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BEFORE THE ARIZONA CORPORATION COMMISSION

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Gary Pierce,  
Chairman

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Bob Stump,  
Commissioner

AZ CORP COMMISSION  
DOCKET CONTROL

Sandra D. Kennedy,  
Commissioner

Arizona Corporation Commission

DOCKETED

Paul Newman,  
Commissioner

JUL 25 2011

Brenda Burns,  
Commissioner

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W-02113A-11-0294

IN THE MATTER OF THE APPLICATION  
OF CHAPARRAL CITY WATER  
COMPANY, INC. FOR A WAIVER UNDER  
A.A.C. R-14-2-806

Docket No. W-02113A-11-\_\_\_\_\_

**VERIFIED APPLICATION FOR WAIVER OF THE  
AFFILIATED INTERESTS RULES**

Chaparral City Water Company, Inc. ("CCWC") makes this filing in relation to a pending action by which Arizona-American Water Company's parent company, American Water Works Company, Inc. ("American Water") is selling all of the issued and outstanding shares of Arizona-American's common stock to EPCOR Water (USA), Inc. ("EPCOR") (the "Transaction").

On June 30, 2011, EPCOR completed the purchase of CCWC pursuant to authorization from the Arizona Corporation Commission (the "Commission") in Decision No. 72259. As a result of that purchase, CCWC may have an obligation to comply with the Commission's Affiliated Interests Rules (A.A.C. R14-2-801 to R14-2-806) with respect to the Transaction because CCWC's new parent company, EPCOR, is in the process of acquiring a financial interest in another Arizona public service corporation, Arizona-American. Because EPCOR's purchase of Arizona-American's stock is already the subject of a pending affiliated interests proceeding (W-01303A-11-0101), CCWC

1 believes that this is an appropriate situation for the Commission to exercise its authority  
2 under R14-2-806 (“Rule 806”) to grant a waiver. A waiver in this case would be in the  
3 public interest because it would reduce cost and burden on both the Commission and other  
4 parties by avoiding duplication of a review that is already being conducted by the  
5 Commission.

6 Because the Transaction will not impact CCWC and its operations, CCWC  
7 submits that, to the extent the Affiliated Interests Rules may apply to this Transaction, a  
8 waiver of such rules is appropriate and in the public interest under Rule 806.

9 CCWC is a separate and separately regulated public service corporation from  
10 Arizona-American. None of the utility plant, revenue or other assets currently owned by  
11 CCWC will be sold, transferred or encumbered as part of the Transaction. Consequently,  
12 CCWC’s ability to raise capital and its creditworthiness will not be impaired by the  
13 Transaction.

14 The Transaction will not have a direct impact on CCWC’s cost of providing  
15 utility service. The Transaction will not cause any change in the manner in which CCWC  
16 will be operated; the Transaction will not impact CCWC’s utility service to customers; nor  
17 will the Transaction eliminate the Commission’s regulatory oversight or ratemaking  
18 responsibilities relating to CCWC.

19 Attached as Exhibit 1 is Commission Decision No. 72259 approving EPCOR’s  
20 purchase of CCWC. Attached as Exhibit 2 is Arizona-American’s Application seeking  
21 Commission approval of EPCOR’s purchase of the Arizona-American stock that contains  
22 a description of the Transaction which is incorporated by reference in this application for  
23 waiver.

24 CCWC is not requesting in this filing that the Commission approve the Transaction  
25 between American Water and EPCOR. That decision will be made by the Commission in  
26 due course after a public hearing in the pending proceeding. CCWC is merely requesting

1 that the Commission waive any obligation by CCWC to seek a separate approval of the  
2 Transaction.

3 **RELIEF REQUESTED**

4 For the reasons set forth herein, CCWC requests that the Commission grant CCWC  
5 a waiver under A.A.C. R14-2-806 with respect to American Water's sale of Arizona-  
6 American's outstanding shares of common stock to EPCOR.

7 RESPECTFULLY SUBMITTED this 25<sup>th</sup> day of July, 2011.

8 LEWIS AND ROCA LLP

9  
10 

11 Thomas H. Campbell  
12 Michael T. Hallam  
13 40 N. Central Avenue  
14 Phoenix, AZ 85004  
15 (602) 262-5723

16 ORIGINAL and thirteen (13)  
17 copies of the foregoing filed this  
18 25<sup>th</sup> day of July, 2011, with:

19 The Arizona Corporation Commission  
20 Docket Control - Utilities Division  
21 1200 W. Washington Street  
22 Phoenix, Arizona 85007

23 COPY of the foregoing hand-  
24 delivered this 25<sup>th</sup> day of July, 2011, to:

25 Lyn Farmer, Chief Administrative Law Judge  
26 Hearing Division  
The Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

Janice Alward  
Legal Department  
The Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

1 Steve Olea, Director  
2 Utilities Division  
3 The Arizona Corporation Commission  
4 1200 W. Washington Street  
5 Phoenix, Arizona 85007

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# **EXHIBIT 1**

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE - Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS

Arizona Corporation Commission  
**DOCKETED**  
APR - 7 2011

DOCKETED BY 

IN THE MATTER OF THE APPLICATION OF  
CHAPARRAL CITY WATER COMPANY, INC.  
FOR A WAIVER UNDER A.A.C. R14-2-806 OR,  
IN THE ALTERNATIVE, NOTICE OF INTENT TO  
REORGANIZE UNDER A.A.C. R-14-2-803.

