management	6
575280	Institute of Management and Administration	12
575280	International Accounts Payable Association	35
575280	J J Keller & Associates Inc	708
575280	LAWYERS CLUB OF S00 OF	116
575280	Leadership Council	996
575280	Mid Atlantic Employers Association	22
575280	National Association of Corporate Directors	20
575280	National Federation of Agents	37
575280	National Fire Protection Association	14

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Service Company - 12 months ended December 2008

Response to Data Request No. RUCO 2-43 (a)

575280	National Investor Relations Institute	50
575280	National Notary Association	74
575280	National Registered Agents	52
575280	Nat'l Council for Public Private Partnerships	480
575280	NC State Board of CPA Examiners	2
575280	Network Solutions	231
575280	Norex Inc	393
575280	NYS Office of Court Administration	30
575280	Organization Resources Counsel	209
575280	PA Institute of CPA's	31
575280	Penjerdel Employee Benefits & Compensation Assoc	12
575280	Pensacola Area Chamber of Commerce	31
575280	Philadelphia Public Relations	7
575280	Project Management Institute	12
575280	Propurchaser.com Inc	79
575280	Public Relations Society	55
575280	QWIK Prints	31
575280	Ragan Communications Inc	13
575280	Secretary Board of Bar Examiners	35
575280	Society for Human Resource Mgmt	134
575280	SRI Consulting	174
575280	St Louis Post Dispatch -Subscription	10
575280	State Bar of California	172
575280	Strafford Publications	4
575280	The Human Resource PLN	23
575280	The Institute of Internal Auditors	41
575280	The institute of International Accountants	38
575280	THE Minority Supplier Development Council of PA NJ DE	77
575280	The United States Conference of Mayors	1,684
575280	Tri-State Human Resources Management Assoc.	7
575280	Ulico Casualty Co	1
575280	United Communications	13
575280	United States Chamber of Commerce	-
575280	Valley of the Sun Human Resource Association	109
575280	Wall Street Journal	11
575280	Water Environment Federation	5
575280	Water Partnership Council	2,641
575280	World at Work	10
575280	Zoomerang	22
575280	Misc & Adjustments	(4,342)
575280 Total		15,143

Account 575281 - Dues & Memberships Non-Deductible

Account	Vendor	Amount
575281	Misc Purchase Card transactions	52
575281 Total		52

Grand Total Dues & Memberships **18,951**

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Service Company - 12 months ended December 2008

Response to Data Request No. RUCO 2-43 (c)

Account 575140 - Charitable Contributions Deductible

Account	Vendor	Amount
575140	Alton PB & PA Unit #14 - REMIT	47
575140	American Cancer Society	277
575140	American Heart Association	211
575140	Communities in School	86
575140	Greater Phila Chamber of Commerce	211
575140	Johnny Mac's	59
575140	Juvenile Diabetes Research Foundation	211
575140	Los Altos Conquer Education Fund	43
575140	Metro Sports	32
575140	National Hemophilia Foundation	2
575140	National Low Income Energy Con	211
575140	National Multiple Sclerosis Society	43
575140	United Way of Camden County	1,666
575140	United Way of Greater St Louis	579
575140	Water for People - Denver	4,252
575140	Misc & Adjustments	(167)
575140 Total		**7,762**

Account 575141 - Charitable Contributions Non-Deductible

Account	Vendor	Amount
575141	Arts & Business Council of Greater Philadelphi:	742
575141 Total		**742**

Grand Total Charitable Contributions **8,505**

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Service Company - 12 months ended December 2008

Response to Data Request No. RUCO 2-43 (e)

Account 575220 - Community Relations

Account	Vendor	Explanation	Amount
575220	Alton Marketplace Association	2008 Partnership Sponsor	12
575220	Alton Marketplace Association	Mississippi Earthtones Sponsor	11
575220	Alton Symphony Orchestra-REMIT	Sponsor's Table	9
575220	Arts & Business Council of Greater Philadelphi	Business on Call Sponsorship Fee	654
575220	Biz Books, Inc	Print Ad	3
575220	Business & Industry Association	Sponsor's Table	42
575220	California Chamber of Commerce	Sponsor - Business Legislative Conferenc	1,509
575220	Cherry Hill American Little League	Sponsor	20
575220	Creative Co-op LLC	Print Ad	14
575220	FedEx Kinko's (Box 672085)	Bottled Water Transportation	1
575220	Grace Media Services	Print Ad	66
575220	Hawk Transport & Courier Service	Bottled Water Transportation	87
575220	Holly Label Company Inc	Bottled Water Labels	63
575220	Identity Links Inc	American Water Logo Giveaways	252
575220	Jackson Brothers	Catering Earthtones Event	1
575220	Langa Resource Group	American Water Logo Giveaways	30
575220	Metro Sports	Volleyball League Sponsor	11
575220	Piasa Foundation	Contribution	47
575220	Pocono Purewater Inc	Bottled Water	155
575220	River Bend Growth Assoc	Sponsor	72
575220	Ronald Mc Donald House	Event Sponsorship	165
575220	San Diego County Tax Payer Association	Sponsor	1,509
575220	The United States Conference of Mayors	Sponsor's Table	126
575220	WHYY	Gold Table Sponsor	316
575220	YMCA	YMCA-CORP CUP PENSACOLA Sponsc	23
575220	Misc & Adjustments		184
575220 Total Community Relations			**5,380**

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Service Company - 12 months ended December 2008

Response to Data Request No. RUCO 2-43 (f)

Account 575030 - Advertising Expenses

Account	Vendor	Amount	Category
575030	Public Works Financing	594	Corporate
575030	AMER WATER WORK WEB	17	Employment Classifieds
575030	Careerbuilder LLC	769	Employment Classifieds
575030	Jobs2Web	18	Employment Classifieds
575030	Jobs2Web	18	Employment Classifieds
575030	Jobs2Web	54	Employment Classifieds
575030	Rand Consulting Group	121	Employment Classifieds
575030	St Louis Post Dispatch	35	Employment Classifieds
575030	Telegraph -Alton-REMIT	10	Employment Classifieds
575030	Telegraph -Alton-REMIT	18	Employment Classifieds
575030	TMP Worldwide	11	Employment Classifieds
575030	TMP Worldwide	74	Employment Classifieds
575030	TMP Worldwide	76	Employment Classifieds
575030	TMP Worldwide	1,498	Employment Classifieds
575030	Yahoo Hot Jobs	4	Employment Classifieds
575030	Yahoo Hot Jobs	5	Employment Classifieds
575030	Yahoo Hot Jobs	22	Employment Classifieds
575030	Yahoo Hot Jobs	63	Employment Classifieds
575030	Yahoo Hot Jobs	71	Employment Classifieds
575030	AC MOORE ARTS&CRAFT	2	Informational
575030	American Water Works Assoc-AWV	123	Informational
575030	Black EOE Journal	23	Informational
575030	BOXWOODTECH	11	Informational
575030	Creative Co-op LLC	419	Informational
575030	Creative Co-op LLC	431	Informational
575030	Creative Co-op LLC	682	Informational
575030	Creative Co-op LLC	696	Informational
575030	Hispanic Network Magazine	23	Informational
575030	Misc P-Card Transactions	129	Informational
575030	NATIONAL ASSOCIATION OF C	17	Informational
575030	Professional Womens Magazine	23	Informational
575030	Society of Women Engineers NJ	14	Informational
575030	Williams, Kirkpatrick	9	Informational
575030	Hanley Wood LLC	318	Marketing
575030	Hanley Wood LLC	636	Marketing
575030	Naylor LLC	295	Marketing
575030	Identity Links Inc	8	Promotional Items
575030	Langa Resource Group-REMIT	19	Promotional Items
575030	M&N Services LLC	10	Promotional Items
575030	Misc & adjustments	(434)	Misc & adjustments
575030 Total Advertising		**6,930**	

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-91

Q: Refer to Mr. Cole's testimony at page 16.

a. Provide complete details for the 15 year tank painting calculations.

b. Provide all documents relied upon for the 3 percent CPI factor used.

c. Does the Company have any current forecasts of CPI or PPI based inflation? If not, explain fully why not. If so, please provide them.

d. Provide the Company's actual tank painting expense, by district, by year, for the ten year period through 2009. Also indicate which specific tanks were painted in each year, and the cost of painting each tank.

e. Provide complete copies of the TIC inspection reports.

A: a. Mr. Cole's testimony refers to tank maintenance in the Sun City Water District. Please refer to Attachment labeled "RUCO 2-91a Tank Painting Calculation.xls" for details.

b. In the Company's last rate case, Docket Nos. W-01303A-08-0227; SSW-01303A-08-0227, a five year average for the years 2002 – 2007 of the 12 months percentage change in CPI for All Items was calculated at 2.93%. Mr. Cole likely based his 3% factor on that five year average figure. See workpaper labeled "RUCO 2-91b CPI.xls" for that calculation.

c. No. Mr. Cole did not request an updated calculation of the inflation factor for his calculations.

d. Please see attachment labeled "RUCO 2-91d Tank Painting Expenditures.xls" for maintenance detail by district. Invoices are also included in this file.

e. The TIC inspection reports are attached and labeled "RUCO 2-91 TIC Inspection Report – SC WP 1 Tank #1 (05-23-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 1 Tank #2(05-23-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 2Tank #1 (05-22-9).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 2Tank #2 (05-22-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 2 Tank #3 (05-22-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 3 Tank #1 (05-20 & 21-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 3 Tank #2 (05-20 & 21-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 5 Tank #1 (05-22-09).pdf", "RUCO 2-91 TIC

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Sheryl L. Hubbard
Title: Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-91

Inspection Report – SC WP 5 Tank #2 (05-22-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 6 Tank #1 (05-21 & 22-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 6 Tank #2 (05-21-09).pdf", "RUCO 2-91 TIC Inspection Report – SC WP 8Tank #1 (05-20 & 21-09).pdf", and "RUCO 2-91 TIC Inspection Report – SC WP 8 Tank #2 (05-20 & 21-09).pdf".

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Miles H. Kiger/Sheryl L. Hubbard
Title: Rate Analyst/Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 4-1

Q. Affiliate management fee charges. Please refer to the table below (from a recent California American Water rate case) and provide the equivalent actual 2008 information in similar detail that was used as the basis for the amount of National Service Company and Local Service Company charges reflected in AAWC's current Arizona rate case:

2008 Description	As Filed 2008
Operating Expenses - Dollars:	
National Service Company	
Service Company - Belleville Laboratory	302,875
Service Company - Call Center	2,802,618
Service Company - Finance	581,351
Service Company - Human Resources	296,649
Service Company - Information Technology	1,786,495
Service Company - "NSC Functions"	1,489,659
Service Company - Operation / Network	267,594
Service Company - Shared Services	1,141,013
Service Company - Procurement	152,311
Subtotal National Service Company	8,820,565
Local Service Company	3,471,949

A: Please see the attached file labeled "RUCO 4-1 2008 Mgt Fees.xls", which presents AAWC's portion of affiliate management fee charges in a format similar to the one presented in the table above. Furthermore, the Company workpaper "2008 One-Time Adj Mgmt Fees.xls" confirms that the total national and local affiliate management fee charges presented in "RUCO 4-1 2008 Mgt Fees.xls" was used as the basis for all service company adjustments made in AAWC's current filing.

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
2008 Arizona American Service Co. Charges by Office and Function (O&M)

Response to Data Request No. RUCO 4-1

Office	Function	AAWC 2008 O&M Amount	Referenced in California Case
Belleville Lab		202,604	Service Co. - Belleville Lab
Call Center		2,261,581	Service Co. - Call Center
Central Region		34,025	Service Co. - NSC Functions
Corporate	Administration	792,624	Service Co. - NSC Functions
	Audit	60,074	Service Co. - NSC Functions
	Communications	95,820	Service Co. - NSC Functions
	Finance	996,751	Service Co. - Finance
	Human Resources	240,802	Service Co. - Human Resources
	Legal	90,856	Service Co. - NSC Functions
	Operations	171,129	Service Co. - NSC Functions
	Rates & Revenue	87,168	Service Co. - NSC Functions
	Risk Management	102,262	Service Co. - NSC Functions
	Water Quality	79,119	Service Co. - NSC Functions
		2,716,605	
ITS		1,699,939	Service Co. - Information Technology
Northeast Region		13,753	Service Co. - NSC Functions
Shared Service Center		979,417	Service Co. - Shared Services
Southeast Region		37,439	Service Co. - NSC Functions
Supply Chain		145,535	Service Co. - Procurement
Western Region	Administration	692,456	Local Service Company
	Communications	292,909	Local Service Company
	Customer Service	775	Local Service Company
	Engineering	50,588	Local Service Company
	Finance	818,158	Local Service Company
	Human Resources	412,042	Local Service Company
	Legal	402,724	Local Service Company
	Operations	548,196	Local Service Company
	Risk Management	242,738	Local Service Company
	Water Quality	68,650	Local Service Company
		3,529,235	
Total		**11,620,134**	

Note: The terminology "National Service Company" and "Local Service Company" was used in the California case in an attempt to explain the geographic locations of various Service Company employees and functions. The Service Company has employees at several locations to better meet the needs of the operating companies they serve. Arizona-American receives services from Service Company locations that service all operating companies, as well as employees at other sites that serve smaller groups of companies

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
2008 Arizona American Service Co. Charges by Office and Function (O&M)

Response to Data Request No. RUCO 4-1

Office	Function	AAWC 2008 O&M Amount	Service Company Location
Belleville Lab		202,604	National
Call Center		2,261,581	National
Central Region		34,025	Regional
Corporate	Administration	792,624	National
	Audit	60,074	National
	Communications	95,820	National
	Finance	996,751	National
	Human Resources	240,802	National
	Legal	90,856	National
	Operations	171,129	National
	Rates & Revenue	87,168	National
	Risk Management	102,262	National
	Water Quality	79,119	National
		2,716,605	
ITS		1,699,939	National
Northeast Region		13,753	Regional
Shared Service Center		979,417	National
Southeast Region		37,439	Regional
Supply Chain		145,535	National
Western Region	Administration	692,456	Regional
	Communications	292,909	Regional
	Customer Service	775	Regional
	Engineering	50,588	Regional
	Finance	818,158	Regional
	Human Resources	412,042	Regional
	Legal	402,724	Regional
	Operations	548,196	Regional
	Risk Management	242,738	Regional
	Water Quality	68,650	Regional
		3,529,235	
Total		**11,620,134**	
Total National		8,005,682	
Total Regional		3,614,453	
		11,620,134	

