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Sheila Stoeller

From: Bob Golembe [anthemkid@cox.net]
 Sent: Wednesday, September 29, 2010 9:17 AM
 To: Mayes-WebEmail; Kennedy-Web; Newman-Web; Pierce-Web; Stump-Web
 Cc: Jodi Jerich; Sheila Stoeller
 Subject: Comment: Superior Court Judge Rules Against Pulte Refunds, Arizona American Water Rate Filing; Docket: W-01303A-09-0343 ; SW-01303A-09-0343
 Attachments: Judge Ruling Pulte Disclosure.pdf; Press Release.pdf *4/attachment*

Dear Chairwoman Mayes and Commissioners:

The Arizona American Water rate case includes \$23.3 million in Pulte refunds. On August 27, Judge Martone from the US Superior Court, Arizona District released his Order (attached pdf "Judge Ruling Pulte Disclosure")), on the Pulte refunds non-disclosure issue.

For Executive Summary purposes, below is a copy/paste press release from the National Association Water Companies (attached pdf "Press Release").

Although the Commission is not bound by this ruling, it validates that Anthem ratepayers were and continue to be harmed by the poor business decision between Pulte and Arizona American Water's 1997 Private Agreement. It also provides legal leverage to remove the millions in Pulte refunds from the instant case.

Unlike the last case (Decision 70372, June 2008), where Mayes Amendment No. 1 (removal of Pulte refunds), failed to pass because of the potential of a law suit against the Commission, this decision provides you with the opportunity to mitigate any further harm that Anthem ratepayers will endure from the instant case.

Per the attachment, the US Superior Court Judge Mr. Martone definitively rules that Pulte was in violation of Arizona's Consumer Fraud Act. Arizona American Water is complicit in this business decision; they purchased Citizens Water's assets and liabilities.

Don't let Anthem ratepayers be further harmed by paying for illegal practices; it was a poor business decision from the beginning and the Commission never approved the 1997 Private Agreement.

Bob Golembe,
Anthem, AZ

Arizona Corporation Commission

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National Association Water Companies
 September 14, 2010
 State Regulatory Relations
 Federal Court Rules Against Developer

The United States District Court for the District of Arizona ruled that a developer had an affirmative duty to disclose to prospective homeowners that they ultimately would bear the burden of paying substantial sums for

infrastructure costs. In *Grimmelmann v. Pulte Home Corporation*, 2010 U.S. Dist. LEXIS 89695, the defendant entered into an agreement with Citizens Water Services Company of Arizona to advance the water company between \$80 million and \$100 million for the construction of water facilities to serve its development. The agreement provided that Citizens would then reimburse the developer for its construction advance. The court concluded that by not advising home purchasers that the utility would seek to recoup its investment through future utility rates, the developer violated Arizona's Consumer Fraud Act and, consequently, was subject to damages.



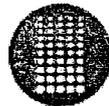
September 14, 2010

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California PUC Approves SouthWest Water Merger



SouthWest Water Company

With water comes responsibility

By Order issued September 3, 2010, the California Public Utilities Commission cleared the way for the acquisition of SouthWest Water Company, parent of Suburban Water Systems, by IIF Subway Investment, LP, an affiliate of JPMorgan IIF Acquisitions, LLC, and USA Water

Services, LLC. In adopting a settlement agreement submitted by the Joint Applicants and the Division of Ratepayer Advocates, the Commission concluded that the transaction would provide Suburban with greater access to needed capital while not otherwise affecting Suburban's day-to-day operations: "It is anticipated that there will be no practical effect on Suburban's management, employee base, revenue requirement, rate base, capital structure or regulation by the Commission." The merger had previously been approved by regulators in the other four states in which SouthWest subsidiaries provide regulated water and/or wastewater service.

