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Arizona Corporation Commission

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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

W-02113A-10-0309

7 IN THE MATTER OF THE APPLICATION
 8 OF CHAPARRAL CITY WATER
 9 COMPANY, INC. FOR A WAIVER
 10 UNDER A.A.C. R14-2-806 OR, IN THE
 11 ALTERNATIVE, NOTICE OF INTENT TO
 REORGANIZE UNDER A.A.C. R14-2-803.

DOCKET NO: W-02113A-10-_____

**APPLICATION FOR A WAIVER
UNDER A.A.C. R14-2-806 OR, IN THE
ALTERNATIVE, NOTICE OF
INTENT TO REORGANIZE UNDER
A.A.C. R14-2-803**

12 Pursuant to A.A.C. R14-2-806, Chaparral City Water Company, Inc. ("CCWC" or
 13 "the Company"), an Arizona public service corporation, hereby requests that the Arizona
 14 Corporation Commission (the "Commission") waive compliance with the requirements of
 15 A.A.C. R14-2-801 to R14-2-806 ("the Affiliated Interests Rules") with respect to a
 16 pending transaction between CCWC's parent, American States Water Company
 17 ("American States), a California corporation, and EPCOR Water (USA) Inc. ("EPCOR
 18 USA"), a Delaware corporation, under which American States will sell to EPCOR USA
 19 all of the issued and outstanding shares of CCWC's common stock ("the Transaction").

20 The nature of the Transaction and the basis for CCWC's requested waiver are set
 21 forth below and have been verified by Keith Switzer, the Vice President, Regulatory
 22 Affairs, of American States, in accordance with A.A.C. R14-2-806(B). In short, none of
 23 the parties to the Transaction are public service corporations, as defined in Article 15, § 2
 24 of the Arizona Constitution, and the Transaction will not have any effect on CCWC's
 25 provision of utility services. Under these circumstances, and because the Transaction
 26 serves the public interest, CCWC requests that the Commission declare that the

1 Transaction is not subject to the Affiliated Interests Rules or grant a waiver from such
2 rules under A.A.C. R14-2-806(A).

3 Alternatively, and in the event that the Commission declines to grant such waiver,
4 CCWC hereby gives notice to the Commission pursuant to A.A.C. R14-2-803 that CCWC
5 intends to “reorganize,” as such term is defined in the Affiliated Interests Rules, by virtue
6 of American States selling all of the outstanding and issued shares of CCWC’s common
7 stock to EPCOR USA. Given the nature of the Transaction, and the fact that it will not
8 impair CCWC’s financial status, prevent CCWC from attracting capital on fair and
9 reasonable terms, or impair the ability of CCWC to provide safe, reasonable and adequate
10 service, CCWC requests that the Commission approve the reorganization without a
11 hearing pursuant to A.A.C. R14-2-803(C).

12 OVERVIEW OF CCWC AND AMERICAN STATES

13 1. CCWC is a public service corporation engaged in providing water utility
14 service in portions of eastern Maricopa County, Arizona, including the Town of Fountain
15 Hills, pursuant to a certificate of public convenience and necessity granted by the
16 Commission. At the present time, CCWC provides water service to approximately 13,000
17 customers. CCWC’s current rates and charges were authorized in Decision No. 71308
18 (Oct. 21, 2009), as amended *nunc pro tunc* by Decision No. 71724 (December 8, 2009).

19 2. CCWC’s parent, American States, is a California corporation headquartered
20 in San Dimas, California, the stock of which is traded on the New York Stock Exchange.
21 American States’ subsidiary Golden State Water Company provides water service to over
22 250,000 customers in 75 communities throughout California and distributes electricity to
23 approximately 23,000 customers in the Big Bear recreational area in California.
24 American States’ subsidiary American States Utility Services contracts with
25 municipalities, the United States government and private entities to provide various
26 services, including billing and meter reading, water marketing and operation and

1 maintenance of water and wastewater systems at various military installations throughout
2 the United States.

3 3. As stated, CCWC is a wholly owned subsidiary of American States, which
4 owns all of the issued and outstanding shares of common stock in CCWC. For business
5 reasons, American States has decided to divest itself of its ownership and stock interests
6 in CCWC, and to focus on its business activities in California and in states other than
7 Arizona.