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Miles H. Kiger/Sheryl L. Hubbard
Title: Rate Analyst/Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 4-3

Q: Please identify, quantify and explain all expenses included in the Company's filing, by AAWC district, for each of the following types of affiliated Service Company (National, Regional and Local) charges and functions:

Business Development Expense
Corporate Contributions
Legislative Influence Expense
"Non-Departmental" & "NSC Functions" Expense
"Non Departmental" Interest Income and Income Tax
Sales and Marketing Expense
Payroll Reserve
Call Center
Divestiture Support
Depreciation
Interest Income Outside
Interest Cap Lease-AW21
Penalties
Trade Shows
Injuries and Damages
Relocation
Research & Development
Advertising
Contract Services-Legal
Contract Services-Litigation
Contract Services-Other
Expat Labor
Incentive Plan
Long Term Incentive Plan
Retention/Completion
Group Insurance
Expat Group Insurance
PBOP
Pension
Expat Pension
Corporate PBOP Adjustment
Corporate Pension Adjustment
Employee Expenses
Conferences & Registrations

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Miles H. Kiger/Sheryl L. Hubbard
Title: Rate Analyst/Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 4-3

A: Please see the attached file labeled "RUCO 4-3 SC Charges-detail.xls". Upon review of Company workpaper "2008 Other Expense Pro Forma Adjustment.xls", a minor error was detected in the calculation of this adjustment. Rather than beginning with the actual test year adjusted Other Expenses related to Service Company Charges (which removes the effect of one-time charges), the adjustment was calculated without removing one-time charges associated with Other Expenses. The effect of this error was to overstate the amount shown on Line 8 of Adjustment MHK-4, Adjust Management Fees for Other Expense Increases by $3,240 (the $170,388 amount should be $167,148). The amount on Line 8 is then allocated to each district using the 4-Factor allocation percentage to determine the district-specific pro forma adjustment, the effect on the overall revenue requirement for the case is only $1,550. All associated schedules and workpapers will be updated to reflect this correction in the rebuttal stage of this case.

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Arizona American 2008 Service Co. Charges by Location and Selected Object Accounts (O&M)

Response to Data Request No. RUCO 4-3

RUCO Line#	Object Account	Obj Acct Description	Belleville Lab National	One Time Expense Removals	Call Center National	One Time Expense Removals	Central Region Regional	One Time Expense Removals	Corporate National	One Time Expense Removals	ITS National	One Time Expense Removals	Northeast Region Regional	One Time Expense Removals	Shared Services National	One Time Expense Removals	Southeast Region Regional	One Time Expense Removals	Supply Chain National
2	575140	Charitable Contributions Deduct			213				7,376										
2	575141	Charitable Contributions Nondeductible							742										
5	690110	FIT-Current	(5,961)		(50,443)		(846)		(88,207)		(74,279)		(144)		(2,854)		(278)		(200)
5	690120	FIT-Prior Year Adjustment	(3,932)		(33,268)		(558)		(58,173)		(48,988)		(95)		(1,882)		(183)		(132)
5	690210	SIT-Current	5		42		1		73		61		0		2		0		0
5	690220	SIT-Prior Year Adjustment	(99)		(834)		(14)		(1,459)		(1,229)		(2)		(47)		(5)		(3)
5	690610	Def FIT-Current	102		859		14		1,502		1,265		2		49		5		3
5	690620	Def FIT-Pr Yr Adjustment	3,927		33,232		557		58,110		48,935		95		1,880		183		132
5	690640	Def FIT-Norm Depreciation	857		7,251		122		12,679		10,677		21		410		40		29
5	690650	Def FIT-Other	4,818		40,772		684		71,296		60,039		117		2,307		225		161
5	690710	Def SIT-Current	(1)		(5)		(0)		(9)		(8)		(0)		(0)		(0)		(0)
5	690720	Def SIT-Pr Yr Adjustment	106		894		15		1,563		1,316		3		51		5		4
5	690750	Def SIT-Other	(42)		(357)		(6)		(624)		(526)		(1)		(20)		(2)		(1)
7	501200	Labor	55,366		1,094,065	(518)	3,847		680,432	(2,991)	615,654	(5,044)	2,815		598,221		9,796	(143)	92,778
10	680110	Depreciation Exp-General	12,985		109,875		1,843		192,132		161,795		314		6,216		606		435
10	680112	Depreciation Exp-Non Utility	6,643		56,210		943		98,290		82,771		161		3,180		310		223
11	710400	Interest Income-Outside	-		-		-		-		-		-		-		-		-
11	710500	Interest Income-Inside	(631)		(5,337)		(90)		(9,333)		(7,859)		(15)		(302)		(29)		(21)
12	810301	Interest Cap Lease-AW02	33,747		42,112		706		73,643		62,011		120		2,382		232		167
13	575640	Penalties Nondeductible	6		54		(114)		1,037		80		0		3		0		0
14	575775	Trade Shows							10,339		(217)								
15	575490	Injuries and Damages			219														
16	575670	Relocation Expenses			1,581		1,323		11,268		3,572				123		167		1
18	575030	Advertising	97		814				5,876				104						
19	533000	Contract Services-Legal	7		5,475				19,472		(2,320)				2,264				
20	533001	Contract Services-Litigation							-										
21	535000	Contract Services-Other	154		180,013	(36,518)	4		673,163	(4,592)	86,545	(4,549)	45		27,326		1		843
23	501711	Incentive Plan-Off-Annual	3,731		23,452	(129)	650		92,984	(1,496)	72,201	(781)	370		52,624		2,277	(35)	9,986
24	501712	Incentive Plan-Off-Long Term							(22,676)										
25	501715	Retention/Completion							25,588	(22,804)									
26	504100	Group Ins Maintenance	8,793		162,614		6,922		102,215		69,582		2,966		83,093		1,654		10,170
28	505100	PBOP	1,762		32,505		1,380		21,026		14,081		590		16,523		330		2,023
29	506100	Pension	6,319		116,572		4,947		75,406		50,497		2,117		59,257		1,183		7,257
33	575340	Employee Expense P/R JE	518		16,743	(77)	2,119		40,714	(972)	28,494	(438)	37		7,806		1,750		4,952
34	575342	Employee Exp Conf/Registration	88		1,294		-		7,053	(118)	152				759				184
	Total		**129,367**	**-**	**1,836,615**	**(37,243)**	**24,449**	**-**	**2,103,499**	**(32,973)**	**1,234,301**	**(10,811)**	**9,619**	**-**	**859,371**	**-**	**18,267**	**(178)**	**128,991**
		All Other Categories	73,238	-	438,661	(297)	9,575	(2)	627,876	(50,522)	465,639	(661)	4,134	(5)	120,047	(417)	19,172	(12,496)	16,544
	Adjustments:																		
		Call Center adjusting entry			(13,695)														
		Reversal of 2007 Tax and Depreciation entry							(14,769)										
	Total		**73,238**		**424,966**		**9,575**		**613,107**		**465,639**		**4,134**		**120,047**		**19,172**		**16,544**

Note: Included in the above totals are business development and research expenses of:

	Business Development Expenses	
	CE-Business Development	752
	CORP-Corporate Bus Development	30,331
	NE-Business Development	51
	SE-Business Development	184
	WE-Business Development	69,480
1	**Total Business Development Expenses**	**100,799**
	Research and Development Expenses	
	CORP-Research & Env Excellence	79,119
17	**Total Research and Development Expenses**	**79,119**

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Arizona American 2008 Service Co. Charges by Location and Selected Object

Response to Data Request No. RUCO 4-3

RUCO Line#	Object Account	Obj Acct Description	One Time Expense Removals	Western Region Regional	One Time Expense Removals	Total	4.00% Inc for 2009 Labor Expense	22.22% Inc for 2009 Labor Related Expense	4.00% Inc for 2009 to Base Year Other Expense	Total Increase	4 Factor Allocation Percentages: Sun City Water 12.203%	Sun City WW 7.545%	SCW WW 6.384%	Anthem Water 9.363%	Anthem WW 5.787%	Agua Fria WW 6.567%	Total
2	575140	Charitable Contributions Deduct		172		7,762	127	390	113	631	77	48	40	59	36	41	302
2	575141	Charitable Contributions Nondeductible				742	12	37	11	60	7	5	4	6	3	4	29
5	690110	FIT-Current		(41,257)		(264,470)	(4,334)	(13,287)	(3,866)	(21,486)	(1,621)	(1,621)	(1,172)	(1,012)	(1,243)	(1,411)	(10,281)
5	690120	FIT-Prior Year Adjustment		(27,209)		(174,420)	(2,858)	(8,763)	(2,549)	(14,170)	(1,729)	(1,069)	(905)	(1,327)	(820)	(931)	(6,781)
5	690210	SIT-Current		34		218	4	11	3	18	2	1	1	2	1	1	8
5	690220	SIT-Prior Year Adjustment		(682)		(4,374)	(72)	(220)	(64)	(355)	(43)	(27)	(23)	(33)	(21)	(23)	(170)
5	690610	Def FIT-Current		703		4,503	74	226	66	366	45	28	23	34	21	24	175
5	690620	Def FIT-Pr Yr Adjustment		27,179		174,230	2,855	8,753	2,547	14,155	1,727	1,076	904	1,323	819	930	6,773
5	690640	Def FIT-Norm Depreciation		5,930		38,014	623	1,910	556	3,088	377	235	197	289	179	203	1,478
5	690650	Def FIT-Other		33,347		213,765	3,503	10,739	3,124	17,367	2,119	1,320	1,109	1,624	1,005	1,141	8,310
5	690710	Def SIT-Current		(4)		(27)	(0)	(1)	(0)	(2)	(0)	(0)	(0)	(0)	(0)	(0)	(1)
5	690720	Def SIT-Pr Yr Adjustment		731		4,685	77	235	68	381	46	29	24	36	22	25	182
5	690750	Def SIT-Other		(292)		(1,872)	(31)	(94)	(27)	(152)	(19)	(11)	(10)	(14)	(9)	(10)	(73)
7	501200	Labor	(107)	1,676,457		4,820,629	79,002	242,182	70,459	391,644	47,794	29,847	25,803	36,671	22,663	25,770	187,402
10	680110	Depreciation Exp-General		89,865		576,067	9,441	28,941	8,420	46,802	5,711	3,531	3,054	4,382	2,708	3,074	22,395
10	680112	Depreciation Exp-Non Utility		45,973		294,703	4,830	14,805	4,307	23,943	2,921	1,806	1,562	2,242	1,386	1,572	11,457
11	710400	Interest Income-Outside		-		-	-	-	-	-							-
11	710500	Interest Income-Inside		(4,365)		(27,983)	(459)	(1,406)	(409)	(2,273)	(277)	(173)	(149)	(213)	(132)	(150)	(1,088)
12	810301	Interest Cap Lease-AW02		46,412		261,533	4,286	13,139	3,823	21,248	2,593	1,609	1,388	1,992	1,236	1,396	10,167
13	575640	Penalties Nondeductible		44		1,112	18	56	16	90	11	7	6	8	5	6	43
14	575775	Trade Shows				10,122	166	509	148	822	100	62	53	77	48	54	393
15	575490	Injuries and Damages				219	4	11	3	18	1	1	1	1	1	1	8
16	575670	Relocation Expenses		36,244		54,279	890	2,727	793	4,410	538	335	287	415	257	290	2,110
18	575030	Advertising		38		6,930	114	348	101	563	68	42	36	53	33	37	269
19	533000	Contract Services-Legal		1,289		26,187	429	1,316	383	2,128	260	161	138	199	123	140	1,018
20	533001	Contract Services-Litigation				-	-	-	-	-							-
21	535000	Contract Services-Other		40,347		962,783	15,778	48,369	14,072	78,220	9,545	5,903	5,064	7,324	4,537	5,137	37,428
23	501711	Incentive Plan-Off-Annual	(21)	241,781		497,594	8,155	24,998	7,273	40,426	4,931	3,050	2,617	3,785	2,345	2,655	19,344
24	501712	Incentive Plan-Off-Long Term		53,214		30,538	500	1,534	446	2,481	301	187	161	233	144	163	1,187
25	501715	Retention/Completion		32,868	(32,868)	2,784	46	140	41	226	28	17	15	21	13	15	108
26	504100	Group Ins Maintenance		235,049		683,058	11,194	34,316	9,984	55,494	6,772	4,187	3,591	5,195	3,211	3,638	26,554
28	505100	PBOP		46,842		137,062	2,246	6,886	2,003	11,135	1,359	840	721	1,043	644	731	5,328
29	506100	Pension		167,986		491,541	8,056	24,694	7,184	39,934	4,873	3,012	2,583	3,739	2,311	2,618	19,109
33	575340	Employee Expense P/R JE		168,521	10	270,175	4,428	13,573	3,949	21,950	1,449	1,895	1,401	1,065	1,270	1,442	10,503
34	575342	Employee Exp Conf/Registration		14,652		24,065	394	1,209	352	1,955	239	148	127	184	113	128	936
	Total		**(129)**	**2,891,866**	**(32,858)**	**9,122,153**	**149,498**	**458,286**	**133,331**	**741,114**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**354,623**
		All Other Categories	(129)	637,367	(5,584)	2,342,141	38,384	117,665	34,233	190,282	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	91,050
	Adjustments:																
		Call Center adjusting entry				(13,695)	(224)	(688)	(200)	(1,113)	(136)	(84)	(71)	[illegible]	[illegible]	[illegible]	(532)
		Reversal of 2007 Tax and Depreciation entry				(14,769)	(242)	(742)	(216)	(1,200)	(146)	(91)	(77)	[illegible]	[illegible]	[illegible]	(574)
	Total			**637,367**		**2,313,677**	**37,917**	**116,235**	**33,817**	**187,970**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**89,944**
	Note: Included in the above totals are business development and n																
					Company Total	**11,435,830**	**187,415**	**574,521**	**167,148**	**929,084**	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	**444,567**