Federal Court Rules Against Developer

The United States District Court for the District of Arizona ruled that a developer had an affirmative duty to disclose to prospective homeowners that they ultimately would bear the burden of paying substantial sums for infrastructure costs. In *Grimmelmann v. Pulte Home Corporation*, 2010 U.S. Dist. LEXIS 89695, the defendant entered into an agreement with Citizens Water Services Company of Arizona to advance the water company between \$80 million and \$100 million for the construction of water facilities to serve its development. The agreement provided that Citizens would then reimburse the developer for its construction advance. The court concluded that by not advising home purchasers that the utility would seek to recoup its investment through future utility rates, the developer violated Arizona's Consumer Fraud Act and, consequently, was subject to damages.

Missouri PSC Revisits Availability Fees

In a recent rate proceeding, the Missouri Public Service Commission announced its intention to change, on a prospective basis, its practices and policies regarding the treatment of revenue derived through the use of availability, reservation, standby, connection and other similar fees. In the *Matter of Lake Region Water and Sewer Company*, 2010 Mo. PSC LEXIS 794. Historically, the commission has held that such fees were non-jurisdictional because, in the PSC's view, they did not constitute or relate to a utility "service," i.e., the treatment and/or transportation of water or sewage. However, the PSC apparently has been convinced to take such revenue streams into account for ratemaking purposes (e.g., by imputing revenues) and opened a workshop docket to lead to a rulemaking with that goal in mind.

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NOT FOR PUBLICATION
IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF ARIZONA

Frank J. Grimmelmann, et al.,
Plaintiffs,

vs.

Pulte Home Corporation, et al.,
Defendants.

James D. Yulga, et al.,
Plaintiffs,

vs.

Pulte Home Corporation, et al.,
Defendants.

No. CV-08-1878-PHX-FJM
No. CV-08-1757-PHX-FJM

ORDER

The court has before it defendants' second motion for summary judgment (doc. 116) and memorandum in support (doc. 117), plaintiffs' response (doc. 127), defendants' reply (doc. 130); plaintiffs' motion for summary judgment (doc. 119), defendants' response (doc. 124), and plaintiffs' reply (doc. 132). We also have before us plaintiffs' motion to strike

1 expert reports (doc. 126) and defendants' response (doc. 131).¹

2 I

3 Plaintiffs purchased homes from Del Webb Corporation, its affiliates, or its successor
4 in interest Pulte Home Corporation (collectively, "Pulte") in a housing development known
5 as Anthem. Pulte, along with the Citizens Water Services Company of Arizona entities, and
6 their successor in interest, Arizona-American Water Company (collectively, the "Water
7 Company"), designed and constructed the water and wastewater treatment infrastructure
8 ("water facilities") for the Anthem development. Pursuant to an agreement dated September
9 29, 1997 (the "Infrastructure Agreement"), Pulte agreed to advance to the Water Company
10 between \$80 and \$100 million for construction of the water facilities. The Infrastructure
11 Agreement provided that the Water Company would reimburse Pulte for its construction
12 advances.

13 Plaintiffs claim that at the time Pulte entered into the Infrastructure Agreement it knew
14 that future utility rate hikes, borne by home purchasers, would be required to enable the
15 Water Company to reimburse Pulte's construction advances. However, Pulte did not disclose
16 to Anthem home purchasers the existence of the Infrastructure Agreement, or the fact that
17 they would bear the burden of repaying Pulte through future utility rate increases. The
18 homeowners believed, and some were told, that all costs related to the water facilities were
19 included in the purchase price of their homes. Beginning in June 2008, after approval by the
20 Arizona Corporation Commission, homeowners began paying significantly higher utility
21 rates because of the Water Company's obligation to repay Pulte. Plaintiffs contend that
22 additional, significant rate hikes are likely. They allege that to date the Water Company has
23 refunded approximately \$87 million to Pulte for installation of the water facilities. Plaintiffs'

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25
26 ¹We deny plaintiffs' motion to strike. The Local Rules of Practice provide that
27 objections to evidence offered in support of or in opposition to a motion must be presented
28 in the objecting party's responsive or reply memorandum, or in response to a statement of
facts, not in a separate motion to strike. LRCiv 7.2(m)(2). Accordingly, plaintiffs' motion
to strike is denied (doc. 126).