DOCKET NO. W-02113A-10-0309

DECISION NO. 72259

OPINION AND ORDER

DATE OF HEARING: September 9, (Procedural Conference), and December 9, 2010.  
PLACE OF HEARING: Phoenix, Arizona  
ADMINISTRATIVE LAW JUDGE: Teena Jibilian  
APPEARANCES: Mr. Norman D. James, FENNEMORE CRAIG, P.C., on behalf of the Applicant;  
Mr. Thomas H. Campbell, LEWIS AND ROCA, L.L.P., on behalf of EPCOR Water (USA), Inc.;  
Ms. Michelle L. Wood, Attorney, on behalf of the Residential Utility Consumer Office; and  
Ms. Bridget A. Humphrey, Staff Attorney, Legal Division, on behalf of the Utilities Division of the Arizona Corporation Commission.

**BY THE COMMISSION:**

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

**FINDINGS OF FACT**

Procedural History

1. On July 23, 2010, Chaparral City Water Company, Inc. ("CCWC" or "Applicant") filed with the Arizona Corporation Commission ("Commission") an 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

1 (“Application and Notice”).

2       2.       CCWC’s application is seeking a waiver pursuant to A.A.C. R14-2-806 from the  
3 Commission’s Public Utility Holding Companies and Affiliated Interests Rules.<sup>1</sup> In the alternative to  
4 a waiver, the application gives notice to the Commission pursuant to A.A.C. R14-2-803 of CCWC’s  
5 intent to reorganize by means of American States Water Company’s (“American States”) sale of all  
6 the outstanding and issued shares of CCWC’s common stock to EPCOR Water (USA) Inc. (“EPCOR  
7 USA”).

8       3.       On August 12, 2010, EPCOR USA filed a Motion to Intervene, which was granted by  
9 procedural order issued August 23, 2010.

10       4.       On August 23, 2010, the Residential Utility Consumer Office (“RUCO”) filed an  
11 Application to Intervene, which was granted by procedural order issued September 8, 2010.

12       5.       On September 10, 2010, the Commission’s Utilities Division (“Staff”) filed a Request  
13 for Procedural Conference for the purpose of discussing the necessity for the filing of testimony and a  
14 hearing.

15       6.       A procedural order was issued September 14, 2010, setting a procedural conference.

16       7.       On September 23, 2010, the procedural conference convened as scheduled. CCWC,  
17 EPCOR USA, RUCO, and Staff appeared through counsel. The parties discussed a hearing schedule,  
18 including the pre-filing of direct and rebuttal testimony.

19       8.       On September 24, 2010, a procedural order was issued setting a hearing to commence  
20 on December 9, 2010, requiring the publication of notice of the Application and Notice, and setting  
21 deadlines for the filing of testimony.

22       9.       On October 22, 2010, CCWC filed Certification of Publication indicating that it had  
23 published notice of the Application and Notice in the *Arizona Business Gazette* on October 7, 2010  
24 and in *The Fountain Hills Times* on October 13, 2010.

25       10.       Also on October 22, 2010, CCWC filed a Notice of Customer Open House. CCWC  
26 indicated that it had published in *The Fountain Hills Times*, on October 20, 2010, an invitation to an

27

28 <sup>1</sup> A.A.C. R14-2-801 through 806.

1 open house scheduled to be held in Fountain Hills on October 26, 2010, for the purpose of ensuring  
2 that customers are aware of the proposed transaction that is the subject of this proceeding, and to  
3 provide customers with an opportunity to learn more about EPCOR USA.

4 11. No public comments were filed in the docket

5 12. On November 10, 2010, RUCO filed the Direct Testimony of its witness William R.  
6 Rigsby.

7 13. On November 10, 2010, Staff filed the Direct Testimony of its witness Darron W.  
8 Carlson.

9 14. On November 24, 2010, CCWC and EPCOR USA filed a Joint Response to Staff and  
10 RUCO Direct Testimony.

11 15. A hearing on the Application and Notice was convened as scheduled on December 9,  
12 2010 before a duly authorized Administrative Law Judge of the Commission. No members of the  
13 public appeared to make public comment. CCWC, EPCOR USA, RUCO and Staff appeared through  
14 counsel and presented testimony through witnesses. At the close of the hearing, the parties made  
15 closing statements, and the matter was taken under advisement.

16 Parties to the Proposed Transaction

17 16. CCWC is a public service corporation that provides water utility service to  
18 approximately 13,000 customers pursuant to authority granted by the Commission in Decision No.  
19 41243 (April 20, 1971). CCWC's certificated area includes the Town of Fountain Hills and portions  
20 of eastern Maricopa County.

21 17. CCWC's current rates and charges were authorized in Decision No. 71308 (October  
22 21, 2009) as amended *nunc pro tunc* by Decision No. 71724 (December 8, 2009).

23 18. CCWC is wholly-owned by American States. American States is a California  
24 corporation based in San Dimas, California, which is publicly traded on the New York Stock  
25 Exchange ("NYSE").