8 4. CCWC has no matters pending before the Commission or otherwise
9 involving the Commission that would be affected by the Transaction. The matters that are
10 pending are described in Exhibit 1, attached hereto. CCWC is in compliance with local
11 and state regulatory requirements. The Maricopa County Environmental Services
12 Department ("MCESD") is responsible for regulating CCWC's compliance with state and
13 federal drinking water standards. CCWC received a public water system compliance
14 report from MCESD on June 16, 2010, which described CCWC's general public water
15 system compliance status as "compliant." CCWC's Annual Water Withdrawal and Use
16 Report for calendar year 2009 and its Central Arizona Groundwater Replenishment
17 District 2009 report were filed on March 15, 2010. CCWC's property taxes are current.

18 **OVERVIEW OF EPCOR**

19 5. EPCOR USA is an indirect wholly owned subsidiary of EPCOR Utilities
20 Inc. ("EPCOR"). EPCOR is a municipally owned Canadian corporation and holding
21 company that builds, owns and operates water and wastewater treatment facilities and
22 infrastructure and electrical transmission and distribution networks, in Canada. EPCOR is
23 headquartered in Edmonton, Alberta. It is governed by an independent Board of
24 Directors, and its sole shareholder is the City of Edmonton, Alberta, Canada.

25 6. EPCOR is the parent company of a number of subsidiary companies. Its
26 primary operating utility subsidiaries are EPCOR Water Services Inc. ("EPCOR Water"),

1 EPCOR Distribution & Transmission Inc. (“EPCOR Distribution”) and EPCOR Energy
2 Alberta Inc. (“EPCOR Energy”).

3 7. EPCOR Water provides water and wastewater services to over one million
4 people in more than 70 communities and counties across western Canada. EPCOR Water
5 and its predecessors have been providing water to the residents of the City of Edmonton
6 for more than 100 years. EPCOR Water owns and operates seven water treatment
7 facilities in Alberta and British Columbia; operates 17 other water treatment and
8 distribution facilities in Alberta and British Columbia; owns and operates five wastewater
9 treatment facilities in Alberta and British Columbia; and, operates 19 other wastewater
10 treatment and collection facilities in Alberta and British Columbia. Further, EPCOR
11 Water has long-standing business and working relationships in Canada with established
12 American companies such as Stantec Consulting, Inc. and PCL Construction, Inc.,
13 spanning nearly 50 years, including projects where EPCOR Water and Stantec/PCL have
14 jointly built and refurbished numerous water and wastewater facilities.

15 8. EPCOR Water operates and manages those regulated water and wastewater
16 utilities, supplying services to retail and wholesales customers across western Canada.
17 EPCOR Water specializes in all aspects of water and wastewater plant operations and
18 maintenance as well as the provision of full customer support services and operator
19 training. EPCOR Water’s facilities in Edmonton encompass two state-of-the-art water
20 treatment plants, a distribution network with approximately 2,000 miles of distribution
21 and transmission mains, and approximately 17,000 hydrants and 53,000 valves. EPCOR
22 Water’s 12 reservoir sites have an aggregate capacity of approximately 213 million
23 gallons. EPCOR Energy Services provides call center and billing services for EPCOR
24 Water’s 250,000 customers.

25 9. EPCOR Water also operates and maintains the distribution systems in the
26 communities in which it provides water service. Just like CCWC, the service areas for the

1 cities of Edmonton and Canmore, Alberta both have distribution systems with multiple
2 pressure zones. EPCOR Water's experience operating multiple zone distribution systems
3 will benefit the customers of CCWC.

4 10. EPCOR Distribution owns and operates high voltage electric substations
5 and high voltage transmission lines, which form part of the Alberta interconnected electric
6 system and are situated primarily within and around the City of Edmonton. EPCOR
7 Distribution also distributes power to more than 330,000 customers within its distribution
8 service area comprising the City of Edmonton. EPCOR Distribution is regulated by the
9 Alberta Utilities Commission.

10 11. EPCOR Energy provides customer care and rate-setting services to its
11 customers in Alberta as well as certain customer care services to affiliates and third
12 parties. In Alberta's deregulated marketplace, EPCOR Energy provides Regulated Rate
13 Option electricity service to residential and small commercial consumers within the City
14 of Edmonton, several Rural Electrification Association service territories, and the
15 FortisAlberta Inc. service territory. EPCOR Energy also provides billing, collections and
16 contact center services to the City of Edmonton's Waste and Drainage Divisions. EPCOR
17 Energy is also regulated by the Alberta Utilities Commission.