	Business Development Expenses
	CE-Business Development
	CORP-Corporate Bus Development
	NE-Business Development
	SE-Business Development
	WE-Business Development 187,415
1	**Total Business Development Expenses**
	Research and Development Expenses
	CORP-Research & Env Excellence
17	**Total Research and Development Expenses**

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Miles H. Kiger/Sheryl L. Hubbard
Title: Rate Analyst/Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 4-5

Q: Please provide actual charges from AWWSC to AAWC for each year 2007, 2008 and 2009 (preferably in Excel) for each of the following Service Company "objects":

LABOR RELATED
501200 Labor
501203 Internal Labor Recharge
501205 Expat Labor
501711 Incentive Plan
501712 Long Term Incentive Plan
501715 Retention/Completion
504100 Group Insurance
504105 Expat Group Insurance
505100 PBOP
506100 Pension
506105 Expat Pension
507100 401K
508100 EIP
508101 DCP Oper AG
685320 FUTA
685325 FICA
685350 SUTA
TOTAL LABOR & LABOR RELATED EXPENSES

OTHER EXPENSES
504500 Other Welfare
504610 Employee Awards
504620 Employee Physical Exams
504660 Tuition Aid
504670 Training
531000 Contract Services-Engineering
532000 Contract Services-Accounting
533000 Contract Services-Legal
533001 Contract Services-Litigation
535000 Contract Services-Other
535001 Contract Services-Temp Employee
535002 Contract Services-STEP Backfill
536000 Contract Services-Lab Testing
541000 Rents-Real Property
541400 Rents-Equipment
550000 Transportation
550001 Transportation-Lease Cost
550002 Transportation-Lease Fuel
550003 Transportation-Lease Maintenance
556000 Insurance-Vehicle
557000 Insurance-General Liability
558000 Insurance-Work Comp
559000 Insurance-Other

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Miles H. Kiger/Sheryl L. Hubbard
Title: Rate Analyst/Manager, Rates & Regulation

Address: 2355 W. Pinnacle Peak Road, Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 4-5

575000 Miscellaneous
575002 Misc General Office
575030 Advertising
575100 Bank Service Charges
575130 Brochures & Handouts
575140 Charitable Contribution-Deductible
575220 Community Relations
575280 Dues & Memberships Deduct
575320 Electricity
575340 Employee Expenses
575342 Conferences & Registrations
575350 Meals & Travel Deduct
575351 Meals & Travel NonDeduct
575420 Forms AG
575460 Ground keeping
575480 Heat - Oil & Gas
575490 Injuries and Damages
575500 Janitorial
575620 Office Supplies
575625 Overnight Shipping
575640 Penalties
575660 Postage
575670 Relocation
575680 Research & Development
575710 Security
575715 Software & License Support
575740 Telephone
575741 Cell Phones
575742 Data Lines
575775 Trade Shows
575780 Trash Removal
675000 Maintenance Misc
675250 Maintenance Computer Equip
675350 Maintenance HVAC
675450 Maintenance Office Equip
685200 Property Taxes
685430 Other Taxes & Licenses
TOTAL OTHER EXPENSES

680110 Depreciation
710400 Int Income Outside
810301 Int Cap Lease-AW21
810400 Int LTD-Inside
830000 Interest on STD
840000 Other Interest

A: Please see the attached file labeled "RUCO 4-5 AWWSC to AZAM 2007-2009.xls".

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Arizona American Service Co. Charges by Object Account (O&M)

Response to Data Request No. RUCO 4-5

Object Acct	Account Description	Year 2007	2008	2009
Labor & Labor Related				
501200	Labor	4,618,262	4,829,431	4,967,989
501203	Labor Internal Recharge	2,672	42,930	(43,126)
501205	Labor Expatriots	6,215		
501711	Incentive Plan-Off-Annual	408,218	500,056	544,458
501712	Incentive Plan-Off-Long Term	178,534	30,538	
501715	Retention/Completion	184,821	58,456	
504100	Group Ins Maintenance	707,749	683,058	722,645
505100	PBOP	111,438	137,062	195,606
506100	Pension	489,857	491,541	911,692
507100	401k	84,270	96,589	97,284
508101	Defined Contribution Plan	57,448	90,124	98,652
508200	Employee Stock Purchase Plan		3,671	8,408
685320	FUTA	6,103	4,997	3,482
685325	FICA	329,352	382,018	368,798
685350	SUTA	33,584	25,414	19,245
	Other Labor and Labor Related	-	73,262	324,281
	Total Labor and Labor Related	**7,218,523**	**7,449,148**	**8,219,414**
Other Expenses				
504500	Other Welfare Maintenance	108,693	120,089	276,104
504610	Employee Awards	23,379	13,498	9,383
504620	Employee Physical Exam	416	523	678
504660	Tuition Aid	14,241	15,935	19,086
504670	Training	65,811	72,506	38,856
504671	Training-Safety	23,257	20,587	20,309
531000	Contract Services-Engineering	22,708	40,441	37,858
532000	Contract Services-Accounting	28,236	35,878	8,840
533000	Contract Services-Legal	22,614	26,187	23,500
533001	Contract Services-Litigation	-	-	(1)
535000	Contract Services-Other	1,863,608	1,008,442	575,986
535001	Contract Services-Temp Employee	200,075	87,835	50,374
535002	Contract Services-STEP Backfill	0		
536000	Contract Services-Lab Testing	235	(5,067)	(13,738)
541000	Rents-Real Property	268,874	241,141	196,642
541001	Rents-Real Property Intercompany	79,455	72,234	115,994
541400	Rents-Equipment	26,952	18,106	12,653
541401	Rents-Equipment Intercompany			3,628
550000	Transportation IT-Admin	20,783	18,604	24,647
550001	Transportation Lease Cost	21,807	10,245	9,400
550002	Transportation Lease Fuel	11,717	4,255	3,063
550003	Transportation Lease Maintenance	5,330	2,784	1,350
556000	Insurance Vehicle			477
557000	Insurance Gen Liability	(7,717)	33,905	74,852
558000	Insurance Work Comp	14,355	27,509	23,708
559000	Insurance Other	69,826	52,216	23,885
575000	Miscellaneous	5,312	(11,732)	2,053
575002	Misc General Office	17,679	20,778	31,343
575030	Advertising	7,902	6,930	6,368
575100	Bank Service Charges	401	17	183
575130	Brochures and Handouts	5,387	2,646	1,148
575140	Charitable Contributions Deduct	11,306	7,762	6,430
575141	Charitable Contributions Nondeductible	8	742	83
575220	Community Relations	9,951	5,380	1,656
575240	Co Dues/Membership Deduct	3,136	3,267	2,616
575241	Co Dues/Membership Nondeductible	516	2,022	632

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Arizona American Service Co. Charges by Object Account (O&M)

Response to Data Request No. RUCO 4-5

Object Acct	Account Description	Year 2007	2008	2009
575242	Co Dues Deduct AWWA	540	39	91
575280	Dues/Membership Deductible	17,027	15,154	22,575
575281	Dues/Membership Nondeductible	25	52	7
575320	Electricity	50,435	49,516	45,829
575340	Employee Expense P/R JE	253,269	271,653	231,471
575342	Employee Exp Conf/Registration	22,064	24,183	19,297
575350	Meals Deduct	28,116	26,761	20,859
575351	Meals Non Deduct	28,188	27,139	20,402
575420	Forms	1,331	1,845	1,067
575460	Grounds Keeping	1,943	2,064	387
575480	Heat - Oil/Gas	5,551	5,929	2,562
575490	Injuries and Damages		219	
575500	Janitorial	17,495	19,375	13,984
575620	Office & Admin Supplies	60,629	72,671	72,239
575625	Overnight Shipping	19,294	19,274	13,928
575640	Penalties Nondeductible	(2,167)	1,112	498
575660	Postage	10,422	13,648	12,797
575670	Relocation Expenses	122,985	54,279	89,512
575680	Research & Development Exp	338		18
575710	Security Service	12,935	12,873	4,107
575715	Software Licenses & Support	37,834	34,553	37,053
575740	Telephone	155,905	166,848	98,883
575741	Cell Phone	32,144	41,447	34,027
575742	Data Lines	31,621	33,727	61,903
575775	Trade Shows	12,553	10,122	6,017
575780	Trash Removal	1,701	2,035	1,744
675000	Misc Maintenance	245,168	230,027	277,274
675250	Comp Equip Hardware	18,035	3,972	3,655
675350	HVAC Equipment	7,773	7,101	4,683
675450	Office Equipment	645	460	195
685200	Property Taxes	16,482	17,926	3,300
685430	Other Taxes and Licenses	(2,590)	1,143	381
	Misc Other Expenses	3,609	(27,901)	50,630
	Total Other Expenses	**4,157,551**	**3,094,910**	**2,741,421**
680110	Depreciation Exp-General	531,965	576,067	
680112	Depreciation Exp-Non Utility		294,703	923,803
710400	Interest Income-Outside	(157,968)	-	
710500	Interest Income-Inside		(27,983)	(571)
810300	Interest Cap Lease-Outside			99
810301	Interest Cap Lease-AW02	252,459	261,533	215,754
810400	Interest LTD-Inside	21,848		
830000	Interest on ST Debt-Outside	(0)		
830100	Interest STD Inside			2,465
840000	Other Interest Expense	2,696	220	2,602
	Total Depreciation & Interest	**651,000**	**1,104,540**	**1,144,154**
	Total before Adjustments	**12,027,074**	**11,648,599**	**12,104,988**
	Adjustments			
	2007 Depreciaton & Tax Adjustment Entry	14,769		
	2008 Reversal of Depreciation & Tax Entry		(14,769)	
	2008 Call Center Adjustment		(13,695)	
	Total	**12,041,842**	**11,620,135**	**12,104,988**

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Thomas M. Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-59

Q: Service Company pension and OPEB charges.

a. Provide the amount of actual AWWSC charges to AzAWC for pensions each year from 2005 through 2009.

b. Provide the amount of actual AWWSC charges to AzAWC for OPEBs each year from 2004 through 2009.

c. Has any examination ever been conducted regarding whether and how AWWSC's funding for pensions and OPEBs has minimized costs? If not, explain fully why not. If so, please identify how this was done, and provide a copy of all Documents.

d. Has AWWSC ever examined converting its defined benefit pension plan to some other type of retirement benefit in order to help control costs? If not, explain fully why not. If so, please identify how this was done, and provide a copy of all Documents.

A:

a. Please see attachment labeled "RUCO 2-59a&b Pension & OPEB Attachment".

b. Please see attachment labeled "RUCO 2-59a&b Pension & OPEB Attachment".

c. A comprehensive asset and liability study to determine the best mix of investments for the plans was conducted by Callan in 2008. The study evaluated the interaction of the three key policies that govern a pension plan with the goal of establishing the best investment policy:
1) Investment Policy – How will the assets supporting the benefits be invested, what are the risk/return objectives, and how to manage cash flows.
2) Benefits Policy – What type/kind of benefits, what level of benefit, and when and to whom they are payable.
3) Funding/Accounting Policy – How will the benefits be paid for (funded), what actuarial discount rate, how will deficits be paid for, and how will costs be recognized.

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Thomas M. Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-59

Based on the results of the asset and liability study the plan's target asset allocation is 36% large cap equities, 22% international equities, 12% small cap equities, and 30% domestic fixed-income securities. Attached are three reports comprising the comprehensive study.

d. Yes. The defined benefit pension plan was closed to new participants in 2006, with the exception of union employees at the two customer service centers, thus beginning the process of shifting investment risk from the Company to the employees.

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Arizona Service Company Pension and OPEB charges 2005 - YTD November 2009

Response to Data Request No. RUCO 2-59 (a)&(b)

		12 months 2005			12 months 2006			12 months 2007			12 months 2008			12 months 2009		
Account	Descriptior	CAP	O&M	Total	CAP	O&M	Total	CAP	O&M	Total	CAP	O&M	Total	CAP	O&M	Total
505100	OPEB	29,024	116,116	145,139	37,871	136,162	174,033	15,890	111,438	127,328	13,100	138,280	151,380	20,382	178,736	199,118
506100	Pension	23,326	78,757	102,083	100,747	1,624,692	1,725,439	69,871	489,857	559,728	46,979	495,909	542,888	94,998	833,065	928,064

COMPANY: ARIZONA AMERICAN WATER COMPANY
DOCKET NO: W-01303A-09-0343; SW-01303A-09-0343

Response provided by: Thomas M. Broderick
Title: Director, Rates & Regulation

Address: 2355 W. Pinnacle Peak Rd., Suite 300
Phoenix, AZ 85027

Company Response Number: RUCO 2-61

Q: Please provide full details of all Service Company charges to AzAWC in each year 2005 through 2009.

A: Please see attachments labeled "RUCO 2-61 AZAWC Service Co Charges Attachment-Revised.xls" and "RUCO 2-61 AZAWC Service Co Charges-Updated thru Dec 2009.xls".