26 19. EPCOR USA is an indirect wholly owned subsidiary of EPCOR Utilities Inc.  
27 ("EPCOR"). EPCOR is a municipally owned Canadian corporation and holding company that builds,  
28 owns and operates water and wastewater treatment facilities and infrastructure and electrical

1 transmission and distribution networks in Canada. EPCOR USA is governed by an independent  
2 Board of Directors, and its sole shareholder is the City of Edmonton, Alberta, Canada.

3 20. EPCOR is the parent company of a number of subsidiary companies. Its primary  
4 operating utility subsidiaries are EPCOR Water Services, Inc. ("EPCOR Water"), EPCOR  
5 Distribution & Transmission Inc. ("EPCOR Distribution") and EPCOR Energy Alberta Inc.  
6 ("EPCOR Energy").

7 21. EPCOR Water provides water and wastewater services to over one million people in  
8 more than 70 communities and counties across western Canada. EPCOR Water and its predecessors  
9 have been providing water to the residents of the City of Edmonton for more than 100 years. EPCOR  
10 Water owns and operates seven water treatment facilities in Alberta and British Columbia; operates  
11 16 other water treatment and distribution facilities in Alberta and British Columbia; owns and  
12 operates five wastewater treatment facilities in Alberta and British Columbia; and operates 19 other  
13 wastewater treatment and collection facilities in Alberta and British Columbia. EPCOR Water also  
14 has business and working relationships in Canada with established American companies such as  
15 Stantec Consulting, Inc. and PCL Construction, Inc., spanning nearly 50 years, including projects  
16 where EPCOR Water and Stantec/PCL have jointly built and refurbished numerous water and  
17 wastewater facilities.

18 22. EPCOR Water's technical expertise includes using advanced and highly automated  
19 water treatment systems, ultraviolet disinfection, and remote systems capable of monitoring all sizes  
20 of facilities. EPCOR Water has experience treating and distributing both ground and surface water,  
21 and EPCOR has experience providing water distribution service to areas with multiple pressure  
22 zones, like those found in CCWC's service area. Two of EPCOR Water's service areas, the cities of  
23 Edmonton and Canmore, Alberta, have distribution systems with multiple pressure zones. Edmonton  
24 is supplied with surface water from the North Saskatchewan River, and EPCOR Water therefore has  
25 substantial expertise and knowledge for operating surface water systems.

26 23. EPCOR USA intends to use EPCOR Water's experience in operating and managing  
27 surface water systems and treatment plants in Edmonton to operate CCWC, where it plans to  
28 continue use of CAP water as the primary source of water and to use groundwater as a back-up

1 supply.

2 24. EPCOR Water has maintained water efficiency best management practices to support  
3 local and provincial goals for sustainable communities.

4 25. EPCOR provides call center and billing services for EPCOR Water's 250,000  
5 customers through its affiliate EPCOR Energy Services.

6 The Proposed Transaction

7 26. American States wishes to divest itself of its ownership and stock interests in CCWC.

8 27. EPCOR intends to enlarge its portfolio of water and wastewater assets, and its  
9 business plan includes entry into the water utility market in Arizona. The proposed transaction is part  
10 of EPCOR's long-term strategy to invest in and own water and wastewater utilities in the southwest  
11 United States and to contract to provide similar services to municipal and other governmental entities.

12 28. On June 7, 2010, EPCOR USA entered into a Stock Purchase Agreement with  
13 American States for the purchase of all outstanding shares of CCWC's common stock. EPCOR USA  
14 will purchase the stock of CCWC for approximately \$29 million, which will be paid to American  
15 States in cash at closing.

16 29. EPCOR will fund the purchase price by cash on hand together with either the issuance  
17 of short term debt via EPCOR's commercial paper program or bank debt. In 2009, EPCOR had  
18 approximately \$2.4 billion (\$Cdn) in revenue from its various operations, and net income of  
19 approximately \$125 million (\$Cdn). EPCOR expects no material changes to its capital structure as a  
20 result of the proposed transaction, and EPCOR will continue to finance capital projects in the same  
21 way it has in the past.

22 30. The proposed transaction is not anticipated to result in any material changes to  
23 CCWC's cost of service or cost of capital. CCWC will continue to be operated on a stand-alone basis  
24 in contracting for services, equipment and supplies, in raising capital, and for income tax and  
25 ratemaking purposes.

26 31. CCWC intends to continue to reinvest a portion of its net income from operations in  
27 utility plant and improvements and to obtain debt financing in the markets based on its cash flow  
28 from utility operations and other financial indicators. EPCOR USA has reviewed American States'

1 projected capital budget for CCWC for the years 2010 through 2014 and intends to generally adopt  
2 the projected capital budget plan. If it becomes necessary, EPCOR will provide debt financing and  
3 cash management services to CCWC, subject to the Commission's authority to review and approve  
4 the issuance of bonds, notes, and other debt instruments.

5 32. EPCOR has access to the capital market and will be able to support CCWC as  
6 appropriate. If required, EPCOR will provide equity capital to CCWC to finance required  
7 infrastructure needs, consistent with maintaining a reasonable capital structure.