18 12. In July 2009, EPCOR sold substantially all of its power generation assets
19 and related operations to Capital Power, a newly created power generation entity.
20 EPCOR plans to eventually sell all or a substantial portion of its ownership interest in
21 Capital Power subject to market conditions, requirements for capital and other
22 circumstances that may arise in the future, and reinvest the proceeds from such sales in
23 EPCOR's utility infrastructure businesses, including water and wastewater treatment, and
24 power transmission and distribution.

25 13. EPCOR has been recognized with various awards for EPCOR's civic
26 involvement and community interests, and for its long record of good corporate

1 governance and environmental excellence. EPCOR has been recognized as one of
2 Canada's Top 100 Employers. In 2008, EPCOR was chosen as one of Canada's Top 10
3 Earth Friendly employers. EPCOR also received the 2010 Alberta Venture Best
4 Workplace for the Environmentally Conscious (recognizing companies with best practices
5 and regular contributions in the design and implementation of green initiatives in water,
6 wastewater and power usage in North America), and the 2009 and 2010 Government of
7 Alberta EnviroVista Leadership award (recognizing Alberta industrial and manufacturing
8 facilities and municipal water operations for their environmental excellence). As a
9 company that privately owns and operates water infrastructure in several communities,
10 EPCOR has been recognized by the Canadian Council for Public Private Partnerships for
11 its excellence in service delivery and fiscal management in constructing and operating
12 water and wastewater facilities.

13 14. EPCOR Water's technical expertise includes using advanced and highly
14 automated water treatment systems, ultraviolet disinfection, and remote systems capable
15 of monitoring all sizes of facilities. It also focuses on the industrial sector by providing
16 drinking and process water, as well as wastewater treatment, including reuse water.

17 15. EPCOR Water's water and wastewater operations meet or exceed stringent
18 Canadian federal, provincial, and municipal water quality requirements. In 2008, its
19 Quality Assurance Laboratory scored the highest among 68 labs across Canada and the
20 United States in tests administered by the U.S. Environmental Protection Agency. The
21 majority of the labs were in major United States cities.

22 16. As noted above, EPCOR Water owns and operates seven water treatment
23 facilities and 17 other water treatment and distribution facilities in Canada. Those
24 systems obtain water supplies from both ground water and surface water. EPCOR Water
25 has experience with surface water systems in the City of Edmonton, which is supplied
26 with water from the North Saskatchewan River. In turn, EPCOR Water has experience

1 with volume and water quality variances, municipal discharges, high turbidity events and
2 a variety of other circumstances relating to use of surface water. In utilizing surface water
3 for operations, EPCOR Water's two state-of-the-art surface water treatment plants in
4 Edmonton have been able to meet or exceed all health and environmental requirements,
5 illustrating that EPCOR Water has substantial expertise and knowledge for operating
6 surface water systems. EPCOR Water's experience in operating and managing surface
7 water systems and treatment plants in Edmonton will benefit customers of CCWC, which
8 relies heavily on CAP water. EPCOR Water intends to continue use of CAP water as the
9 primary source of water for CCWC and to use groundwater as a back-up supply, in
10 furtherance of Arizona's laws and policies relating to the conservation of groundwater.

11 17. EPCOR Water has maintained water efficiency best management practices
12 in Canada, which support local and provincial goals for sustainable communities. For
13 example, EPCOR Water implements industry best management practices for water
14 management, including public education efforts focusing on prudent outdoor watering and
15 reducing indoor water use through leak detection and use of water efficient appliances.
16 EPCOR Water also has management practices to maintain and service existing water and
17 wastewater facilities. Through such practices, water main breaks in Edmonton have been
18 reduced to their lowest level since the early 1960s, and EPCOR Water has ensured that the
19 infrastructure is in place to meet the city's water needs long into the future.

20 18. EPCOR Water also has worked closely with the City of Edmonton in
21 development of its new Water Efficient Fixtures Bylaw. The bylaw requires water
22 efficient fixtures (toilets, showerheads, faucets) to be installed in all new development and
23 major renovations that require plumbing permits. As a result of these efforts, Edmonton
24 residents use 15% less water than residents in other fully metered, large Canadian cities.
25 In 2009, Edmonton reported one of the lowest water consumption rates for domestic
26 customers (single family homes and apartments) with an average of 59 gallons per day

1 compared to the average of 70 gallons per day for Canadian residential customers living in
2 large metered communities. EPCOR will continue to implement such best management
3 practices for its United States utilities, including CCWC.