1 Response at 2; PSOF, ex. 2 at 81-82.

2 Plaintiffs filed this action, asserting a claim under Arizona's Consumer Fraud Act,
3 A.R.S. § 44-1522, and common law negligent misrepresentation. They contend that Pulte
4 violated its duty to comply with Arizona's subdivision and public reporting statute, A.R.S.
5 § 32-2181 ("Subdivision Reporting Act"), which requires certain disclosures by subdividers
6 to purchasers. Specifically, the Act requires a subdivider of land to disclose to purchasers
7 of lots,

8 18. A true statement of the nature of any improvements to be installed
9 by the subdivider, the estimated schedule for completion and the estimated
10 costs related to the improvements that will be borne by purchasers of lots in
11 the subdivision.

12 19. A true statement of the availability of sewage disposal facilities and
13 other public utilities, including water, electricity, gas and telephone facilities
14 in the subdivision, the estimated schedule for their installation, and the
15 estimated costs related to the facilities and utilities that will be borne by
16 purchasers of lots in the subdivision.

17 A.R.S. § 32-2181(A)(18) & (19) (emphasis added).

18 Plaintiffs contend that the Act imposed on Pulte a duty to disclose to Anthem home
19 buyers that they would bear the cost of the water facilities through utility rate increases and
20 that the failure to disclose this information constitutes negligent misrepresentation and a
21 violation of Arizona's Consumer Fraud Act, A.R.S. § 44-1522.

22 II

23 In its motion for summary judgment, Pulte argues that plaintiffs' claims fail as a
24 matter of law because (1) Pulte had no duty to disclose future estimated utility rates, (2)
25 plaintiffs have failed to propound any competent, expert or factual evidence to establish
26 damages, and (3) because defendants Del Webb Corporation and The Villages at Desert
27 Hills, LLC, sold no homes and provided no subdivision public reports to home purchasers,
28 these entities are entitled to judgment in their favor.

Plaintiffs cross move for summary judgment contending that the plain language of the
Subdivision Reporting Act imposes on defendants a duty to disclose that Anthem home
purchasers would bear the burden of repaying the costs of the water facilities, and that the

1 defendants breached that duty by failing to disclose that information.

2 A

3 The central issue before us is whether Pulte had a duty to disclose that homeowners
4 would pay for infrastructure costs via future utility rate increases. Whether a defendant owes
5 the plaintiff a duty of care is a threshold question of law for the court to decide. Gipson v.
6 Kasey, 214 Ariz. 141, 143, 150 P.3d 228, 230 (2007). The duty and standard of care
7 governing the conduct of a seller of subdivided lands is set forth in the Subdivision Reporting
8 Act. Alaface v. National Inv. Co., 181 Ariz. 586, 596, 892 P.2d 1375, 1385 (Ct. App. 1994).
9 “The subdivision reporting statutes specify an affirmative duty for certain sellers of real
10 estate to obtain specified information and supply it to the purchaser. A person who violates
11 a statute enacted for the protection and safety of the public is guilty of negligence *per se*.”
12 Id. The Act broadly requires a subdivider to disclose to home buyers “estimated costs related
13 to improvements [and facilities] that will be borne by purchasers.” A.R.S. § 32-2181(A)(18),
14 (19). Subsections (18) and (19) demonstrate an intent by the legislature to provide
15 consumers with information about estimated costs associated with subdivision infrastructure
16 in order to eliminate the unexpected financial burden of costs not included in the purchase
17 price and not contemplated at the time of purchase.

18 Despite the plain language of the Act, Pulte argues that its disclosure obligation
19 should be limited to “the initial, actual, out-of-pocket costs that a purchaser pays [to obtain
20 initial service] at the time of purchase, closing or occupancy of the residence.” Pulte Motion
21 at 5. We reject Pulte’s argument for several reasons.