8 33. EPCOR has funding available from its cash flow from its various water, wastewater  
9 and electric operations in Canada. Over the period from 2004 to 2009, EPCOR routinely financed an  
10 average of \$400 million (\$Cdn) annually in capital improvements for its water, wastewater and  
11 electric utilities. EPCOR maintains a Standard & Poor's credit rating of BBB+ stable for long term  
12 unsecured debt, and DBRS Ltd. affirmed its credit rating for EPCOR's long term unsecured debt at A  
13 (low) stable.

14 34. CCWC's utility plant, revenue and other assets will not be used as security, nor will  
15 the stock of CCWC be pledged or otherwise used as security for the stock purchase.

16 35. After the proposed transaction closes, CCWC will remain the same legal entity, but  
17 will be owned by EPCOR USA. CCWC will continue to be operated as a public service corporation  
18 subject to the Commission's authority and jurisdiction.

19 36. EPCOR USA anticipates that all the existing employees of CCWC will remain with  
20 the Company and continue in their present roles operating the Company. EPCOR USA intends to  
21 deploy a managerial staff member to CCWC on a full time basis to oversee any transition issues,  
22 build relationships with customers, and ensure that all customer issues are addressed.

23 37. Under EPCOR USA's ownership, CCWC will continue to provide service to its  
24 customers under its existing rates and tariffs. EPCOR USA does not seek an acquisition adjustment.

25 Request for Waiver of Affiliated Interests Rules

26 38. CCWC requests that the Commission waive the requirements of the Affiliated  
27 Interests Rules to the extent they apply to the proposed transaction. CCWC makes this request  
28 pursuant to A.A.C. R14-2-806, which provides that the Commission may waive compliance with any

1 of the Affiliated Interests Rules upon a finding that such waiver is in the public interest.

2 39. Staff recommends against the waiver requested by CCWC. Staff's witness testified  
3 that Staff believes there must be a demonstrable benefit of the transaction to justify a waiver of the  
4 Affiliated Interests Rule. Staff's witness stated that because Staff believes the transaction at issue  
5 does not result in a benefit, Staff is recommending that the requested waiver not be granted.

6 40. RUCO also recommends against the requested waiver.

7 41. In its closing statement, the Company stated that although it believes the proposed  
8 transaction is in the public interest, the Company requests that the Commission approve the proposed  
9 transaction as a reorganization rather than granting the waiver.

10 Notice of Intent to Reorganize

11 42. The Company's application provided the information required by A.A.C. R14-2-803.  
12 The Company requests approval of the proposed transaction pursuant to that rule.<sup>2</sup>

13 43. The Company stated that the evidence presented supports approval of the proposed  
14 transaction. The Company stated that there is no indication that the proposed transaction will impair  
15 the financial status of CCWC, would prevent CCWC from attracting capital at fair and reasonable  
16 terms, or would impair CCWC's ability to provide safe, reasonable and adequate service. The  
17 Company stated that the proposed transaction will not result in costs being passed to CCWC's  
18 customers. The Company further stated that the proposed transaction will not result in the sale,  
19 transfer, or encumbrance of plant or other utility assets, and that the new ownership will not result in  
20 any change to CCWC's capital structure, to the way rates are currently set, or to income tax expense.

21 44. EPCOR USA agreed with the Company that the proposed transaction will not impair  
22 the financial status of the Company, will not prevent the Company from attracting capital at fair and  
23 reasonable terms, and will not impair the Company's ability to provide safe, reasonable and adequate  
24 service.

25  
26 <sup>2</sup> A.A.C. R14-2-803.C provides as follows:

27 At the conclusion of any hearing on the organization or reorganization of a utility holding company, the  
28 Commission may reject the proposal if it determines that it would impair the financial status of the  
public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the  
ability of the public utility to provide safe, reasonable and adequate service.

1           45.     RUCO believes that EPCOR USA is a fit and proper entity whose ownership will not  
2 impair the financial status of CCWC, or prevent CCWC from attracting capital at fair and reasonable  
3 terms, or impair the ability of CCWC to provide safe, reasonable and adequate service. RUCO  
4 recommends approval of the reorganization subject to two conditions.

5           46.     Staff concluded that after the reorganization, CCWC will experience no short-term  
6 changes, benefits or detriments. Staff stated that it also believes that CCWC will experience no  
7 measurable long-term changes, benefits, or detriments. Staff recommends approval of the  
8 reorganization, subject to three conditions.

9 Conditions on Approval

10           47.     RUCO recommends approval of the reorganization subject to two conditions:

- 11                   1) that no acquisition costs related to the transfer of ownership between American  
12 States and EPCOR USA be passed on to Arizona ratepayers; and  
13                   2) that no acquisition premium (i.e. the difference between EPCOR USA's purchase  
14 price of CCWC's outstanding and issued shares of common stock and the book  
value of CCWC at the time the transaction is finalized) be recovered by EPCOR  
USA in any future rate case decisions.