4 19. As noted above, EPCOR Water provides water and wastewater services in
5 over 70 communities in Canada. In the past ten years, EPCOR Water has been subject to
6 only two environmental administrative penalties, both of which were determined to be
7 minor violations. Administrative penalties in Canada are the lowest form of action taken
8 by authorities and do not involve legal proceedings. The first occurred in 2001 and
9 involved a permitting oversight. The second occurred in 2010 relating to an
10 administrative penalty for high finished water turbidity in the Town of Okotoks. The
11 Town had contracted with a third party for the construction and commissioning of its
12 water treatment plant prior to EPCOR Water's involvement. The penalty stemmed from a
13 call-out alarm, which did not notify the operator when turbidity limits were exceeded.
14 The subsequent investigation determined that a line of code in the automated monitoring
15 system program was missing and the call-out alarm was not functioning. In both of those
16 cases, EPCOR Water immediately remedied those minor procedural or operational
17 deficiencies.

18 20. EPCOR Water focuses on being "the neighbor of choice" in all communities
19 where it operates facilities. EPCOR believes stakeholder participation is a critical element
20 of a successful utility operation. Stakeholder status is open to any person or group which
21 believes they have a stake in EPCOR's activities. EPCOR Water will conduct stakeholder
22 and customer information sessions in Fountain Hills in late summer/early fall of 2010
23 relating to the acquisition of CCWC and future company operations. Further, EPCOR
24 Water works closely with its environmental and health boards, municipal councils and
25 regulatory agencies in all areas where it conducts business in Canada. EPCOR will
26 continue this operating philosophy in its operation of CCWC.

1 21. EPCOR USA's purchase of the stock of CCWC is EPCOR's first entry into
2 the water and wastewater utility industry in the United States. This Transaction is part of
3 EPCOR's business strategy to invest in and become a long-term owner of Arizona water
4 and wastewater utilities and to provide various utility-related services to municipalities
5 and other governmental entities in Arizona and other states. EPCOR's strategy also
6 includes future opportunities to purchase and operate water and wastewater utilities in
7 Arizona.

8 **THE TRANSACTION BETWEEN EPCOR USA AND AMERICAN STATES**

9 22. On June 7, 2010, EPCOR USA entered into a Stock Purchase Agreement
10 with American States for the purchase of all outstanding shares of CCWC's common
11 stock (the "Stock Purchase Agreement"). A copy of this agreement will be provided
12 subject to an appropriate confidentiality agreement.

13 23. EPCOR USA will purchase the stock of CCWC for approximately \$29
14 million, which will be paid to American States in cash at closing. CCWC's utility plant,
15 revenue and other assets will not be used as security for this financing, nor will the stock
16 of CCWC be pledged or otherwise used as security for this financing.

17 24. After the Transaction closes, CCWC will remain the same legal entity as
18 before, except that the Company will be a subsidiary of EPCOR USA rather than
19 American States. This Transaction does not involve the sale, lease, assignment,
20 encumbrance or transfer or conveyance of any of the Company's utility plant, assets,
21 revenue or property. CCWC's current employees are expected to continue to operate the
22 Company once the Transaction closes. Specifically, EPCOR anticipates that all of the
23 existing employees of CCWC will remain with the company and continue in their present
24 roles. EPCOR intends to deploy a managerial staff member to CCWC on a full time basis
25 to oversee any transition issues, build relationships with our customers and other
26

1 stakeholders and ensure that all customer issues are addressed. In short, the Transaction
2 will be transparent to CCWC's customers.

3 25. The Transaction between EPCOR USA and American States will not alter
4 the utility service provided by CCWC to its customers. CCWC will continue to provide
5 safe, reliable and adequate water utility service to customers in its service territory under
6 its existing rates and tariffs. Moreover, CCWC will continue to be operated as a public
7 service corporation and be subject to the Arizona Corporation Commission's authority
8 and jurisdiction. Water rates for customers of CCWC are not anticipated to change as a
9 result of the Transaction, and EPCOR does not intend to seek an acquisition adjustment.