22 Our primary task in interpreting a statute is to determine and give effect to the
23 legislature’s intent. Mejak v. Granville, 212 Ariz. 555, 557, 136 P.3d 874, 876 (2006). The
24 best indicator of that intent is the statutory language itself. Id. “When a statute is clear and
25 unambiguous, we apply its plain language and need not engage in any other means of
26 statutory interpretation.” Kent K. v. Bobby M., 210 Ariz. 279, 283, 110 P.3d 1013, 1017
27 (2005).

28 The Subdivision Reporting Act does not limit the disclosure obligation to those

1 facility and improvement costs that are payable at closing. Instead, it plainly requires
2 disclosure of facility and improvement “costs that will be borne by purchasers of lots.”
3 There are no express qualifications or limitations to this disclosure obligation.

4 While the clear language of the statute is dispositive, we note that the regulations and
5 the forms developed by the Arizona Department of Real Estate (“ADRE”), the department
6 charged with administering the Subdivision Reporting Act, fail to support Pulte’s
7 interpretation. The relevant regulations require three disclosures:

8 (1) “[t]he estimated cost a lot purchaser will be required to pay for completion
9 of the water lines to the purchaser’s lot line,” A.A.C. § R4-28-A1205(7);

10 (2) “[t]he estimated cost a lot purchaser will pay for completion of the water
11 lines from the lot line to a dwelling,” A.A.C. § R4-28-A1205(8); and

12 (3) “[o]ther costs or requirements before the lot purchaser receives water
13 service, including current service charges, hookup fees, turn-on fees, meter
14 fees, and development fees.” A.A.C. § R4-28-A1205(9).

15 See also A.A.C. § R4-28-A1206(6) - (8) (identical disclosure requirements related to sewage
16 disposal).

17 Pulte would have us focus only on subsection (9), which requires disclosure of costs
18 imposed at or near closing in order to receive initial water service. But the regulations also
19 require information related to costs imposed on lot purchasers for completion of the utility
20 line to their lot, and for completion of the utility from the lot to their dwelling. A.A.C. § R4-
21 28-A1205(7) & (8). These disclosure requirements are separate and distinct from the
22 requirement to disclose costs related to initial hook-up fees. Pulte’s argument that the statute
23 and regulations only require disclosure of costs incurred by a lot purchaser *before* he receives
24 initial water service, renders meaningless sections (7) and (8) of the regulations. We will not
25 interpret a statute or regulation “in a manner that renders them “superfluous, contradictory,
26 void or insignificant.” Devenir Assoc. v. City of Phoenix, 169 Ariz. 500, 503, 821 P.2d 161,
27 164 (1991). Even if the regulations could be construed along Pulte’s lines, the language of
28 the statute, of course, controls. The ADRE is without power to ignore the law.

As part of the application process, Pulte completed a questionnaire developed by the
ADRE, the answers to which were used to complete a subdivision public report. Consistent

1 with the regulations, the questionnaire asks subdividers to provide information relating to
2 “[e]stimated costs lot purchaser will have to pay for completion of facilities to his lot line.”
3 Pulte responded, “Cost included in the price of the home.” The questionnaire then asked for
4 information relating to the “[e]stimated costs lot purchaser will have to pay for completion
5 of facilities from lot line to dwelling.” Again Pulte responded, “Cost included in the price
6 of the home.” Finally, the questionnaire asked Pulte, “[u]pon completion of facilities, what
7 other costs or requirements exist before lot purchaser can receive service?” Pulte responded,
8 “A service establishment fee for water and sewer facilities is \$60.00 plus tax at this time.”
9 PSOF, ex. 6 at 17. Not only do the regulations and questionnaire request information related
10 to hook-up fees to initiate utility service, they also require disclosure of costs that purchasers
11 will be required to pay for completion of facilities to their property. Pulte recognized these
12 distinctions by its varying responses to the questions.