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Monthly Service Company Charges by Object Account
12 Months ending December 2005

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
501200	Labor	218,139	230,144	330,715	214,134	225,694	246,946	251,394	296,514	265,181	251,619	286,840	297,505	3,114,824
501205	Labor Expats				71,398	27,522	11,958	14,272	20,108	(50,135)	3,226	5,430	7,161	110,939
501711	Incentive Plan-Off-Annual	38,514	10,145	(15,229)	25,626	15,727	183,395	30,067	30,045	29,203	29,434	28,544	45,412	450,883
501712	Incentive Plan-Off-Long Term	2,055	2,135	1,866	1,568	1,637	1,673	1,885	1,884	1,775	1,672	1,843	14,013	34,005
504100	Group Ins Maintenance	38,835	39,676	35,765	29,648	30,961	32,432	35,732	35,737	33,384	31,164	34,837	49,487	427,659
504500	Other Welfare Maintenance	15,528	657	25,792	24,802	48,670	(11,859)	12,378	9,652	19,870	4,448	57,730	98,038	305,705
504610	Employee Awards	310	1,306	78	242	29	257	549	312	63	419	12	687	4,265
504620	Employee Physical Exam	16		742	12	80		256	45		95	39	45	1,330
504660	Tuition Aid	1,769	204	713	890	111	1,009	284	3,327	664	745	1,161	660	11,538
504670	Training	9,903	10,750	2,189	9,222	(721)	1,624	4,123	1,970	5,121	3,673	5,487	6,477	59,818
505100	PBOP	8,911	9,261	8,092	6,800	7,102	7,255	8,175	8,170	7,699	7,250	7,994	11,288	97,995
506100	Pension	8,905	8,356	8,689	6,735	7,352	7,138	8,077	8,219	9,689	5,498	9,045	9,175	96,878
507100	401k	3,997	4,148	3,623	3,047	3,189	3,251	3,662	3,660	3,449	3,248	3,581	5,059	43,914
508100	Employee Investment Plan	1,371	1,425	5,316	1,048	1,093	1,120	1,258	1,257	1,185	1,116	1,230	1,737	19,154
515100	Purchased Power	1,139	944	878	901	738	1,045	1,563	2,483	3,063	2,170	2,230	2,719	19,872
520100	Materials & Supplies Operations	48	44	38	61	110	83	339	316	1,003	1,734	1,117	1,521	6,414
531000	Contract Services-Engineering		(113)				15							(98)
532000	Contract Services-Accounting	1,339	278	43	17	20	414	23	31	11,271	1,955	3,960	16,661	36,013
533000	Contract Services-Legal	1,224	1,769	191	3,043	2,359	1,296	203	793	44	615	119	5,956	17,613
533001	Contract Services-Litigation					245								245
534000	Contract Services-Mgmt							1						1
535000	Contract Services-Other	14,742	75,030	111,754	105,061	59,777	39,457	71,382	105,336	95,466	41,951	97,519	164,079	981,554
535001	Contract Services-Temp Employee	911	8,726	3,825	8,100	14,223	16,469	15,437	16,441	21,679	6,386	24,802	36,920	173,918
535002	Contract Services-STEP Backfill	133	272	1,247	1,863	2,225	1,680	2,392	1,617	2,589	1,176		1,231	16,423
536000	Contract Services-Lab Testing	20	1	157	190		9	(5)	4					376
541000	Rents-Real Property	18,880	10,816	33,002	22,586	16,850	14,656	13,436	15,044	17,571	14,147	16,089	20,687	213,763
541400	Rents-Equipment	10,390	16,999	3,429	11,232	5,461	7,204	2,831	3,248	5,736	2,637	3,486	3,853	76,506
550000	Transportation IT-Admin	346	1,801	1,990	1,759	264	2,366	1,668	1,752	1,722	325	1,692	1,793	17,478
550001	Transportation Lease Cost	637	675	535	344	390	356	464	649	975	556	679	807	7,068
550002	Transportation Lease Fuel	175	157	112	88	97	93	117	161	246	149	173	203	1,770
550003	Transportation Lease Maintenance	244	282	218	179	212	181	253	752	521	283	345	415	3,884
556000	Insurance Vehicle		0	0										1
557000	Insurance Gen Liability	1,123	1,154	638	823	940	858	1,118	1,484	2,344	1,339	1,637	1,933	15,391
558000	Insurance Work Comp	656	674	373	481	549	501	653	867	1,369	782	956	1,129	8,991
559000	Insurance Other	314	323	178	230	263	240	313	415	655	375	467	541	4,314
575000	Miscellaneous	5,604	7,700	7,010	5,825	1,513	7,220	7,738	(781)	11,749	5,655	9,122	14,311	82,668
575002	Misc General Office	688	266	1,055	800	478	1,358	1,591	213	4,714	580	5,839	420	18,003
575030	Advertising	(122)	3,215	1,654	205	1,268	2,192	1,295	1,284	620	605	4,705	8	16,930
575100	Bank Service Charges	(4)	22	1	(19)			0		(0)		(38)		(37)
575130	Brochures and Handouts		61		17		1	707	112	4		90	4	996
575140	Charitable Contributions Deduct	1,126	8	2		2		267	448	38	(1,719)	641	240	1,054
575141	Charitable Contributions Nondeductible									344		1,837		2,181
575220	Community Relations	(310)	847	2,235	1,147	5,550	12,978	(568)	179	53	17	10,842	3	32,973
575240	Co Dues/Membership Deduct	3,222	6	128	42	5,599	198	32	9,877	3,164	(9,974)	33	5,482	17,809
575241	Co Dues/Membership Nondeductible			1,424										1,424
575260	Credit Line Fees													-
575280	Dues/Membership Deductible	54	917	389	3,234	491	327	816	1,011	305	1,273	53	984	9,854
575281	Dues/Membership Nondeductible	7		20	1,105	3		396	6	1	(0)		136	1,674
575320	Electricity	29	(824)	17	21	42	22	46	88	61	35	42	50	(371)
575340	Employee Expense P/R JE	14,171	16,016	22,323	29,759	14,861	32,184	31,233	29,921	31,863	17,064	36,203	41,804	317,402
575342	Employee Exp Conf/Registration	(457)	477	202	1,585	394	545	1,107	369	3,047	985	1,562	2,679	12,496
575350	Meals Deduct	1,232	2,082	1,992	2,027	1,114	2,685	3,253	1,948	2,207	1,639	2,883	3,567	26,628
575351	Meals Non Deduct	1,232	1,611	2,748	2,028	1,096	2,745	3,361	1,976	2,233	1,459	2,664	3,600	26,754
575400	Bus Services Project Exp				5			33	1	10		3	6	58

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Monthly Service Company Charges by Object Account
12 Months ending December 2005

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
575420	Forms	0	305	0	1,238	1,158	0	0	25	1	312	59	120	3,220
575460	Grounds Keeping	154	152	86	107	120	133	141	228	318	171	227	267	2,105
575480	Heat - Oil/Gas	187	777	459	745	762	261	166	412	491	285	345	412	5,304
575500	Janitorial	821	1,356	766	939	924	1,066	1,002	1,315	1,660	977	1,159	1,426	13,411
575620	Office & Admin Supplies	71,453	3,891	(61,743)	3,726	4,297	4,489	4,457	5,626	5,614	4,378	5,118	2,142	53,448
575625	Overnight Shipping	1,380	1,090	942	905	887	968	749	1,004	1,285	717	1,159	1,301	12,388
575640	Penalties Nondeductible	315	77	70	7	(49)	178	2	1	138	1	(12)	127	854
575660	Postage	2,980	582	1,036	666	397	1,169	1,287	698	618	347	1,179	501	11,461
575670	Relocation Expenses	1,839	3,163	1,663	9	12,855	4,635	(222)	26,351	4,944	5,789	(2,148)	4,628	63,507
575680	Research & Development Exp				37			2,845						2,883
575710	Security Service	556	749	977	92	492	599	603	886	1,100	590	718	897	8,259
575715	Software Licenses & Support		177	119	-	91	100	8	12	164	245	445	551	1,913
575740	Telephone	1,585	11,169	11,881	9,891	11,325	8,332	7,992	12,632	18,003	12,675	12,826	21,686	139,998
575741	Cell Phone	1,477	2,424	896	1,521	3,487	2,310	2,162	1,538	3,166	2,589	3,663	3,005	28,238
575742	Data Lines		6,947	3,048	1,207	6,338	59	5,096	2,382	5,067	903	1,899	10,102	43,048
575743	Wireless Service 1st													-
575775	Trade Shows	2,661	1,150	248	42	8	439	582	986	1,078	1	87	61	7,342
575776	Translation FC											1		1
575780	Trash Removal	59	103	42	186	58	121	73	(43)	379	79	94	120	1,272
575996	STEP Admin Charges													-
575998	PCard Undistributed	68	17,666	19,859	6,104	(2,009)	823	1,480	1,914	11,589	(56)	582	32,292	90,312
620000	Materials & Supplies Maintenance	9	10	5	7	8	7	9	12	20	11	14	16	128
675000	Misc Maintenance	5,215	654	4,478	1,112	4,729	902	3,213	2,658	5,602	3,978	2,751	3,975	39,267
675250	Comp Equip Hardware	2,817	27,900	6,207	3,705	4,800	13,520	3,543	5,969	9,141	6,668	17,151	12,210	113,630
675350	HVAC Equipment	165	170	94	278	138	136	165	218	345	197	241	284	2,431
675450	Office Equipment	3	3	1	2	2	2	17	3	5	3	4	4	49
680110	Depreciation Exp-General	18,655	19,184	10,601	13,680	15,627	14,251	18,585	24,654	38,949	22,255	27,198	32,126	255,763
685200	Property Taxes	943	969	536	691	790	720	939	1,246	1,968	1,125	1,374	1,623	12,923
685320	FUTA	313	326	285	239	250	255	288	287	271	255	281	397	3,447
685325	FICA	21,342	22,147	19,401	16,275	16,987	17,350	19,550	19,539	18,412	17,339	19,119	27,124	234,585
685350	SUTA	1,764	1,833	1,602	1,347	1,406	1,436	1,618	1,618	1,524	1,435	1,583	2,235	19,402
685430	Other Taxes and Licenses	9,565	15,166	5,347	7,540	1,139	1,574	3,227	2,334	3,747	297	4,520	3,361	57,815
690110	FIT-Current	5,762	5,926	3,274	4,225	4,827	4,402	5,741	7,615	12,031	6,874	8,401	9,923	79,001
690120	FIT-Prior Year Adjustment	5,535	5,692	3,145	4,059	4,637	4,228	5,514	7,315	11,557	6,603	8,070	9,532	75,887
690210	SIT-Current	1,262	1,298	717	925	1,057	964	1,257	1,668	2,635	1,506	1,840	2,173	17,302
690220	SIT-Prior Year Adjustment	1,371	1,410	779	1,006	1,149	1,048	1,366	1,813	2,863	1,636	2,000	2,362	18,803
690620	Def FIT-Pr Yr Adjustment	(5,535)	(5,692)	(3,145)	(4,059)	(4,637)	(4,228)	(5,514)	(7,315)	(11,557)	(6,603)	(8,070)	(9,532)	(75,887)
690640	Def FIT-Norm Depreciation	(1,367)	(1,406)	(777)	(1,003)	(1,145)	(1,044)	(1,362)	(1,807)	(2,854)	(1,631)	(1,993)	(2,354)	(18,744)
690650	Def FIT-Other	(3,188)	(3,278)	(1,812)	(2,338)	(2,671)	(2,435)	(3,176)	(4,213)	(6,656)	(3,803)	(4,648)	(5,490)	(43,709)
690720	Def SIT-Pr Yr Adjustment	(1,375)	(1,414)	(781)	(1,008)	(1,152)	(1,051)	(1,370)	(1,817)	(2,871)	(1,641)	(2,005)	(2,368)	(18,854)
690750	Def SIT-Other	(947)	(974)	(538)	(695)	(793)	(724)	(944)	(1,252)	(1,978)	(1,130)	(1,381)	(1,631)	(12,986)
710500	Interest Income-Inside	(88)	(91)	(50)	(65)	(74)	(67)	(88)	(116)	(184)	(105)	(128)	(152)	(1,207)
760100	Donations Deduct		32											32
760500	Non-Op Employee Exp Deduct										7	(7)		-
760600	Non-Op Employee Exp Nondeductible										1	(1)		-
810400	Interest LTD-Inside	8,171	5,408	9,394	6,956	7,533	7,301	8,520	10,166	14,138	9,365	10,693	12,132	109,778
830000	Interest on ST Debt-Outside	(1,961)	(2,017)	(1,114)	(1,438)	(1,643)	(1,498)	(1,954)	(2,592)	(4,094)	(2,339)	(2,859)	(3,377)	(26,885)
840000	Other Interest Expense	9	24	(6)	1	(44)	(4)	9	16	131	(4)	6	48	187
Total O&M Expenses		581,019	615,506	646,148	678,776	599,636	718,304	623,188	742,929	702,574	530,109	787,080	1,054,749	8,280,019
Capitalized Costs		35,799	207,711	19,724	367,553	209,153	215,030	255,357	160,918	169,785	261,410	182,440	153,673	2,238,554
Total Service Company Charges		616,818	823,218	665,872	1,046,329	808,790	933,334	878,545	903,847	872,359	791,520	969,520	1,208,422	10,518,573

Arizona American Water Company
Docket Nos. W-01303A-09-0343; SW-01303A-09-0343
Monthly Service Company Charges by Object Account
12 Months ending December 2006