10 **REQUEST FOR WAIVER UNDER RULE 806**

11 26. Based on the nature of the Transaction and the lack of any impact on CCWC
12 and its operations, the Company submits that, to the extent the Affiliated Interests Rules
13 may apply to this Transaction, a waiver of such rules is appropriate and in the public
14 interest under A.A.C. R14-2-806 ("Rule 806").

15 27. CCWC believes that a waiver is appropriate and in the public interest
16 because the Affiliated Interests Rules do not apply to the sale of issued and outstanding
17 stock by and between foreign corporations that are not public service corporations and
18 otherwise conduct no business activities in Arizona. *See, e.g., Arizona Corp. Comm'n v.*
19 *Consolidated Stage Co.*, 63 Ariz. 257, 161 P.2d 110 (1945). CCWC respectfully submits
20 that the Commission's jurisdiction over public service corporations does not permit the
21 Commission to disapprove or otherwise regulate transactions of this nature.

22 28. The Transaction will not alter the capital structure of CCWC. CCWC will
23 not assume any debt or other liabilities in connection with the Transaction, nor, as stated,
24 will any utility plant, revenue or other assets currently owned by CCWC be sold,
25 transferred or encumbered. Consequently, CCWC's ability to raise capital and its
26 creditworthiness will not be impaired by the Transaction.

1 29. The Transaction will not cause any change in CCWC's cost of providing
2 utility service. As stated, the Transaction will not cause any change in the manner in
3 which CCWC will be operated, and local management will be enhanced with on-site
4 oversight and support. The Transaction will not negatively impact the Company's utility
5 service to customers; nor will the Transaction eliminate the Commission's existing
6 regulatory oversight and approval authority relating to CCWC.

7 30. CCWC is fully cognizant of its responsibility to the Commission and its
8 attendant obligations as a public service corporation to comply with the requirements of
9 lawful regulation. The Company, however, respectfully submits that the nature of the
10 Transaction between EPCOR and American States is such that either the Affiliated
11 Interests Rules do not apply or, in the alternative, the public interest justifies a waiver of
12 compliance with the requirements set forth in the Affiliated Interests Rules.

13 **NOTICE OF INTENT – INFORMATION REQUIRED BY RULE 803**

14 31. If the Commission determines that it has jurisdiction over the Transaction
15 and declines to grant a waiver under Rule 806, then the Company requests in the
16 alternative that the Commission approve the Transaction under A.A.C. R14-2-803 ("Rule
17 803"). Pursuant to this alternative request under Rule 803, CCWC provides the following
18 information specified in Rule 803.

19 **1. The Names and Business Addresses of the Proposed Officers and Directors of
20 the Holding Company.**

21 32. Attached as Exhibit 2 is a list of the names and business addresses of the
22 individuals responsible for the management of EPCOR Utilities Inc., EPCOR Water
23 Services Inc., EPCOR Water Development (West) Inc., and EPCOR Water (USA), Inc.

24 **2. The Business Purposes for Establishing or Reorganizing the Holding
25 Company.**

1 33. CCWC believes that the Transaction does not involve the establishment or
2 reorganization of a holding company in the sense contemplated by the Commission when
3 it adopted the Affiliated Interests Rules. *See, e.g.*, Decision No. 56844 (March 14, 1990);
4 Decision No. 56618 (Aug. 25, 1989) (describing purpose of rules). Instead, as previously
5 indicated, the Transaction involves the sale of CCWC's issued and outstanding common
6 stock by American States to EPCOR USA and EPCOR USA's purchase of all of CCWC's
7 issued and outstanding shares of common stock from American States in an arms-length,
8 bargained-for transaction.

9 34. The purpose of the Transaction is set forth above in paragraphs 3, and 21-
10 25. As explained above, for business reasons American States has decided to divest itself
11 of its ownership and stock interests in CCWC. The Transaction reflects EPCOR's
12 business plan to enter into the water utility market in Arizona and is part of EPCOR's
13 long-term strategy to invest in and own water and wastewater facilities in the southwest
14 United States and contract to provide similar services to municipal and other
15 governmental authorities.