13 We reject Pulte’s reliance on the expert report of Roy Tanney, former ADRE assistant
14 commissioner of development, as an authoritative arbiter of the interpretation of the
15 Subdivision Reporting Act. See DSOF, ex. A (“Tanney Report”). Mr. Tanney’s conclusion
16 that Pulte’s disclosures satisfied its obligations under the Act, Tanney Report § 18, is the
17 ultimate legal question presented in this case. An expert’s opinion regarding legal
18 conclusions is improper and is entitled to no weight. See Webb v. Omni Block, Inc., 216
19 Ariz. 349, 354, 166 P.3d 140, 145 (Ct. App. 2007).

20 We also accord no deference to Mr. Tanney’s opinion that the Subdivision Reporting
21 Act only requires disclosure of costs imposed to obtain *initial* utility service. Tanney Report
22 § 13. Not only is Mr. Tanney’s interpretation an improper legal conclusion that is
23 undermined by the language of the statute and regulations, but deference should only be
24 afforded where a state agency has “consistently interpreted a statute,” and there is an
25 “absence of clear statutory guidance to the contrary.” Phelps Dodge Corp. v. Arizona Dept.
26 of Water Res., 211 Ariz. 146, 152-53, 118 P.3d 1110, 1116-17 (Ct. App. 2005); see also Siler
27 v. Arizona Dept. of Real Estate, 193 Ariz. 374, 379-80, 972 P.2d 1010, 1015-16 (Ct. App.
28 1998) (“We need not accept . . . the [ADRE] Commissioner’s interpretations of statutory

1 language.”).

2 There is no formal, consistent statutory interpretation by an agency in this case.
3 Instead, we are presented with the opinion of one former assistant commissioner of the
4 ADRE. Mr. Tanney testified that his opinion regarding disclosure obligations was “his
5 position,” and that he had no discussion with anyone else at the ADRE regarding that
6 position. PSOF, ex. 4 (Tanney Depo at 38). He further testified that, during his tenure at
7 ADRE, his only experience with disclosure of a water company’s obligation to refund a
8 developer’s infrastructure costs was limited to the present case. Id. at 43-44. There is no
9 showing of a consistent interpretation by an agency of the Subdivision Reporting Act or its
10 regulations.

11 Finally, we reject Pulte’s attempt to mischaracterize plaintiffs’ claim by arguing that
12 it had no duty to disclose “information about future utility rates.” Pulte Memorandum at 4.
13 This characterization distorts the relevant inquiry. The issue is not whether a developer has
14 a duty to predict future utility rates, but whether Pulte was required to disclose the “estimated
15 costs related to the improvements [and facilities] that will be borne by purchasers,” A.R.S.
16 § 32-2181(A)(18) & (19), even when those costs are imposed through utility rate increases.
17 Notwithstanding the method by which these costs are levied, they are nevertheless “costs that
18 will be borne by home buyers,” and accordingly fall within the broad disclosure requirement
19 of the statute.

20 This disclosure obligation would not require the “wildly speculative calculation” of
21 future utility costs, as Pulte suggests. Pulte’s Response at 5. Instead, Pulte was required to
22 disclose that, by virtue of an agreement between Pulte and the Water Company, purchasers
23 would bear the burden of paying for infrastructure costs of up to \$100 million through utility
24 rate increases. The fact that Pulte could not accurately predict the cost that each purchaser
25 would bear did not relieve Pulte of its obligation to tell home buyers that they would bear the
26 costs, whatever they were.

27 Mindful that “[l]aws governing the sale of real estate are to be liberally interpreted to
28 protect the public,” Siler, 193 Ariz. at 383, 972 P.2d at 1019, we conclude that Pulte had a

1 duty under the Subdivision Reporting Act to disclose that homeowners would bear the costs
2 of improvements and facilities through future utility rate increases. It is undisputed that Pulte
3 did not make that disclosure and accordingly we conclude that it breached its statutory duty.

4 **B**

5 Pulte also argues that it is entitled to summary judgment because plaintiffs' claim for
6 damages is not supported by any admissible evidence but is based only on speculation.
7 Specifically it argues that there is no evidence of the extent to which the rate increases
8 already approved by the Arizona Corporation Commission are the result of infrastructure
9 reimbursement payments. It contends that expert testimony is required in order to establish
10 the amount of damages, but that plaintiffs have failed to identify an expert witness in support
11 of their claim.