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
501200	Labor	310,178	255,583	319,207	297,345	285,620	363,859	298,684	281,521	397,087	306,580	395,048	322,801	3,833,513
501205	Labor Expats	(1,438)	14,927	15,400	(73)	28,301	4,439	4,153	9,616	4,341	4,997	414	(866)	84,213
501711	Incentive Plan-Off-Annual	29,348	29,544	31,565	31,659	17,332	62,318	27,801	6,088	47,179	23,479	40,017	9,871	356,201
501712	Incentive Plan-Off-Long Term	0	0	0	0	0	2,727	5,754	5,754	3,524	5,647	5,647	214,114	243,166
501715	Retention/Completion	0	0	0	0	0	104,558	19,103	17,666	22,952	18,253	18,253	13,694	214,479
504100	Group Ins Maintenance	39,870	46,830	50,825	43,891	67,854	18,035	43,496	37,624	51,614	43,258	45,184	46,624	535,104
504500	Other Welfare Maintenance	(63,733)	126,649	44,814	12,931	28,020	31,604	8,261	14,136	18,748	8,299	6,747	93,160	329,635
504610	Employee Awards	(453)	5,881	12	156	98	1,664	1,242	708	304	66	1,380	600	11,657
504620	Employee Physical Exam	262	73	49			255		23			1	160	824
504660	Tuition Aid	1,243	817	863	347	775	767	1,064	344	1,029	596	747	1,219	9,809
504670	Training	11,426	7,752	6,295	6,258	2,340	1,402	3,977	2,979	4,674	3,843	9,046	3,157	63,149
504671	Training-Safety				1,583	1,686	3,371	1,731	2,260	2,650	2,598	-	1,686	17,564
505100	PBOP	8,807	11,684	12,746	11,205	17,507	4,304	11,204	10,300	13,515	11,060	11,695	12,135	136,162
506100	Pension	21,666	31,327	35,545	28,875	43,183	12,206	29,004	26,235	34,025	28,862	29,583	1,304,179	1,624,689
507100	401k	3,418	4,516	4,929	4,492	7,008	2,069	4,714	4,427	5,902	4,934	5,291	5,584	57,283
508100	Employee Investment Plan								55					55
508101	Defined Contribution Plan	35	206	398	822	1,193	818	1,030	1,056	2,375	1,778	1,935	1,952	13,598
515100	Purchased Power	427	2,022	458	45	(3,751)	(0)	0	0	799	0	0	0	(0)
520100	Materials & Supplies Operations	286	231	105	176	31	355	9	82	59	17	240	203	1,794
531000	Contract Services-Engineering		4,567									1,467	736	6,770
532000	Contract Services-Accounting	(7,567)	9,766	19,528	(8)	12	(8)	3,081	(9)	420	3,622	(8)	6,118	34,947
533000	Contract Services-Legal	1,536	1,713	2,990	1,791	(461)	5,154	1,037	4,142	5,083	3,359	859	7,683	34,885
533001	Contract Services-Litigation				247					55	833	(889)		247
535000	Contract Services-Other	14,649	115,369	34,207	70,550	131,530	113,309	77,028	83,609	206,646	126,256	121,125	182,917	1,277,196
535001	Contract Services-Temp Employee	(1,808)	61,495	50,967	34,893	84,583	39,709	(90,208)	12,403	14,892	6,939	22,429	15,029	251,323
535002	Contract Services-STEP Backfill	499	81		43								2	625
536000	Contract Services-Lab Testing	79	89	121	90	218	95	134	112	235	212	151	219	1,757
541000	Rents-Real Property	49,171	22,877	20,743	37,977	17,846	16,714	23,003	20,301	25,302	19,109	18,353	3,739	275,134
541400	Rents-Equipment	2,058	2,247	2,252	2,254	2,916	2,582	3,531	2,250	3,878	2,284	2,405	4,525	33,180
550000	Transportation IT-Admin	2,488	1,804	1,593	208	2,579	1,265	1,472	1,339	1,530	1,296	1,477	1,654	18,705
550001	Transportation Lease Cost	1,273	1,444	1,334	1,440	2,245	1,532	2,036	1,503	2,472	1,646	1,447	1,848	20,218
550002	Transportation Lease Fuel	572	642	612	639	1,014	637	920	678	1,171	745	657	835	9,122
550003	Transportation Lease Maintenance	243	274	261	272	438	270	392	287	469	317	279	355	3,858
557000	Insurance Gen Liability	1,185	1,338	1,274	1,330	2,113	1,310	1,917	1,405	2,294	1,550	1,362	1,734	18,810
558000	Insurance Work Comp	451	510	485	506	805	499	730	535	874	590	519	660	7,165
559000	Insurance Other	2,484	2,805	2,671	2,788	4,429	2,747	4,020	2,945	4,810	3,249	2,856	3,635	39,439
570100	Uncollectible Accounts												22,905	22,905
575000	Miscellaneous	729	(6,911)	(3,720)	(13,515)	389	2,553	2,648	(6,100)	(444)	1,649	4,052	23,433	4,765
575002	Misc General Office	385	1,604	2,347	339	4,480	1,336	3,261	2,856	6,025	804	568	8,146	32,151
575030	Advertising	253	1,989	3,231	854	381	1,412	88	694	37	193	522	1,152	10,807
575100	Bank Service Charges					140			0	5	212			357
575130	Brochures and Handouts	14	5	169	39	194	322	36	57	67	104	57	87	1,151
575140	Charitable Contributions Deduct	2,709	2	2,425	190		2,130	65	87	191	109	234	2,001	10,143
575141	Charitable Contributions Nondeductible										418		497	915
575220	Community Relations	6,505	4,284	15,365	(11,340)	187	318	21,646	39	168	2	1,008	6,025	44,205
575240	Co Dues/Membership Deduct	274	997	261	80	480	98	133	162	312	139	7,627	159	10,721
575241	Co Dues/Membership Nondeductible		3,176		(3,737)	8		34	58	95	35	84	54	(193)
575242	Co Dues Deduct AWWA				16	7	1							24
575245	Co Dues Nondeductible NAWC					7								7
575250	Condemnation Costs					903	119							1,022
575260	Credit Line Fees	0	0	0	0	0	0	0	0	0	0	0	0	2
575270	Directors Fees					5								5
575276	Discounts Lost												6	6
575280	Dues/Membership Deductible	241	1,188	757	165	154	2,110	337	257	814	2,243	2,645	1,642	12,553
575281	Dues/Membership Nondeductible			16	26	11			91	62		80	160	446
575320	Electricity	1,512	1,963	1,893	1,941	2,950	1,993	3,836	3,269	4,731	2,540	3,955	3,004	33,588
575340	Employee Expense P/R JE	13,615	36,852	21,872	20,829	33,461	23,207	19,241	18,854	31,009	24,817	29,699	28,652	302,108
575342	Employee Exp Conf/Registration	2,110	3,591	1,236	1,433	447	1,634	1,179	2,459	2,513	2,535	765	1,171	21,073

Arizona American Water Company
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12 Months ending December 2006

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
575350	Meals Deduct	910	3,113	1,996	1,436	2,330	2,264	1,351	1,595	2,275	1,621	3,412	2,518	24,821
575351	Meals Non Deduct	918	3,239	2,007	1,444	2,340	2,272	1,353	1,616	2,275	1,648	3,431	6,356	28,900
575400	Bus Services Project Exp	3	1			3	1		3	1		3	1	18
575420	Forms	1,107	185	2,608	(2,657)	(917)	475			302		113	26	1,241
575460	Grounds Keeping	97	115	109	114	181	120	164	167	230	166	133	152	1,748
575480	Heat - Oil/Gas	388	470	767	(30)	566	336	463	342	550	307	405	536	5,099
575500	Janitorial	1,101	1,439	1,300	1,021	1,530	1,071	1,916	489	1,666	1,183	1,027	1,286	15,029
575610	Merger Transactional Costs		29											29
575620	Office & Admin Supplies	4,906	3,981	3,090	10,062	4,747	4,620	7,237	5,712	5,143	6,033	4,498	9,070	69,098
575625	Overnight Shipping	1,340	1,041	914	968	1,665	985	1,552	1,042	1,731	1,457	1,091	3,218	17,005
575640	Penalties Nondeductible	1,127	(292)	414	334	496	310	449	329	540	363	319	3,695	8,084
575660	Postage	2,340	(309)	963	915	1,239	813	1,053	868	1,148	1,281	865	1,607	12,783
575670	Relocation Expenses	4,166	14,567	(595)	23,881	16,104	8,353	3,746	480	738	2,308	3,023	(1,796)	74,976
575680	Research & Development Exp	1	1	1	1	1	30	1	1	43	53	1	1	134
575710	Security Service	340	446	462	601	699	433	627	467	758	671	470	811	6,784
575711	Additional Security Costs		63				8					114		185
575715	Software Licenses & Support	452	79,550	2,717	248	1,149	159	120	5,808	(1,036)	1,994	2,180	3,090	96,429
575740	Telephone	9,644	20,330	7,684	11,266	17,552	16,904	10,586	8,428	16,690	10,525	12,055	15,221	156,884
575741	Cell Phone	4,126	1,464	2,443	3,920	5,342	4,260	819	4,530	2,574	2,800	2,470	5,192	39,938
575742	Data Lines	(1,335)	9,717	2,493	2,093	4,169	5,979	4,345	2,111	3,305	4,137	2,233	8,078	47,325
575743	Wireless Service 1st	7	8	7	8	12	7	11	8	13	11	7	10	109
575775	Trade Shows	2,504	2,574	551	1,798	550	1,149	(394)	2,007	51	409	1,868	1,049	14,115
575780	Trash Removal	79	124	77	113	153	88	128	127	176	124	112	224	1,524
575998	PCard Undistributed	37,755	(39,008)	4,682	(3,064)	(4,351)	14,704	(13,937)	12,061	(10,870)	996	2,151	10,702	11,822
675000	Misc Maintenance	11,372	40,663	4,278	24,064	(30,157)	37,424	(12,641)	27,391	11,402	10,674	24,946	22,925	172,342
675250	Comp Equip Hardware	33,152	(29,579)	(207)	3,112	1,603	3,964	2,127	2,554	3,308	2,874	2,498	7,205	32,612
675350	HVAC Equipment	569	283	346	328	31	628	170	276	589	304	293	509	4,326
675450	Office Equipment	8	9	8	9	214	(38)	513	61	33	82	55	11	964
680110	Depreciation Exp-General	26,121	29,500	28,085	29,316	46,578	28,883	42,274	30,967	50,583	34,164	30,036	38,223	414,730
685200	Property Taxes	998	1,127	1,073	1,120	1,779	1,103	1,614	1,183	1,932	1,305	1,147	6,930	21,309
685320	FUTA	266	353	385	333	513	126	337	303	398	335	348	363	4,061
685325	FICA	(2,447)	42,538	22,835	21,286	32,614	8,117	21,214	19,305	25,146	21,074	21,879	22,865	256,426
685350	SUTA	1,926	2,559	2,781	2,385	3,715	916	2,445	2,197	2,887	2,422	2,524	2,633	29,391
685430	Other Taxes and Licenses	2,980	1,673	1,706	4,031	18,504	1,859	1,712	3,566	1,697	14,717	1,081	48,712	102,239
690110	FIT-Current	31,890	36,015	34,288	35,791	56,865	35,263	51,611	37,806	61,755	41,710	36,670	46,666	506,331
690120	FIT-Prior Year Adjustment	(7,216)	(8,150)	(7,759)	(8,099)	(12,868)	(7,980)	(11,679)	(8,555)	(13,975)	(9,439)	(8,298)	(10,560)	(114,577)
690210	SIT-Current	7,737	8,738	8,319	8,684	13,797	8,556	12,522	9,173	14,984	10,120	8,897	11,323	122,852
690220	SIT-Prior Year Adjustment	(3,363)	(3,798)	(3,616)	(3,774)	(5,996)	(3,718)	(5,442)	(3,987)	(6,512)	(4,398)	(3,867)	(4,921)	(53,391)
690610	Def FIT-Current	17	20	19	19	31	19	28	21	33	23	20	25	275
690620	Def FIT-Pr Yr Adjustment	7,216	8,150	7,759	8,099	12,868	7,980	11,679	8,555	13,975	9,439	8,298	10,560	114,577
690640	Def FIT-Norm Depreciation	(262)	(296)	(282)	(294)	(468)	(290)	(425)	(311)	(508)	(343)	(302)	(384)	(4,166)
690650	Def FIT-Other	(30,445)	(34,384)	(32,735)	(34,170)	(54,290)	(33,665)	(49,273)	(36,094)	(58,958)	(39,821)	(35,009)	(44,552)	(483,395)
690710	Def SIT-Current	4	5	5	5	8	5	7	5	8	6	5	6	68
690720	Def SIT-Pr Yr Adjustment	3,363	3,798	3,616	3,774	5,996	3,718	5,442	3,987	6,512	4,398	3,867	4,921	53,391
690750	Def SIT-Other	(7,444)	(8,407)	(8,004)	(8,355)	(13,275)	(8,232)	(12,048)	(8,825)	(14,416)	(9,737)	(8,560)	(10,894)	(118,198)
710400	Interest Income-Outside	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(1)
721306	Gains NUP Cap	651	735	700	730	1,160	720	1,053	772	1,260	851	748	952	10,333
760200	Other Income Deductions			(13,495)	13,495					970				970
760500	Non-Op Employee Exp Deduct	7												7
810400	Interest LTD-Inside	14,888	16,084	15,463	15,797	22,293	15,499	20,596	16,185	(17,530)	17,812	16,385	19,409	172,881
830000	Interest on ST Debt-Outside	(3,061)	(3,457)	(3,292)	(3,436)	(5,459)	(3,385)	(4,955)	(3,629)	(5,928)	(4,004)	(3,520)	(4,480)	(48,608)
840000	Other Interest Expense	42	(17)	(24)	(5)	(4)	3	27	(5)	(4)	(5)	(8)	(6)	(6)
Total O&M Expenses		617,941	1,020,813	805,042	760,773	943,277	1,000,614	643,325	726,239	1,034,442	814,719	939,131	2,600,545	11,906,861
Capitalized Costs		173,840	122,916	169,746	158,192	261,259	133,238	176,392	103,591	214,361	168,175	141,294	160,135	1,983,139
Total Service Company Charges		791,781	1,143,729	974,788	918,965	1,204,536	1,133,852	819,717	829,830	1,248,803	982,894	1,080,425	2,760,680	13,889,999