15           48.     Staff recommends approval of the reorganization, subject to the following conditions:

- 16                   1) that the Company and its affiliates fully cooperate with Staff in any future  
17 inquiries or requests for information and/or documents regarding any transactions  
18 that Staff determines might have some effect, direct or indirect, on the Company's  
operational or financial health;  
19                   2) that the Company refrain from seeking an acquisition adjustment due to this  
transaction in any future rate case; and  
20                   3) that the Company maintain its quality of service, including, but not limited to, that  
21 the number of service complaints should not increase, that the response time to  
22 service complaints should not increase, and that the service interruptions should  
not increase as a result of the reorganization.

23           49.     EPCOR USA stated that it finds the conditions recommended by RUCO and Staff to  
24 be acceptable.

25           50.     EPCOR USA stated that after discussion with Staff, it understands that its agreement  
26 with Staff's proposed condition in regard to cooperation and provision of information does not  
27 constitute a waiver of its ability in future proceedings to make legitimate and reasonable objections to  
28 discovery for resolution by the Commission.

1           51.    EPCOR USA stated that it intends to maintain service quality, is in agreement with the  
2 three specific service quality criteria listed in Staff's recommended service quality condition, and will  
3 work with Staff to address other service quality criteria.

4           52.    At the hearing, EPCOR USA's witness indicated that following the proposed  
5 transaction, EPCOR USA plans to implement a new, more modern billing system for CCWC, and  
6 that when the new system is implemented, it is possible there may be a spike in calls to the Company  
7 or to the Commission. The witness stated that EPCOR USA would not be opposed to a requirement  
8 that CCWC notify customers of the acquisition, and of the fact that the customer billing system may  
9 be changing.

10          53.    The Company is currently in compliance with state and federal drinking water  
11 standards and received a public water system compliance report from the Maricopa County  
12 Environmental Services Department ("MCESD") that described CCWC's general public water  
13 system as "compliant."

14          54.    CCWC is current on property tax payments.

15          55.    CCWC's Annual Water Withdrawal and Use Report for calendar year 2009 and its  
16 Central Arizona Groundwater Replenishment District 2009 report were filed on March 15, 2010.

17 Conclusions

18          56.    Based on the evidence presented, we find that the proposed transaction will not impair  
19 the financial status of CCWC, otherwise prevent it from attracting capital at fair and reasonable  
20 terms, or impair its ability to provide safe, reasonable and adequate service.

21          57.    It is in the public interest to approve the proposed reorganization subject to the  
22 following conditions:

- 23                1) that no acquisition costs related to the transfer of ownership between American  
24 States and EPCOR USA be passed on to Arizona ratepayers;
- 25                2) that no acquisition premium (i.e. the difference between EPCOR USA's purchase  
26 price of CCWC's outstanding and issued shares of common stock and the book  
27 value of CCWC at the time the transaction is finalized) be recovered by EPCOR  
28 USA in any future rate case decisions;



**ORDER**

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IT IS THEREFORE ORDERED that Chaparral City Water Company, Inc.'s request for a waiver from Commission review of the transaction proposed in the Application and Notice, pursuant to A.A.C. R14-2-806, is hereby denied.

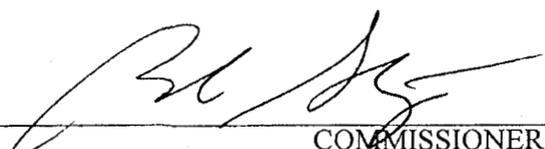
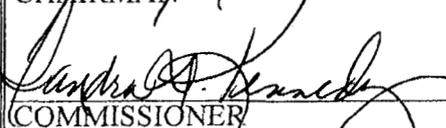
IT IS FURTHER ORDERED that the transaction proposed in the Application and Notice is hereby approved, as a reorganization of a holding company pursuant to A.A.C. R14-2-803, subject to the conditions set forth in Findings of Facts No. 57.

IT IS FURTHER ORDERED that Chaparral City Water Company, Inc. shall, within thirty days of the close of the transaction, in a form approved by the Commission's Utilities Division, notify its customers of the change in ownership of the utility, and shall file, as a compliance item in this docket, proof of such customer notice.

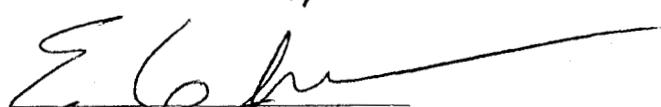
1 IT IS FURTHER ORDERED that Chaparral City Water Company, Inc. shall, at least thirty  
2 days prior to any change in the customer billing system, notify its customers of the impending  
3 change. The customer notice shall include at a minimum both a telephone number and a website  
4 address by which customers may contact the utility to seek answers to any questions they may have  
5 about the billing system change.

6 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

7 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

8  
9    
10 CHAIRMAN COMMISSIONER  
11     
12 COMMISSIONER COMMISSIONER COMMISSIONER  
13

14 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
15 Executive Director of the Arizona Corporation Commission,  
16 have hereunto set my hand and caused the official seal of the  
17 Commission to be affixed at the Capitol, in the City of Phoenix,  
18 this 7th day of April, 2011.

19   
20 ERNEST G. JOHNSON  
21 EXECUTIVE DIRECTOR

22 DISSENT \_\_\_\_\_

23 DISSENT \_\_\_\_\_

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1 SERVICE LIST FOR: CHAPARRAL CITY WATER COMPANY, INC.