16 35. As stated above, EPCOR is a trusted developer and operator of utility
17 infrastructure and works hard to maintain its reputation for quality and reliability. The
18 United States provides opportunities to build a larger portfolio of water and wastewater
19 assets. Water scarcity, increasing regulation requiring additional investment in water
20 infrastructure, openness to private participation, a greater focus on quality than on private
21 participation, the presence of business partners who have established a local presence, and
22 significant business opportunity in the targeted areas of California and Arizona relative to
23 the Canadian marketplace highlight EPCOR's reasons for pursuing investment in the U.S.
24 market and the purchase of American States' interest in CCWC.

25

26

1 **3. The Proposed Method of Financing the Holding Company and the Resultant**
2 **Capital Structure.**

3 36. As stated above, EPCOR USA will purchase the stock of CCWC from
4 American States for \$29 million, as adjusted at closing. The purchase price will be
5 funded by cash on hand together with either the issuance of short term debt via EPCOR's
6 commercial paper program or bank debt. As previously stated, EPCOR has substantial
7 ~~assets and business operations in Canada. In 2009, EPCOR had approximately \$2.4~~
8 billion (\$Cdn) in revenue from its various operations, and net income of approximately
9 \$125 million (\$Cdn). No material changes to EPCOR's capital structure are expected as a
10 result of the Transaction, and EPCOR will continue to finance capital projects in the same
11 way it has in the past.

12 **4. The Resultant Effect on the Capital Structure of the Public Utility.**

13 37. The capital structure of CCWC will not change as a result of the
14 Transaction.

15 **5. An Organization Chart of the Holding Company That Identifies All Affiliates**
16 **and Their Relationships within the Holding Company.**

17 38. An organizational chart identifying EPCOR and its affiliates and
18 subsidiaries is attached as Exhibit 3.

19 **6. The Proposed Method for Allocating Federal and State Income Taxes to the**
20 **Subsidiaries of the Holding Company.**

21 39. In conjunction with setting rates and charges for service and related
22 regulatory matters, CCWC's federal and state income taxes will be computed on a stand-
23 alone basis. Further, the Transaction will not cause any federal or state income taxes or
24 any other taxes resulting from the activities of any other affiliate of EPCOR to be
25 allocated to CCWC.

1 **7. The Anticipated Changes in the Utility's Cost of Service and the Cost of**
2 **Capital Attributable to the Reorganization.**

3 40. As previously stated, the Transaction will not have any effect on the capital
4 structure of CCWC. Likewise, the Transaction is not anticipated to result in any material
5 changes to the Company's cost of service or its cost of capital. CCWC will continue to be
6 operated on a stand-alone basis, and will contract for services, equipment and supplies,
7 and will raise capital like other Arizona utilities. The only change will be the ownership
8 of CCWC's outstanding common stock.

9 **8. A Description of Diversification Plans of Affiliates of the Holding Company.**

10 41. EPCOR intends to focus on its core utility and related businesses and does
11 not have any immediate plans to diversify its operations of affiliates. EPCOR's business
12 strategy is to own and operate water and wastewater treatment facilities and infrastructure
13 and electrical transmission and distribution facilities in Canada and the United States, and
14 to provide contract services of a like nature to municipal and other governmental entities.
15 This Transaction will not result in any change to EPCOR's strategy. And, as stated above,
16 CCWC will be operated on a stand-alone basis and will not be combined or merged with
17 any other EPCOR entity for income tax or rate-making purposes.

18 **9. Copies of All Relevant Documents and Filings With the United States**
19 **Securities and Exchange Commission and Other Federal or State Agencies.**

20 42. None. EPCOR Utilities Inc. has continuous disclosure filings with
21 Canadian securities regulators. The filings are available on the SEDAR website at
22 www.sedar.com.

23 **10. The Contemplated Annual and Cumulative Investment in Each Affiliate for**
24 **the Next Five Years, In Dollars and as a Percentage of Projected Net Utility**
25 **Plant, and An Explanation of the Reasons Supporting the Level of Investment**
26 **and the Reasons This Level Will Not Increase the Risks of Investments in the**
Public Utility.

1 43. As stated above in paragraphs 6 to 12, EPCOR owns interests in numerous
2 water, wastewater and electric facilities in Canada. As such, it would be extremely
3 difficult to provide this information due to the large number and diverse nature of the
4 various companies and businesses that will become an “affiliate” of EPCOR under the
5 definition of “affiliate” provided in R14-2-801(1). EPCOR USA has reviewed American
6 States’ projected capital budget for CCWC for the years 2010 through 2014 and intends to
7 generally adopt the projected capital budget plan. Under that plan, capital projects
8 totaling approximately \$8.5 million would be constructed over the next five years.¹ For
9 the reasons previously stated, EPCOR has access to the capital market and will be able to
10 support CCWC as appropriate. In 2009 EPCOR had revenues of approximately \$2.4
11 billion (\$Cdn) and a net income of approximately \$125 million (\$Cdn) from its various
12 operations. Therefore, the Transaction will not increase the level of investment risk in
13 CCWC.