12 Generally, "once the right to damages has been established, uncertainty as to amount
13 of damages will not preclude recovery." Nelson v. Cail, 120 Ariz. 64, 67, 583 P.2d 1384,
14 1387 (Ct. App. 1978). However, damages cannot be based on "conjecture or speculation."
15 Gilmore v. Cohen, 95 Ariz. 34, 36, 386 P.2d 81, 82 (1963). The party seeking damages must
16 prove them with "reasonable certainty," by providing "some basis for estimating his loss."
17 Id.

18 Pulte representative Ben Dutton testified that Pulte has been reimbursed by the Water
19 Company in the approximate amount of \$87 million. See PSOF, ex. 2 at 81-82. Evidence
20 is presented that the Water Company's sole source of revenue, and accordingly the sole
21 source of reimbursement payments, is from utility rate payers. PSOF, ex. 3 at 15. Evidence
22 also establishes that the rate increases already imposed are in part attributable to the
23 infrastructure reimbursement payments. PSOF on Cross Motion, ex. 2 at 59.

24 We cannot conclude on this motion for summary judgment that plaintiffs have no
25 reasonable basis upon which to establish damages. Pulte's motion for summary judgment
26 on the issue of damages is denied.

C

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2 Finally, Pulte argues that Del Webb Corporation (“Del Webb”) and The Villages at
3 Desert Hills, Inc. (“The Villages”) are not proper defendants in this action. It argues that Del
4 Webb and The Villages sold no homes, were not “subdividers,” and made no representations
5 in a public report, and therefore cannot be liable for the alleged claims. Plaintiffs counter
6 that because Del Webb and The Villages were parties to the Infrastructure Agreement, and
7 because it is the failure to disclose this agreement that forms the basis of this case, they are
8 proper defendants in this case.

9 The Villages was listed as the “developer” in the Infrastructure Agreement. PSOF,
10 ex. 10. Through merger and name change, The Villages is now known as Anthem Arizona,
11 LLC. Id., ex. 8 at 13-14, 16. Anthem Arizona, LLC, remains a defendant in this action.
12 Given that The Villages is merely a former corporate name; it is not a proper defendant in
13 this action and is dismissed.

14 Prior to its acquisition by Pulte Homes, Inc., Del Webb was the parent of defendant
15 Anthem Arizona, LLC. Id. at 15-16. Plaintiffs do not dispute that Del Webb sold no homes
16 and filed no public reports. Plaintiffs’ causes of action are based on a duty to disclose.
17 Without such a duty, the claims against Del Webb fail. We do not disregard the separate
18 corporate structure of a parent entity without some showing that the subsidiary is a mere
19 instrumentality of the parent. See Oldenburger v. Del E. Webb Dev. Co., 159 Ariz. 129, 134,
20 765 P.2d 531, 546 (Ct. App. 1988). No such showing is made here.

21 Accordingly, it is ordered granting Pulte’s motion for summary judgment in favor of
22 defendants Del Webb Corporation and The Villages at Desert Hills, LLC.

23 III

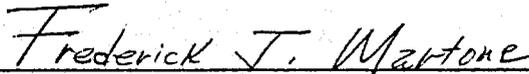
24 **IT IS ORDERED GRANTING** plaintiffs’ motion for summary judgment on the
25 issues of duty and breach (doc. 119).

26 **IT IS ORDERED GRANTING IN PART AND DENYING IN PART** Pulte’s
27 second motion for summary judgment (doc. 116). The motion is granted to the extent that
28 it seeks summary judgment in favor of defendants Del Webb Corporation and The Villages

1 at Desert Hills, LLC. It is denied to the extent that it seeks judgment in its favor on the issues
2 of duty, breach, and damages.

3 **IT IS FURTHER ORDERED DENYING** plaintiffs' motion to strike (doc. 126).

4 DATED this 27th day of August, 2010.

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 Frederick J. Martone
8 United States District Judge
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