2 DOCKET NO.: W-02113A-10-0309

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12 Attorneys for EPCOR Water (USA), Inc.

10 Daniel Pozefsky, Chief Counsel  
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13 Janice Alward, Chief Counsel  
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17 Phoenix, AZ 85007-2927

16 Steven Olea, Director  
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18 ARIZONA CORPORATION COMMISSION  
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**EXHIBIT 2**

NEW APPLICATION  
**ORIGINAL RECEIVED**  
BEFORE THE ARIZONA CORPORATION COMMISSION

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2 GARY PIERCE  
Chairman

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3 BOB STUMP  
4 Commissioner

AZ CORP COMMISSION  
DOCKET CONTROL

Arizona Corporation Commission

**DOCKETED**

MAR - 2 2011

5 PAUL NEWMAN  
6 Commissioner

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7 SANDRA D. KENNEDY  
Commissioner

8 BRENDA BURNS  
9 Commissioner

W-01303A-11-0101

10 IN THE MATTER OF THE APPLICATION )  
11 OF ARIZONA-AMERICAN WATER )  
12 COMPANY FOR A WAIVER UNDER )  
13 A.A.C. R14-2-806 OR, IN THE )  
14 ALTERNATIVE, NOTICE OF INTENT TO )  
15 REORGANIZE UNDER A.A.C. R14-2-803 )

DOCKET NO. W-01303A-11-  
APPLICATION

14 Arizona-American Water Company ("Arizona-American" or "Company") makes  
15 this filing in relation to a pending transaction by which Arizona-American's parent  
16 company, American Water Works Company, Inc. ("American Water"), a Delaware  
17 corporation, will sell all of the issued and outstanding shares of Arizona-American's  
18 common stock to EPCOR Water (USA) Inc. ("EPCOR USA"), a Delaware corporation  
19 (the "Transaction"). Through this filing, Arizona-American requests that the Arizona  
20 Corporation Commission (the "Commission") find that the Transaction is not subject to  
21 the jurisdiction of the Commission or, pursuant to AAC R14-2-806, waive compliance  
22 with the requirements of A.A.C. R14-2-801 to R14-2-806 ("the Affiliated Interests Rules")  
23 with respect to the Transaction. In the alternative, Arizona-American gives notice to the  
24 Commission pursuant to A.A.C. R14-2-803 that the Company intends to "reorganize," as  
25 such term is defined in the Affiliated Interests Rules, by virtue of American Water's sale  
26 of all of the outstanding and issued shares of Arizona-American's common stock to  
EPCOR USA. Given the fact that the Transaction will not impair Arizona-American's

1 financial status, prevent Arizona-American from attracting capital on fair and reasonable  
2 terms, or impair the ability of Arizona-American to provide safe, reasonable and adequate  
3 service, Arizona-American requests that the Commission approve the reorganization  
4 without a hearing pursuant to A.A.C. R14-2-803(C).

### 5 OVERVIEW OF ARIZONA-AMERICAN AND AMERICAN WATER

6 1. Arizona-American is a public service corporation engaged in providing  
7 water and wastewater utility service in portions of Maricopa, Mohave, and Santa Cruz  
8 Counties pursuant to certificates of convenience and necessity granted by the Commission.  
9 At the present time, Arizona-American provides water and wastewater service to  
10 approximately 158,000 customers (107,000 water customers and 51,000 wastewater  
11 customers). The Commission authorized Arizona-American's current, permanent rates  
12 and charges in Decision Nos. 72047 and 71410.

13 2. Arizona-American's parent, American Water, is a Delaware corporation  
14 headquartered in Voorhees, New Jersey, the stock of which is traded on the New York  
15 Stock Exchange.

16 3. Arizona-American is a wholly owned subsidiary of American Water, which  
17 owns all of the issued and outstanding shares of common stock in Arizona-American.

18 4. Arizona-American is in compliance with local and state regulatory  
19 requirements. Arizona-American is current on all property taxes.

### 20 OVERVIEW OF EPCOR

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

1           6.     EPCOR USA is a Delaware corporation and holding company. EPCOR  
2 USA was formed to own water and wastewater treatment facilities in the United States.  
3 EPCOR USA is headquartered in Phoenix, Arizona. It is governed by an independent  
4 Board of Directors that differs from the EPCOR Board of Directors.

5           7.     EPCOR is the parent company of a number of subsidiary companies. Its  
6 primary operating utility subsidiaries are EPCOR Water Services Inc. (“EPCOR Water”),  
7 EPCOR Distribution & Transmission Inc. (“EPCOR Distribution”) and EPCOR Energy  
8 Alberta Inc (“EPCOR Energy”).

9           8.     EPCOR Water provides water and wastewater services to over one million  
10 people in more than 70 communities and counties across western Canada. EPCOR Water  
11 and its predecessors have been providing water to the residents of the City of Edmonton  
12 for more than 100 years. EPCOR Water owns and operates seven water treatment  
13 facilities in Alberta and British Columbia; operates 17 other water treatment and  
14 distribution facilities in Alberta and British Columbia; owns and operates five wastewater  
15 treatment facilities in Alberta and British Columbia; and, operates 20 other wastewater  
16 treatment and collection facilities in Alberta and British Columbia. Further, EPCOR  
17 Water has long-standing business and working relationships with established American  
18 companies such as Stantec Consulting, Inc. and PCL Construction, Inc., spanning nearly  
19 50 years, including projects where EPCOR Water and Stantec/PCL have jointly built and  
20 refurbished numerous water and wastewater facilities.