14 44. For the reasons previously explained, this Transaction will not increase the
15 risks of investment in CCWC. No utility funds will be co-mingled with non-utility funds,
16 nor will any cross-subsidization of non-utility activities take place. Further, the
17 Transaction will not alter the Commission’s existing regulatory oversight and approval
18 authority with respect to CCWC’s operations and its dealings with affiliates. For these
19 reasons, the Transaction will not increase the level of risk associated with an investment
20 in CCWC.

21 **11. An Explanation of the Manner in Which the Utility Can Ensure That**
22 **Adequate Capital Will Be Available for the Construction of New Utility Plant**
23 **and For Improvements In Existing Utility Plant At No Greater Cost Than If**
24 **the Utility or Its Affiliate Did Not Organize or Reorganize a Public Utility**
25 **Holding Company.**

25 ¹ Should the transfer be approved, EPCOR USA may wish to include additional projects,
26 substitute or alter the timing of planned projects to ensure that necessary investments to maintain
and improve the provision of utility service are undertaken.

1 service.

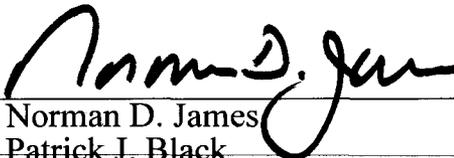
2 RESPECTFULLY SUBMITTED this 23rd day of July 2010.

3 FENNEMORE CRAIG, P.C.

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By 

Norman D. James

Patrick J. Black

3003 North Central Avenue

Suite 2600

Phoenix, Arizona 85012

Attorneys for Chaparral City Water
Company

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CERTIFICATE OF SERVICE

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13

ORIGINAL and thirteen (13) copies
of the foregoing were filed
this 23rd day of July 2010, to:

14

15

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

16

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COPY of the foregoing was hand delivered
this 23rd day of July 2010, to:

20

21

Lyn Farmer, Chief
Hearing Division
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

22

23

24

Steven M. Olea, Director
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5 By Mary House
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VERIFICATION

STATE OF CALIFORNIA)
County of Los Angeles) ss.

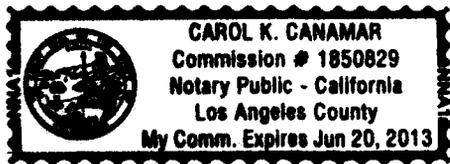
Keith Switzer, being first duly sworn upon his oath, deposes and says:

1. I am the Vice President, Regulatory Affairs of American States Water Company, and am authorized to make this verification on behalf of Chaparral City Water Company.

2. I have read the foregoing Application for a Waiver Under A.A.C. R14-2-806 or, In the Alternative, Notice of Intent to Reorganize Under A.A.C. R14-2-803, and I hereby verify that the statements contained therein are true and correct to the best of my information, knowledge and belief.

Keith Switzer

SUBSCRIBED AND SWORN TO before me, the undersigned Notary Public, on this 22nd day of July, 2010, by Keith Switzer, personally known to me or provided to me on the basis of satisfactory evidence to be the person who appeared before me.



Carol K. Canamar

Carol K. Canamar, Notary Public

My Commission Expires: June 20, 2013

2328540.4/10696.001

EXHIBIT

1

CHAPARRAL CITY WATER COMPANY

EXHIBIT 1

SUMMARY OF PENDING MATTERS

1. Rehearing of Decision No. 71308 (Oct. 21, 2009), amended *nunc pro tunc* by Decision No. 71424 (December 8, 2009). On January 19, 2010, the Commission granted CCWC's request for rehearing on two issues: (1) recovery of rate case expense associated with appeal and remand of Decision No. 68176 (September 30, 2005), and (2) treatment of the proceeds of a settlement made with the Fountain Hills Sanitation District settlement. A hearing was held on April 12, 2010 before an administrative law judge, and post-hearing briefs have been filed. A decision on the rehearing of the two issues is expected this fall.