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Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
501200	Labor	358,062	322,100	369,258	392,548	406,343	384,975	383,492	402,465	356,877	405,664	395,341	443,806	4,620,933
501205	Labor Expats	454	454	461	4,846									6,215
501711	Incentive Plan-Off-Annual	57,581	57,929	(103,713)	40,746	38,936	46,678	59,241	37,777	68,509	10,935	84,306	9,294	408,218
501712	Incentive Plan-Off-Long Term	8,376	17,802	8,143	8,143	8,143	8,143	8,143	8,143	18,913	18,913	18,913	46,758	178,534
501715	Retention/Completion	18,515	18,515	18,515	18,515	18,515	18,515	18,515	18,515	2,512	17,753	17,753	(1,320)	184,821
504100	Group Ins Maintenance	66,294	57,119	69,941	58,784	58,839	58,589	52,319	55,872	53,211	55,697	55,964	65,121	707,749
504500	Other Welfare Maintenance	13,451	6,511	40,152	6,985	5,110	2,398	7,245	5,525	(675)	1,570	15,896	4,525	108,693
504610	Employee Awards	5,477	233	385	1,429	1,465	3,627	375	5,280	543	645	1,830	2,090	23,379
504620	Employee Physical Exam	244		5	48	(1)		48	24		48			416
504640	Safety Incentive	1	0	1	1	1	1	1	1	1	1	0	1	6
504660	Tuition Aid	2,398	955	251	1,142	1,298	222	1,418	2,392	1,337	817	789	1,222	14,241
504670	Training	1,114	435	2,193	2,613	10,087	12,639	9,125	5,733	2,762	8,662	1,725	8,723	65,811
504671	Training-Safety	2,539	1,475	1,563	1,475	1,475	1,920	1,476	1,475	1,475	5,431	1,475	1,476	23,257
505100	PBOP	10,489	8,946	10,530	9,322	9,316	9,051	8,454	8,867	8,436	8,786	8,853	10,389	111,438
506100	Pension	46,032	39,508	46,474	40,991	40,962	39,798	37,173	38,989	37,093	38,633	38,928	45,276	489,857
507100	401k	6,446	6,869	6,938	6,612	6,610	6,666	7,246	6,480	6,287	6,930	7,309	9,878	84,270
508101	Defined Contribution Plan	2,360	4,586	3,210	3,985	5,271	2,759	5,881	4,473	4,925	5,561	5,411	9,026	57,448
515100	Purchased Power	-												-
520100	Materials & Supplies Operations	1,215	49	12	3	26	6	5	(997)	(1)	69	986	77	1,450
531000	Contract Services-Engineering		7,319	1,269	2,368	918	11,503	(5,783)	4,759	(2,295)	2,295	214	141	22,708
532000	Contract Services-Accounting	(2,021)	5,043	(4,832)	348	6,374	1,830	(0)	8,750	1,954	8,890	1,027	875	28,236
533000	Contract Services-Legal	1,271	3,475	(1,833)	2,327	2,838	2,192	3,779	3,197	732	280	(446)	4,802	22,614
533001	Contract Services-Litigation	35	(35)											-
535000	Contract Services-Other	100,511	188,028	184,474	157,944	209,115	120,109	195,792	99,994	177,219	122,054	170,739	137,629	1,863,608
535001	Contract Services-Temp Employee	13,078	10,224	12,546	14,084	20,175	12,742	12,072	28,203	18,527	29,953	17,190	11,280	200,075
535002	Contract Services-STEP Backfill	(0)												(0)
536000	Contract Services-Lab Testing	34	65	2	41	25	(16)	6	69	6	63	3	(65)	235
541000	Rents-Real Property	24,334	18,553	22,601	24,178	23,691	21,823	21,467	21,513	22,693	20,890	20,777	26,353	268,874
541001	Rents-Real Property Intercompany	6,812	4,907	6,272	7,069	6,948	6,348	7,671	6,296	6,443	6,600	6,139	7,950	79,455
541400	Rents-Equipment	1,512	1,762	2,342	2,408	2,458	4,235	695	2,042	1,982	6,231	(1,329)	2,614	26,952
550000	Transportation IT-Admin	1,098	1,808	1,451	1,396	2,333	1,786	2,020	1,822	1,833	1,574	1,933	1,729	20,783
550001	Transportation Lease Cost	1,831	1,353	1,723	1,935	1,959	1,741	2,135	1,806	1,739	1,782	1,657	2,146	21,807
550002	Transportation Lease Fuel	1,016	741	921	1,037	1,049	931	1,125	922	944	968	897	1,164	11,717
550003	Transportation Lease Maintenance	450	400	409	474	470	444	501	411	421	430	400	519	5,330
557000	Insurance Gen Liability	(662)	(477)	(609)	(687)	(675)	(617)	(745)	(611)	(626)	(641)	(596)	(772)	(7,717)
558000	Insurance Work Comp	1,231	886	1,133	1,277	1,255	1,147	1,386	1,137	1,164	1,192	1,109	1,436	14,355
559000	Insurance Other	5,999	4,322	5,373	6,226	6,119	5,591	6,756	5,545	5,674	5,813	5,407	7,002	69,826
570100	Uncollectible Accounts		21,704		(9)		186		(7,995)			(742)	(99)	13,044
575000	Miscellaneous	4,244	4,640	3,834	(9,823)	2,050	(2)	(2,431)	2,667	(1,693)	(5,400)	4,373	2,851	5,312
575002	Misc General Office	3,673	402	1,790	1,562	1,974	49	1,701	698	2,187	727	866	2,051	17,679
575030	Advertising	26	1,939	716	739	1,639	(176)	850	966	724	533	216	(269)	7,902
575100	Bank Service Charges	22	20	25	29	102	26	31	25	26	37	25	33	401
575130	Brochures and Handouts	53	150	532	89	240	2,422	1,683	224	815	129	(1,911)	962	5,387
575140	Charitable Contributions Deduct	152	92	675	1,030	3,104	246	392	307	15	10	3,330	1,951	11,306
575141	Charitable Contributions Nondeductible			8										8
575220	Community Relations	336	211	214	5,143	2,221	237	232	668	59	475	95	60	9,951
575240	Co Dues/Membership Deduct	253	115	129	261	139	382	174	304	144	633	190	413	3,136
575241	Co Dues/Membership Nondeductible	39	41	51	53	41	67	41	41		41	41	62	516
575242	Co Dues Deduct AWWA					10					531			540
575250	Condemnation Costs	-						37		28				65
575261	Credit Line Fees Inside	28	20	26	29	29	26	32	26	27	27	25	33	329
575276	Discounts Lost				3				20	2	1			26
575280	Dues/Membership Deductible	3,424	603	1,740	472	416	2,320	(42)	741	2,720	1,813	2,131	687	17,027
575281	Dues/Membership Nondeductible	6										23	(3)	25
575320	Electricity	2,775	3,375	3,907	4,197	4,253	4,057	4,712	6,650	4,374	4,086	3,584	4,465	50,435
575340	Employee Expense P/R JE	14,395	22,043	26,313	22,730	33,623	25,773	19,326	48,307	22,335	(5,528)	21,848	2,102	253,269
575342	Employee Exp Conf/Registration	946	1,304	1,616	1,795	1,066	1,998	2,051	5,628	1,736	1,360	1,499	1,065	22,064
575350	Meals Deduct	4,073	1,612	1,407	2,056	2,323	1,868	1,759	3,101	1,106	6,050	1,802	959	28,116

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Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
575351	Meals Non Deduct	4,045	1,613	1,421	2,056	2,323	1,902	1,762	3,102	1,112	6,060	1,795	998	28,188
575400	Bus Services Project Exp		1									33		34
575420	Forms	75	30	1	242	57	1	472	2	1	50	140	259	1,331
575460	Grounds Keeping	146	108	137	155	165	139	319	162	141	162	135	174	1,943
575480	Heat - Oil/Gas	556	517	569	458	442	364	431	353	399	470	344	649	5,551
575500	Janitorial	1,430	1,047	1,296	1,509	1,466	1,335	1,616	1,351	1,387	1,854	1,298	1,908	17,495
575610	Merger Transactional Costs		5	(5)										-
575620	Office & Admin Supplies	285	4,247	6,785	5,263	5,207	5,021	5,630	6,341	4,526	5,027	6,001	6,295	60,629
575625	Overnight Shipping	1,295	1,064	1,456	2,264	1,524	1,560	1,696	2,153	1,648	1,740	1,278	1,615	19,294
575640	Penalties Nondeductible	(136)	6,283	(110)	(3,772)	(170)	(178)	(160)	(3,352)	(155)	(159)	(98)	(159)	(2,167)
575660	Postage	886	(20)	870	909	894	921	981	1,027	882	844	1,040	1,188	10,422
575670	Relocation Expenses	62,459	493	5,568	1,001	4,331	8,732	(606)	16,030	(3,400)	32,797	1,593	(6,013)	122,985
575680	Research & Development Exp	(1)	(1)	(1)	21	295	(1)	33	(1)	(1)	(1)	(1)	(1)	338
575710	Security Service	1,041	780	963	1,078	1,762	977	1,181	969	992	1,016	952	1,224	12,935
575715	Software Licenses & Support	(184)	2,992	6,175	(460)	957	2,042	2,692	5,278	3,903	5,158	7,528	1,754	37,834
575740	Telephone	12,547	10,010	12,869	11,751	13,309	12,437	14,207	14,314	12,887	12,479	12,787	16,308	155,905
575741	Cell Phone	320	2,165	2,358	2,671	2,842	2,632	2,975	2,848	3,569	2,858	3,191	3,717	32,144
575742	Data Lines	(1,930)	1,498	4,849	3,484	3,958	4,359	(4,633)	5,634	5,401	1,288	2,238	5,475	31,621
575743	Wireless Service 1st	(0)	(0)	2	2	3	4	981	(976)	2	2	2	(0)	22
575775	Trade Shows	582	204	1,053	(54)	1,813	131	160	783	1,239	3,373	2,991	277	12,553
575780	Trash Removal	135	119	136	151	136	124	178	137	126	142	147	169	1,701
575790	Trustee Fees	1	0	1	1	1	1	1	1	1	1	1	1	7
575998	PCard Undistributed	(8,638)	6,091	3,748	(5,297)	3,091	528	1,257	(22,092)	1,236	768	3,229	868	(15,209)
575999	Purchased Card							-						-
675000	Misc Maintenance	17,785	17,615	27,208	5,881	19,450	18,249	25,710	17,538	18,237	25,822	28,120	23,553	245,168
675250	Comp Equip Hardware	885	1,486	1,386	1,488	1,470	1,918	1,860	1,365	1,785	1,444	1,351	1,597	18,035
675350	HVAC Equipment	653	467	715	655	652	580	849	575	738	603	561	726	7,773
675450	Office Equipment	58	39	50	56	55	56	66	50	51	52	49	63	645
680110	Depreciation Exp-General	45,606	32,853	41,992	47,327	46,518	42,504	51,356	42,152	43,137	44,191	41,102	53,228	531,965
685200	Property Taxes	1,130	814	1,041	1,173	1,565	1,466	1,685	1,457	1,481	1,507	1,431	1,731	16,482
685320	FUTA	572	491	577	511	511	496	464	486	465	482	485	563	6,103
685325	FICA	30,663	26,296	30,952	27,402	27,388	26,654	25,915	25,064	25,045	25,926	26,022	32,024	329,352
685350	SUTA	3,177	2,719	3,208	2,840	2,838	2,757	2,576	2,701	2,774	2,676	2,190	3,128	33,584
685430	Other Taxes and Licenses	1,591	(20,599)	140	491	1,495	379	86	45	12,853	(430)	580	779	(2,590)
685440	Gross Receipts Tax												110	110
690110	FIT-Current	3,615	2,604	3,329	3,752	3,688	3,369	4,071	3,342	3,420	3,503	3,258	4,220	42,172
690120	FIT-Prior Year Adjustment	3,233	2,329	2,977	3,355	3,297	3,013	3,640	2,988	3,058	3,132	2,913	3,773	37,707
690210	SIT-Current	560	403	515	581	571	521	630	517	529	542	504	653	6,527
690220	SIT-Prior Year Adjustment	(398)	(287)	(366)	(413)	(406)	(371)	(448)	(368)	(376)	(385)	(358)	(464)	(4,640)
690610	Def FIT-Current	190	137	175	197	193	177	213	175	179	184	171	221	2,211
690620	Def FIT-Pr Yr Adjustment	(3,394)	(2,445)	(3,125)	(3,522)	(3,462)	(3,163)	(3,822)	(3,137)	(3,210)	(3,289)	(3,059)	(3,961)	(39,591)
690640	Def FIT-Norm Depreciation	4,290	3,090	3,950	4,451	4,375	3,998	4,830	3,965	4,057	4,157	3,866	5,006	50,035
690650	Def FIT-Other	(7,991)	(5,756)	(7,358)	(8,292)	(8,151)	(7,447)	(8,998)	(7,386)	(7,558)	(7,743)	(7,202)	(9,326)	(93,208)
690710	Def SIT-Current	35	25	32	36	35	32	39	32	33	34	31	41	405
690720	Def SIT-Pr Yr Adjustment	485	349	447	503	495	452	546	448	459	470	437	566	5,659
690750	Def SIT-Other	(575)	(414)	(530)	(597)	(587)	(536)	(648)	(532)	(544)	(557)	(518)	(671)	(6,708)
710400	Interest Income-Outside	(13,543)	(9,756)	(62,222)	35,698	(13,814)	(12,622)	(15,250)	(12,517)	(12,810)	(13,123)	(12,205)	(15,806)	(157,968)
721305	Gains NUP Ordinary	241	173	222	250	246	224	271	223	228	233	217	281	2,809
760200	Other Income Deductions	348												348
810301	Interest Cap Lease-AW02	19,087	13,750	17,575	19,808	19,469	22,428	26,008	22,029	22,315	22,629	21,207	26,153	252,459
810400	Interest LTD-Inside	4,888	4,889	4,764	4,617	4,498	(242)	(292)	(240)	(246)	(252)	(234)	(303)	21,848
830000	Interest on ST Debt-Outside	(0)	(0)	49,752	(49,752)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
840000	Other Interest Expense	6	2,811	(16)	(10)	3	7	(28)	(135)	1	(6)	1	61	2,696
Total O&M Expenses		980,132	963,459	918,079	972,887	1,107,476	975,187	1,032,078	984,151	987,216	987,748	1,075,543	1,043,118	12,027,074
Capitalized Costs		134,960	105,944	107,687	91,093	86,243	90,435	126,387	95,389	85,874	108,201	109,277	105,134	1,246,625
Total Service Company Charges		1,115,092	1,069,403	1,025,765	1,063,98 0	1,193,719	1,065,621	1,158,465	1,079,540	1,073,091	1,095,950	1,184,820	1,148,253	13,273,699

Arizona American Water Company
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Monthly Service Company Charges by Object Account
12 Months ending December 2008