21           9.     EPCOR Water operates and manages those regulated water and wastewater  
22 utilities, supplying services to retail and wholesale customers across western Canada.  
23 EPCOR Water specializes in all aspects of water and wastewater plant operations and  
24 maintenance as well as the provision of full customer support services and operator  
25 training. EPCOR Water’s facilities in Edmonton encompass two state-of-the-art water  
26 treatment plants, a distribution network with approximately 2,200 miles of distribution and  
transmission mains, and approximately 17,000 hydrants and 54,000 valves. EPCOR

1 Water's 12 storage reservoir sites have an aggregate capacity of approximately 213 million  
2 gallons. EPCOR Energy provides call center and billing services for EPCOR Water's  
3 250,000 customers.

4 10. EPCOR Water also operates and maintains the distribution systems in the  
5 communities in which it provides water service. EPCOR Water's experience operating  
6 these systems will benefit the customers of Arizona-American.

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

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

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

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

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

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

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

1 water from the North Saskatchewan River. In turn, EPCOR Water has experience with  
2 volume and water quality variances, municipal discharges, high turbidity events and a  
3 variety of other circumstances relating to use of surface water. In utilizing surface water  
4 for operations, EPCOR Water's two state-of-the-art surface water treatment plants in  
5 Edmonton have been able to meet or exceed all health and environmental requirements,  
6 illustrating that EPCOR Water has substantial expertise and knowledge for operating  
7 surface water systems. EPCOR Water's experience in operating and managing surface  
8 water systems and treatment plants in Edmonton will benefit customers of Arizona-  
9 American, which relies heavily on CAP water in certain districts.

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

19 19. EPCOR Water also has worked closely with the City of Edmonton in  
20 development of its new Water Efficient Fixtures Bylaw. The bylaw requires water  
21 efficient fixtures (toilets, showerheads, faucets) to be installed in all new development and  
22 major renovations that require plumbing permits. As a result of these efforts, Edmonton  
23 residents use 15% less water than residents in other fully metered, large Canadian cities.  
24 In 2009, Edmonton reported one of the lowest water consumption rates for domestic  
25 customers (single family homes and apartments) with an average of 59 gallons per day  
26 compared to the average of 70 gallons per day for Canadian residential customers living in  
large metered communities. EPCOR recognizes that such best management practices are

1 commonly employed in Arizona, including by Arizona-American, and supports their  
2 continued implementation in accordance with Arizona law.

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

16 21. EPCOR Water focuses on being "the neighbor of choice" in all communities  
17 where it operates facilities. EPCOR believes stakeholder participation is a critical element  
18 of a successful utility operation. Stakeholder status is open to any person or group that  
19 believes it has a stake in EPCOR's activities. EPCOR Water will conduct stakeholder and  
20 customer information sessions relating to the acquisition of Arizona-American and future  
21 company operations. Further, EPCOR Water works closely with its environmental and  
22 health boards, municipal councils and regulatory agencies in all areas where it conducts  
23 business in Canada. EPCOR will continue this operating philosophy in its operation of  
24 Arizona-American.

25 22. EPCOR USA's purchase of the stock of Arizona-American is EPCOR's  
26 second entry into the water and wastewater utility industry in the United States. This  
Transaction is part of EPCOR's business strategy to invest in and become a long-term

1 owner of Arizona water and wastewater utilities and to provide various utility-related  
2 services to municipalities and other governmental entities in Arizona and other states.  
3 EPCOR's strategy also includes future opportunities to purchase and operate water and  
4 wastewater utilities in Arizona.

5 23. In Docket No. W-02113A-10-0309, Chaparral City Water Company is  
6 seeking Commission approval in relation to a transaction by which American States Water  
7 is selling its stock in Chaparral City Water Company to EPCOR USA. In that docket,  
8 Commission Staff examined EPCOR USA in detail and recommended approval of the  
9 transaction.

10 **THE TRANSACTION BETWEEN EPCOR USA AND AMERICAN WATER**

11 24. On January 23, 2011, EPCOR USA entered into a Stock Purchase  
12 Agreement with American Water for the purchase of all outstanding shares of Arizona-  
13 American's common stock and of New Mexico-American Water Company Inc.'s common  
14 stock (the "Stock Purchase Agreement"). A copy of this Agreement will be provided  
15 subject to an appropriate protective agreement.

16 25. EPCOR USA will purchase the stock of Arizona-American and New Mexico  
17 American Water Company for approximately \$470 million, which, subject to adjustments,  
18 will be paid to American Water at closing. As part of this transaction, at closing, EPCOR  
19 will replace the existing Arizona-American debt extended by American Water with debt  
20 extended by EPCOR under comparable terms ("Debt Replacements"). To the extent the  
21 replacement of the existing American Water debt with new debt extended by EPCOR (or a  
22 third party) requires Commission approval under A.R.S. §40-301 and §40-302, Arizona-  
23 American requests such approval in this proceeding.