2. Appeal of Decision No. 70441 (July 28, 2008). CCWC appealed Decision No. 70441 to the Arizona Court of Appeals, arguing that the Commission failed to properly use the Company's fair value rate base, in accordance with the Article 15, Section 14 of the Arizona Constitution. The appeal was decided adversely to CCWC. *Chaparral City Water Co. v. ACC*, No. 1 CA-CC 08-0002, memo. dec. (June 10, 2010). CCWC elected not seek review of the court's decision, which is now final.

3. Pending Appeal of Decision No. 71308 (Oct. 21, 2009), amended *nunc pro tunc* by Decision No. 71424 (December 8, 2009). CCWC appealed Decision No. 71308 to the Arizona Court of Appeals because it involved issues that are similar to the issues involved in CCWC's appeal of Decision No. 70441 (summarized above). The new appeal was stayed by stipulation of the parties pending a decision in CCWC's appeal of Decision No. 70441. Based on the court's decision in that appeal, CCWC intends to dismiss its appeal of Decision No. 71308.

4. CPUC Investigation of Golden States Water. In Decision No. 71308, the Commission ordered that the docket remain open pending Staff review of certain documents furnished by CCWC in early 2009 concerning an investigation being conducted by the California Public Utility Commission ("CPUC"). This investigation does not relate to CCWC. On February 26, 2010, Staff filed an update in the docket, indicating that Staff had completed its review of the documents and that CCWC's operating expenses and rate base have not been affected by the alleged improprieties. Staff nevertheless recommended several requirements which CCWC opposes. On March 31, 2010, a recommended order was issued by the administrative law judge without conducting a hearing. The recommended order has not been considered by the Commission. If the Transaction occurs, this matter will become moot. Consequently, CCWC has delayed filing its exceptions and has not requested an evidentiary hearing.

5. Decision No. 68238 (Oct. 25, 2005) (Order Preliminary). In 2005, CCWC applied for an order preliminary pursuant to A.R.S. § 40-282.D to allow CCWC to extend its CC&N to include approximately 1,300 acres of state trust contiguous to its existing service area. The Commission granted the application, but stated that a final order

extending the CC&N would be issued upon the Company's satisfaction of certain conditions within a three-year time period. CCWC subsequently obtained an 18-month extension of the deadline for satisfying the conditions at the request of Fountain Hills Investment Company, which purchased the state land. Decision No. 70608 (Nov. 12, 2008). On June 3, 2010, Chaparral City filed a request to extend the deadline from April 25, 2010 to February 1, 2011, at the request of the landowner. A recommended order that would grant the extension has been issued by the administrative law judge, but the matter has not been decided by the Commission.

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EXHIBIT

2

EPCOR Water (USA) Inc.
List of Directors

<u>Name</u>	<u>Business Address</u>
Don Lowry	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Jeffery Kishel	Stantec Consulting Inc., 2000 South Colorado Boulevard, Suite 2 – 300, Denver, Colorado, 80222
Donald Munson	13417 North 76 Place, Scottsdale, Arizona, 85260

EPCOR Water (USA) Inc.

List of Officers

<u>Name</u>	<u>Position</u>	<u>Business Address</u>
Don Lowry	President & CEO	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	Senior Vice President & Chief Financial Officer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Ron Liteplo	Senior Vice President, Legal & External Relations and Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sam Myers	Treasurer	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Stephen Stanley	Senior Vice President, Water Services	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Joe Gysel	Senior Vice President, Water Development	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Duane Sommerfeld	Corporate Controller	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Suzanne Polkosnik	Associate General Counsel & Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

EPCOR Water Development (West) Inc.

List of Directors

<u>Name</u>	<u>Business Address</u>
Don Lowry	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

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Suzanne Polkosnik	Associate General Counsel & Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

EPCOR Water Services Inc.

List of Directors

<u>Name</u>	<u>Business Address</u>
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Mark Wiltzen	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

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EPCOR Utilities Inc.

List of Directors

<u>Name</u>	<u>Business Address</u>
Hugh Bolton	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Robert Phillips	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sheila Weatherill	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
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Wesley Twiss	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Helen Sinclair	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Allister McPherson	EPCOR Utilities Inc., 18 th Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

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EXHIBIT

3

**EPCOR Utilities Inc.
Corporate Organization Chart**