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Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
501200	Labor	423,016	401,796	381,602	413,721	419,847	429,799	464,598	335,440	400,061	410,359	374,325	453,561	4,908,125
501711	Incentive Plan-Off-Annual	40,723	41,709	36,896	41,068	42,835	59,210	52,284	40,378	31,015	38,598	41,210	39,236	505,164
501712	Incentive Plan-Off-Long Term			35,512	39,832	14,800	(0)	(7,120)					(52,485)	30,538
501715	Retention/Completion	17,310	17,310	23,315	2,369	-		(4,632)					2,784	58,456
501716	Compensation Exp-Options						1,300	6,497	5,837	5,382	5,469	5,930	6,279	36,693
501717	Compensation Exp-Restricted Stock					12,818		16,015						28,834
501718	Compensation Exp-Restricted Stock Units						(13,047)	3,303	2,916	1,860	4,019	1,650	3,346	4,046
501719	Compensation Exp-Notional Dividend											1,664	(1,664)	-
504100	Group Ins Maintenance	65,936	62,908	58,313	57,368	58,848	58,319	59,206	52,373	60,331	49,787	50,993	55,091	689,472
504341	Defined Contr Supp Exec Retirement Plan Exp				267	67	1,154	67	67	67	73	73	73	1,907
504342	401 K Restoration Exp				580	145	145	145	153	153	153	153	153	1,782
504500	Other Welfare Maintenance	35,172	3,069	1,424	11,661	14,970	4,545	6,478	4,260	12,290	5,295	6,071	14,801	120,036
504610	Employee Awards	383	342	930	1,436	(223)	1,032	1,580	3,766	1,523	545	1,529	657	13,500
504620	Employee Physical Exam	25	129		4	26	42	4		4	26	131	132	523
504660	Tuition Aid	1,657	852	484	(156)	2,094	487	1,278	3,668	1,033	2,329	733	1,476	15,935
504670	Training	3,045	3,180	6,023	8,036	11,128	5,431	6,091	8,701	5,222	4,523	8,077	3,034	72,492
504671	Training-Safety	1,549	1,814	1,723	1,991	1,549	1,847	1,641	1,572	1,572	1,935	1,823	1,572	20,587
505100	PBOP	13,189	12,683	11,680	11,483	11,811	11,684	11,859	10,513	12,056	9,988	10,254	11,080	138,280
506100	Pension	47,298	45,485	41,887	41,180	42,359	41,901	42,530	37,702	43,237	35,821	36,773	39,736	495,909
507100	401k	7,178	7,424	6,623	7,005	7,133	7,123	9,275	6,734	7,165	9,215	9,380	12,923	97,180
508101	Defined Contribution Plan	6,646	7,273	6,971	6,892	7,230	7,018	10,463	6,903	6,886	6,765	7,255	10,882	91,185
508200	Employee Stock Purchase Plan									1,613	558	558	943	3,671
520100	Materials & Supplies Operations	(0)	3	487		131	-	713	(547)	2,261	(59)	(11)	176	3,154
531000	Contract Services-Engineering	-	3,866	257	67	3,778	4,049	7,565	10,435	6,485	(1,198)	2,571	2,566	40,441
532000	Contract Services-Accounting	1,815	798	418	0	2,877	5,793	8,575	6,077	7,195	322	1,778	232	35,878
533000	Contract Services-Legal	980	1,659	866	1,366	1,685	1,164	6,535	1,546	3,273	1,838	1,143	4,132	26,187
533001	Contract Services-Litigation												-	-
535000	Contract Services-Other	130,927	129,815	120,596	84,426	70,325	81,296	92,654	63,479	42,858	66,021	58,203	67,766	1,008,367
535001	Contract Services-Temp Employee	5,982	6,700	11,449	8,972	10,087	5,905	9,281	5,399	9,532	6,234	3,913	4,252	87,708
536000	Contract Services-Lab Testing		20	39	32	(95)	41	(884)	(1,143)	(912)	(945)	(1,050)	(170)	(5,067)
541000	Rents-Real Property	20,281	30,090	10,640	22,426	19,556	18,585	16,816	18,756	13,203	17,470	20,974	20,729	229,525
541001	Rents-Real Property Intercompany	6,090	9,625	2,706	6,561	5,838	5,379	5,000	5,566	3,587	5,108	6,366	6,270	68,095
541400	Rents-Equipment	1,645	2,148	965	1,915	1,327	1,649	1,441	1,249	825	1,211	1,438	1,391	17,207
550000	Transportation IT-Admin	1,809	1,420	1,416	1,466	1,600	1,659	1,651	1,528	1,514	1,318	1,632	1,589	18,604
550001	Transportation Lease Cost	862	1,384	363	928	828	761	707	787	508	723	901	909	9,660
550002	Transportation Lease Fuel	354	590	153	401	339	315	290	326	213	295	372	365	4,015
550003	Transportation Lease Maintenance	232	369	101	250	223	213	191	232	140	192	243	239	2,626
557000	Insurance Gen Liability	2,859	4,518	1,270	3,080	2,740	2,525	2,347	2,612	1,684	2,397	2,988	2,943	31,963
558000	Insurance Work Comp	2,319	3,665	1,031	2,499	2,223	2,048	1,904	2,120	1,366	1,945	2,424	2,388	25,933
559000	Insurance Other	4,425	6,993	1,967	4,767	4,242	3,908	3,365	4,044	2,606	3,711	4,626	4,556	49,210
570100	Uncollectible Accounts	(125)	85	368			609	0	6	(0)	43		90	1,076
575000	Miscellaneous	(5,792)	3,045	105	(2,763)	650	19,766	(5,969)	(19,363)	3,691	(8,206)	1,395	1,268	(12,173)
575002	Misc General Office	1,615	6,161	3,669	(2,727)	579	1,889	3,211	852	1,891	609	1,149	1,869	20,766
575030	Advertising	1,498	834	826	419	(293)	1,210	67	846	224	1,248	335	(284)	6,930
575100	Bank Service Charges	1	2	1	2	1	1	1	1	1	1	2	2	16
575130	Brochures and Handouts	450	(342)	50	278	796	(145)	516	133	551	176	178	3	2,645
575140	Charitable Contributions Deduct	172	47	222	42	3,227	1,263	275	10	2	211	213	2,078	7,762
575141	Charitable Contributions Nondeductible				742									742
575220	Community Relations	33	296	104	1,732	1,875	358	334	11	521	58	59	-	5,380
575240	Co Dues/Membership Deduct	188	356	172	81	102	166	463	304	351	265	276	489	3,213
575241	Co Dues/Membership Nondeductible	95	1,035	24	102	113	91	89	94	76	90	122	55	1,985
575242	Co Dues Deduct AWWA								31			8	-	39
575250	Condemnation Costs								85	-				85
575260	Credit Line Fees			0		(0)								-
575261	Credit Line Fees Inside	20	31	9	21	19	18	16	18	12	17	21	20	222
575276	Discounts Lost	0	0	0	0	0	0	0	0	0	0	0	0	3
575280	Dues/Membership Deductible	2,169	668	441	358	2,681	575	1,097	483	1,304	890	3,209	1,278	15,154
575281	Dues/Membership Nondeductible							45				7		52

Arizona American Water Company
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Monthly Service Company Charges by Object Account
12 Months ending December 2008

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
575320	Electricity	4,838	5,702	2,975	4,428	4,651	2,356	4,086	4,246	3,168	2,704	4,389	4,161	47,704
575340	Employee Expense P/R JE	18,122	22,157	29,171	30,778	30,462	38,140	16,314	23,718	21,961	18,286	21,132	4,828	275,070
575342	Employee Exp Conf/Registration	2,370	604	2,565	2,907	493	1,072	6,600	1,332	3,786	704	657	1,092	24,183
575350	Meals Deduct	1,801	1,664	2,782	4,038	1,869	2,205	1,802	3,170	2,019	2,259	1,455	1,827	26,890
575351	Meals Non Deduct	1,801	1,671	2,822	4,044	1,871	2,565	1,805	3,170	1,999	2,273	1,455	1,790	27,268
575420	Forms	723			78	147	27	148	142	122	11	447		1,845
575460	Grounds Keeping	207	238	70	169	162	194	154	160	113	143	183	167	1,957
575480	Heat - Oil/Gas	706	736	269	482	396	384	344	443	462	356	582	513	5,672
575490	Injuries and Damages				219									219
575500	Janitorial	1,536	2,393	752	1,837	1,770	1,301	1,360	1,653	921	1,540	1,640	1,671	18,374
575620	Office & Admin Supplies	4,107	6,403	5,701	6,407	6,514	4,596	6,315	6,749	4,110	6,562	4,551	9,688	71,701
575625	Overnight Shipping	1,625	2,244	1,403	1,464	1,773	1,417	1,453	1,402	980	1,477	1,661	1,496	18,394
575640	Penalties Nondeductible	24	38	68	215	357	20	11	(98)	10	278	34	139	1,095
575660	Postage	1,175	1,781	501	1,221	1,083	995	1,024	1,509	251	1,004	1,179	1,159	12,883
575670	Relocation Expenses	10,555	19,303	1,798	819	2,152	2,484	71	9,408	3,023	3,356	1,664	(354)	54,279
575710	Security Service	1,072	1,792	407	1,154	1,085	946	880	1,037	631	899	1,140	1,103	12,145
575715	Software Licenses & Support	3,699	2,046	1,229	11,309	(797)	2,111	1,266	1,315	5,654	1,168	3,042	2,512	34,553
575740	Telephone	12,150	23,496	8,279	12,672	15,844	29,642	(2,784)	12,018	16,715	11,916	10,232	11,820	162,001
575741	Cell Phone	3,238	3,292	2,966	3,023	3,210	1,018	16,400	3,654	13,454	4,783	(11,198)	(2,541)	41,300
575742	Data Lines	6,246	7,929	5,409	7,276	6,920	(5,468)	10,391	(17,542)	1,991	2,649	2,994	3,070	31,864
575743	Wireless Service 1st	7	2	2	2	4	37	5	37	60	64	40	47	307
575775	Trade Shows	1,331	234	0	150	285	1,805	81	(177)	797	2,776	(424)	3,264	10,122
575780	Trash Removal	172	265	85	171	182	140	160	145	104	148	178	176	1,927
575998	PCard Undistributed	(42)	2,175	1,018	3,658	1,470	(8,535)	5,592	1,372	(3,353)	3,717	(2,963)	993	5,101
675000	Misc Maintenance	18,623	30,188	8,017	20,526	17,232	16,422	16,483	17,584	12,103	19,658	21,486	19,557	217,880
675250	Comp Equip Hardware	930	810	759	1,220	764	947	1,087	(3,596)	418	189	198	194	3,920
675350	HVAC Equipment	687	861	242	721	552	623	470	498	333	608	573	561	6,731
675450	Office Equipment	13	39	6	89	13	12	13	12	8	55	178	14	451
680112	Depreciation Exp Non-Utility	51,396	-	162,828	80,834	73,706	86,218	73,482	100,701	81,399	78,750	79,800	87,908	957,023
685200	Property Taxes	1,929	2,806	1,089	2,046	1,445	1,647	2,875	2,296	22,408	4,399	(27,598)	1,556	16,899
685320	FUTA	479	463	431	421	429	425	431	383	437	363	373	403	5,040
685325	FICA	35,086	34,972	42,965	31,496	31,414	30,954	33,283	28,094	31,283	26,632	27,722	29,774	383,675
685350	SUTA	2,486	2,483	2,188	389	2,193	2,192	3,294	2,103	2,208	1,897	1,969	2,111	25,513
685430	Other Taxes and Licenses	339	15	408	358	(114)	8	13	79	4	31	1	0	1,143
690110	FIT-Current	(22,298)	(35,239)	(9,909)	(24,021)	(21,375)	(19,693)	(18,306)	(20,377)	(13,133)	(18,701)	(23,308)	(22,958)	(249,319)
690120	FIT-Prior Year Adjustment	(14,705)	(23,241)	(6,535)	(15,842)	(14,097)	(12,987)	(12,073)	(13,439)	(8,661)	(12,333)	(15,372)	(15,141)	(164,428)
690210	SIT-Current	18	29	8	20	18	16	15	17	11	15	19	19	205
690220	SIT-Prior Year Adjustment	(369)	(583)	(164)	(397)	(354)	(326)	(303)	(337)	(217)	(309)	(386)	(380)	(4,124)
690610	Def FIT-Current	380	600	169	409	364	335	312	347	224	318	397	391	4,245
690620	Def FIT-Pr Yr Adjustment	14,689	23,215	6,528	15,825	14,082	12,973	12,060	13,424	8,652	12,320	15,355	15,125	164,249
690640	Def FIT-Norm Depreciation	3,205	5,065	1,424	3,453	3,072	2,831	2,631	2,929	1,888	2,688	3,350	3,300	35,836
690650	Def FIT-Other	18,023	28,483	8,009	19,416	17,277	15,917	14,797	16,471	10,615	15,115	18,840	18,557	201,519
690710	Def SIT-Current	(2)	(4)	(1)	(2)	(2)	(2)	(2)	(2)	(1)	(2)	(2)	(2)	(26)
690720	Def SIT-Pr Yr Adjustment	395	624	176	426	379	349	324	361	233	331	413	407	4,417
690750	Def SIT-Other	(158)	(249)	(70)	(170)	(151)	(139)	(130)	(144)	(93)	(132)	(165)	(163)	(1,765)
710400	Interest Income-Outside	-	-	-	-	-	-	-	-	-	-	-	-	-
710500	Interest Income-Inside	(2,359)	(3,729)	(1,048)	(2,542)	(2,262)	(2,084)	(1,937)	(2,156)	(1,390)	(1,979)	(2,466)	(2,429)	(26,380)
721304	Gains/(Losses) NUP Disposals	1,590	2,514	707	1,713	1,525	1,405	1,306	1,454	937	1,334	1,663	1,638	17,784
721305	Gains NUP Ordinary	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
722306	Gains Other Non-OR	(31)	(49)	(14)	(63)	128	10,791	(13,612)	(2,758)	1,505	(15,961)	(20,877)	(5,988)	(46,929)
810301	Interest Cap Lease-AW02	22,994	33,528	12,110	23,668	21,207	19,735	18,470	20,135	14,023	18,606	22,387	22,021	248,884
840000	Other Interest Expense	16	13	(5)	26	29	7	9	(11)	16	9	94	9	213
Total O&M Expenses		1,054,853	1,031,640	1,074,690	1,040,722	1,014,269	1,027,104	1,048,327	849,893	940,619	890,420	822,782	935,909	11,731,228
Capitalized Costs		47,219	71,895	69,986	77,772	88,313	70,005	97,433	77,353	82,074	83,068	82,710	102,157	949,984
Total Service Company Charges		1,102,072	1,103,53 6	1,144,676	1,118,493	1,102,581	1,097,110	1,145,759	927,245	1,022,694	973,488	905,492	1,038,067	12,681,213

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Monthly Service Company Charges by Object Account
12 Months ending December 2009

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
501200	Labor	405,733	362,918	417,000	415,985	403,716	394,684	429,161	377,715	429,317	442,259	410,552	422,616	4,911,657
501210	Labor Non Scheduled Overtime	9	33,219	106	409	613	1,088	9,892	786	1,045	729	197	665	48,759
501211	Labor Overtime	55	1,590	4,340	4,384	4,891	8,756	7,907	9,082	11,366	9,545	15,181	6,636	83,733
501711	Incentive Plan-Off-Annual	43,903	37,005	(10,175)	95,339	40,793	62,259	43,354	39,449	39,550	42,884	68,182	41,484	544,028
501716	Compensation Exp-Options	17,247	(438)	7,855	5,883	7,741	7,643	7,942	7,651	8,143	7,488	8,487	7,545	93,187
501718	Compensation Exp-Restricted Stock Units	17,369	(184)	8,031	6,015	7,914	7,814	8,120	7,822	8,326	7,656	8,677	7,714	95,275
504100	Group Ins Maintenance	57,529	70,334	58,979	43,521	59,985	60,333	62,115	60,193	64,303	59,052	68,097	58,741	723,181
504341	Defined Contr Supp Exec Retirement Plan Exp	168	200	252	216	154	152	158	152	139	149	169	150	2,058
504342	401 K Restoration Exp	126	133	570	140	38	37	39	37	(30)	37	41	37	1,206
504500	Other Welfare Maintenance	3,792	2,101	361	10,858	25,381	2,762	7,332	59,843	73,406	60,778	542	28,813	275,971
504610	Employee Awards	233	337	1,349	315	433	172	798	987	1,432	880	464	1,981	9,381
504620	Employee Physical Exam			1		55		302					320	678
504660	Tuition Aid	3,745	1,437	789	2,640	1,591	1,001	574	2,618	1,585	1,313	599	1,197	19,086
504670	Training	1,013	4,173	1,634	2,392	1,003	1,347	1,238	2,960	4,772	1,870	10,457	5,964	38,824
504671	Training-Safety	1,629	1,756	1,629	1,629	1,629	1,629	1,724	1,629	2,168	1,629	1,629	1,629	20,309
505100	PBOP	15,993	19,289	16,489	12,348	16,248	16,043	16,672	16,059	17,093	15,717	17,815	15,838	195,606
506100	Pension	74,543	89,905	76,851	57,554	75,729	74,776	77,705	74,851	79,668	73,256	83,034	73,819	911,692
507100	401k	7,527	8,052	7,271	7,517	7,737	10,630	7,363	7,219	7,760	7,901	10,936	6,716	96,628
508101	Defined Contribution Plan	7,574	7,288	7,236	7,409	7,819	10,732	7,547	7,232	7,993	7,785	11,750	8,073	98,438
508200	Employee Stock Purchase Plan	961	867	654	654	654	775	775	775	544	544	544	661	8,408
520100	Materials & Supplies Operations		576	(231)	0	121	111	0	2	-	40	65	490	1,174
531000	Contract Services-Engineering	2,594	2,587	2,636	2,587	2,587	2,587	6,411	4,028	4,028	3,971	3,045	794	37,858
532000	Contract Services-Accounting	1,481	662	-	-	384	5,210	1,727	(25)	1,453	-	(2,051)		8,840
533000	Contract Services-Legal	1,800	1,055	4,473	2,504	3,798	2,303	(971)	1,740	1,221	1,984	1,324	2,269	23,500
533001	Contract Services-Litigation				(1)									(1)
535000	Contract Services-Other	68,269	36,142	11,106	42,069	28,339	27,792	31,392	33,883	41,553	46,400	51,647	156,083	574,674
535001	Contract Services-Temp Employee	1,685	3,143	3,296	3,179	4,067	5,072	4,816	3,334	4,863	6,683	4,821	5,338	50,296
536000	Contract Services-Lab Testing	(1,391)	(708)	(1,090)	(881)	(934)	(731)	(876)	(967)	(1,172)	(2,351)	(1,026)	(1,612)	(13,738)
541000	Rents-Real Property	19,828	21,190	6,187	15,082	15,941	11,385	17,113	13,063	15,498	13,756	12,452	19,003	180,499
541001	Rents-Real Property Intercompany	11,969	12,851	2,441	8,270	9,486	7,055	10,043	6,795	9,470	7,689	6,694	11,470	104,233
541400	Rents-Equipment	1,268	1,315	245	966	1,058	701	1,186	676	931	886	923	1,373	11,529
541401	Rents-Equipment Intercompany	375	402	76	259	297	221	314	213	296	239	209	358	3,260
550000	Transportation IT-Admin	1,924	2,000	2,472	2,133	2,119	2,110	2,358	1,898	1,968	2,129	1,658	1,861	24,629
550001	Transportation Lease Cost	970	1,042	198	671	769	572	814	551	768	620	543	929	8,447
550002	Transportation Lease Fuel	315	338	64	218	250	186	273	181	249	203	176	301	2,754
550003	Transportation Lease Maintenance	139	150	28	96	110	83	116	79	110	89	78	133	1,213
556000	Insurance Vehicle	49	53	10	34	39	29	41	28	39	31	28	47	429
557000	Insurance Gen Liability	7,728	8,298	1,576	5,340	6,125	4,555	6,484	4,387	6,115	4,940	4,314	7,396	67,258
558000	Insurance Work Comp	2,448	2,628	499	1,691	1,940	1,443	2,054	1,390	1,937	1,564	1,366	2,342	21,302
559000	Insurance Other	2,467	2,648	503	1,704	1,954	1,454	2,069	1,400	1,951	1,576	1,377	2,360	21,462
570100	Uncollectible Accounts	(87)	1	40	(43)	(24)	2	(368)	(12)	15	(53)	0	1,641	1,114
575000	Miscellaneous	3,387	(3,523)	(3,246)	246	1,280	2,474	2,076	(4,197)	(3,343)	8,247	1,415	(3,496)	1,320
575002	Misc General Office	1,112	4,229	1,033	1,826	1,831	3,071	2,486	3,118	76	4,611	7,721	218	31,333
575030	Advertising	81	558	1,156	614	1,194	7	261	1,423	763	(270)	125	456	6,368
575100	Bank Service Charges	1	1	0	0	1	0	1	0	1	0	0	177	183
575130	Brochures and Handouts	(1)	33	11	4	4	46	213	(71)	628	208	46	26	1,147
575140	Charitable Contributions Deduct	442		47	243	83	3,456					221	1,937	6,430
575141	Charitable Contributions Nondeductible				83									83
575220	Community Relations	-	-	49	-	543	94	283	111	33	11	24	509	1,656
575240	Co Dues/Membership Deduct	580	234	235	214	272	438	81	113	172	159	26	48	2,571
575241	Co Dues/Membership Nondeductible	136	95	56	31	49	26	38	25	35	29	25	43	588
575242	Co Dues Deduct AWWA								82			9	-	91
575250	Condemnation Costs									144	1			145
575261	Credit Line Fees Inside	140	150	29	97	111	83	118	80	111	90	78	134	1,220
575280	Dues/Membership Deductible	7,145	1,452	1,537	1,235	895	1,997	1,402	778	2,291	1,193	(312)	2,895	22,509
575281	Dues/Membership Nondeductible										7			7
575320	Electricity	4,630	4,041	2,072	3,132	3,833	3,408	3,858	3,193	3,815	3,481	3,253	4,140	42,856
575340	Employee Expense P/R JE	14,868	17,361	20,841	20,689	23,693	22,426	16,837	14,075	15,666	25,097	21,651	18,086	231,290

Arizona American Water Company
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Monthly Service Company Charges by Object Account
12 Months ending December 2009

Response to Data Request No. RUCO 2-61

Account	Description	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
575342	Employee Exp Conf/Registration	1,408	1,802	2,080	3,727	2,718	1,386	897	1,224	1,393	536	36	2,090	19,297
575350	Meals Deduct	2,626	121	2,146	2,211	1,736	1,832	1,405	2,202	1,944	1,576	1,543	1,495	20,838
575351	Meals Non Deduct	2,626	124	2,143	1,754	1,742	1,848	1,429	2,210	1,960	1,596	1,559	1,391	20,381
575420	Forms		437	264	22				6	11	110	8	208	1,067
575460	Grounds Keeping	31	32	4	13	77	37	36	27	27	16	11	58	368
575480	Heat - Oil/Gas	132	290	177	70	516	247	145	147	184	134	138	218	2,399
575500	Janitorial	1,366	1,357	519	991	1,115	934	1,109	837	1,113	969	871	1,611	12,793
575610	Merger Transactional Costs						1	(0)			1			2
575620	Office & Admin Supplies	6,520	5,627	5,645	6,278	5,359	6,174	5,860	4,620	7,085	5,520	4,822	6,665	70,174
575625	Overnight Shipping	1,442	1,453	303	953	1,193	1,448	1,137	742	1,054	924	819	1,245	12,714
575640	Penalties Nondeductible	333	(3)	59	0	(45)	2	2	2	141	2	2	2	498
575660	Postage	1,504	1,871	(463)	908	1,132	778	1,066	790	1,104	848	702	1,303	11,542
575670	Relocation Expenses	2,063	(49)	1,257	2,007	1,635	1,428	8,436	7,941	2,965	5,526	13,172	43,129	89,512
575680	Research and Development Expense												18	18
575710	Security Service	418	513	41	404	327	369	320	221	305	242	214	362	3,734
575715	Software Licenses & Support	2,952	1,463	3,171	1,464	672	2,687	5,500	4,245	629	4,067	4,682	5,521	37,053
575740	Telephone	5,783	13,697	7,120	8,463	9,537	6,091	7,815	6,160	6,877	6,172	7,062	7,681	92,459
575741	Cell Phone	3,854	(1,164)	6,656	3,158	2,969	2,108	2,610	2,841	2,510	2,732	2,808	2,754	33,834
575742	Data Lines	6,233	6,758	1,535	4,410	5,056	3,882	5,354	3,684	5,152	4,130	3,592	6,125	55,910
575743	Wireless Service 1st	(49)	-	-	-	-	-	-	-	-	-	-	-	(49)
575775	Trade Shows	521	351	-	175	237	567	331	(155)	210	2,447	1,098	235	6,017
575780	Trash Removal	175	187	58	113	141	120	136	94	142	122	113	182	1,584
575998	PCard Undistributed	794	(138)	3,269	(1,210)	(1,413)	3,266	(1,853)	(1,133)	(2,266)	1,836	(2,301)	(1,035)	(2,184)
675000	Misc Maintenance	28,403	30,372	6,200	18,480	20,858	29,442	22,294	16,195	20,708	19,615	14,157	25,768	252,491
675250	Comp Equip Hardware	366	321	225	562	(31)	210	223	416	356	210	(19)	706	3,545
675350	HVAC Equipment	552	434	73	411	315	381	341	249	443	298	260	536	4,293
675450	Office Equipment	18	42	4	88	14	10	91	10	14	11	86	(210)	178
680112	Depreciation Exp Non-Utility	90,286	(18,551)	82,917	88,141	101,590	97,969	99,228	94,971	101,632	97,970	104,053	109,959	1,050,165
685200	Property Taxes	341	366	69	235	270	201	286	193	270	218	190	326	2,966
685320	FUTA	284	351	293	219	289	285	296	285	304	279	316	281	3,482
685325	FICA	29,940	38,761	30,837	23,116	30,416	30,034	31,210	30,063	31,998	29,423	33,350	29,649	368,797
685350	SUTA	1,569	1,936	1,617	1,225	1,594	1,574	1,635	1,575	1,677	1,542	1,747	1,553	19,245
685430	Other Taxes and Licenses	24	122	3	73	21	8	59	8	11	19	8	13	368
690110	FIT-Current	3,502	3,761	714	2,420	2,776	2,065	2,939	1,988	2,771	2,239	1,955	3,352	30,482
690120	FIT-Prior Year Adjustment	10,083	10,826	2,056	6,967	7,991	5,943	8,460	5,724	7,978	6,444	5,628	9,649	87,749
690210	SIT-Current	-	-	-	-	-	-	-	-	-	-	-	-	-
690220	SIT-Prior Year Adjustment	2,985	2,894	830	1,862	1,856	1,589	2,262	1,530	2,133	1,723	1,505	2,579	23,748
690610	Def FIT-Current	-	-	-	-	-	-	-	-	-	-	-	-	-
690620	Def FIT-Pr Yr Adjustment	(9,716)	(10,432)	(1,982)	(6,713)	(7,700)	(5,727)	(8,152)	(5,516)	(7,688)	(6,210)	(5,424)	(9,298)	(84,559)
690640	Def FIT-Norm Depreciation	-	-	-	-	-	-	-	-	-	-	-	-	-
690650	Def FIT-Other	(3,938)	(4,228)	(803)	(2,721)	(3,121)	(2,321)	(3,304)	(2,235)	(3,116)	(2,517)	(2,198)	(3,768)	(34,268)
690710	Def SIT-Current	-	-	-	-	-	-	-	-	-	-	-	-	-
690720	Def SIT-Pr Yr Adjustment	(2,593)	(2,784)	(529)	(1,792)	(2,055)	(1,528)	(2,176)	(1,472)	(2,052)	(1,657)	(1,447)	(2,482)	(22,567)
690750	Def SIT-Other	(84)	(91)	(17)	(58)	(67)	(50)	(71)	(48)	(67)	(54)	(47)	(81)	(734)
710500	Interest Income-Inside	(59)	(63)	(12)	(41)	(47)	(35)	(49)	(33)	(47)	(38)	(33)	(56)	(513)
721304	Gains/(Losses) NUP Disposals	697	748	142	481	552	411	585	396	551	445	389	667	6,064
722306	Gains Other Non-OR	7,979	(3,867)	(5,478)	7,333	6,372	6,272	1,791	6,678	4,701	5,180	614	4,941	42,516
760100	Donations Deduct			4										4
810300	Interest Cap Lease-Outside					14	14	13	13	12	12	11	10	99
810301	Interest Cap Lease-AW02	20,750	22,024	6,275	15,004	27,670	12,585	18,403	12,756	16,725	13,918	12,393	19,523	198,026
830100	Interest STD Inside	255	273	52	176	202	150	214	144	201	163	142	244	2,215
840000	Other Interest Expense	246	2,287	101	9	(49)	7	0	0	0	0	0	0	2,602
Total O&M Expenses		1,038,121	871,219	819,153	980,891	1,000,772	986,995	1,021,680	969,027	1,082,322	1,083,470	1,047,868	1,203,471	12,104,988
Capitalized Costs		83,990	120,397	96,616	119,147	124,010	143,381	103,841	98,391	100,382	97,582	127,318	107,536	1,322,591
Total Service Company Charges		1,122,111	991,617	915,769	1,100,037	1,124,782	1,130,375	1,125,521	1,067,417	1,182,704	1,181,052	1,175,186	1,311,007	13,427,579