24 26. After the Transaction closes, Arizona-American will remain the same legal  
25 entity, except that the Company will be a subsidiary of EPCOR USA rather than American  
26

1 Water.<sup>1</sup> The Transaction will not involve the sale, lease, assignment, encumbrance,  
2 transfer or conveyance of any of the Company's utility used and necessary plant, assets,  
3 revenue or property.

4 27. EPCOR USA does not anticipate that any positions will be eliminated as a  
5 result of this Transaction. While it is recognized that staff turnover exists in all  
6 companies, it is expected that Arizona-American's current employees will remain with the  
7 Company and continue to operate the system after the Transaction closes. This, of course,  
8 does not mean that EPCOR USA will not take necessary steps to ensure that employees  
9 are putting their best efforts forward to perform their duties and maintain legal and  
10 responsible operations. Thus, EPCOR USA intends to continue Arizona-American's  
11 operations in a manner that ensures the continuation of safe and reliable water and  
12 wastewater utility service.

13 28. The Transaction between EPCOR USA and American Water will not impact  
14 the service provided by Arizona-American to its customers. Arizona-American will  
15 continue to operate as a public service corporation subject to the Commission's authority  
16 and jurisdiction. Arizona-American will continue to provide safe, reliable and adequate  
17 water utility service to customers in its service territory under rates and tariffs approved by  
18 the Commission.

19 **REQUEST FOR WAIVER UNDER RULE 806**

20 29. Because the Transaction will not impact Arizona-American and its  
21 operations, the Company submits that, to the extent the Affiliated Interests Rules may  
22 apply to this Transaction, a waiver of such rules is appropriate and in the public interest  
23 under A.A.C. R14-2-806 ("Rule 806"). Arizona-American believes that a waiver is  
24 appropriate and in the public interest because the Affiliated Interests Rules do not apply to  
25 a transaction such as this by and between foreign corporations that are not public service  
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<sup>1</sup> Following the closing of the Transaction, EPCOR USA will change the name of the utility, as the utility will no longer be part of the American Water system. EPCOR USA will notify the Commission following the determination of the new name.

1 corporations and otherwise conduct no business activities in Arizona. *See, e.g., Arizona*  
2 *Corp. Comm'n v. Consolidated Stage Co.*, 63 Ariz. 257, 161 P.2d 110 (1945).

3 30. None of the utility plant, revenue or other assets currently owned by  
4 Arizona-American will be sold, transferred or encumbered as part of the Transaction.  
5 Consequently, Arizona-American's ability to raise capital and its creditworthiness will not  
6 be impaired by the Transaction.

7 31. The Transaction will not have a direct impact on Arizona-American's cost of  
8 providing utility service. As stated, the Transaction will not cause any change in the  
9 manner in which Arizona-American will be operated; the Transaction will not impact the  
10 Company's utility service to customers; nor will the Transaction eliminate the  
11 Commission's regulatory oversight or ratemaking responsibilities relating to Arizona-  
12 American.

13 32. For these reasons, the Company respectfully submits that the nature of the  
14 Transaction between EPCOR and American Water is either not subject to the  
15 Commission's jurisdiction or, in the alternative, the public interest justifies a waiver of the  
16 Affiliated Interests Rules as they relate to this Transaction.

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

18 33. If the Commission determines that it has jurisdiction over the Transaction  
19 and declines to grant a waiver under Rule 806, then the Company requests in the  
20 alternative that the Commission approve the Transaction under A.A.C. R14-2-803 ("Rule  
21 803"). For this purpose, Arizona-American provides the following information specified  
22 in Rule 803.

23 **1. The Names and Business Addresses of the Proposed Officers and Directors of**  
24 **the Holding Company.**

25 34. Attached as Exhibit 1 is a list of the names and business addresses of the  
26 individuals responsible for the management of EPCOR Utilities Inc., EPCOR Water  
Services Inc., EPCOR Water Development (West) Inc., and EPCOR Water (USA), Inc.

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

3             35.     The Transaction reflects EPCOR's business plan to enter into the water  
4     utility market in Arizona and is part of EPCOR's long-term strategy to invest in and own  
5     water and wastewater facilities in the southwestern United States and contract to provide  
6     similar services to municipal and other governmental authorities.

7             36.     As stated above, EPCOR is a trusted developer and operator of utility  
8     infrastructure. The United States provides opportunities to build a larger portfolio of water  
9     and wastewater assets. Water scarcity, increasing regulation requiring additional  
10    investment in water infrastructure, openness to private participation, a greater focus on  
11    quality than on private participation, the presence of business partners who have  
12    established a local presence, and significant business opportunity in the southwest United  
13    States relative to the Canadian marketplace highlight EPCOR's reasons for pursuing  
14    investment in the U.S. market and the purchase of American Water's interest in Arizona-  
15    American.

16    **3.     The Proposed Method of Financing the Holding Company and the Resultant**  
17    **Capital Structure.**

18             37.     The purchase price for the Transaction will be funded by cash and debt.  
19    EPCOR has substantial assets and business operations in Canada. In 2009, EPCOR had  
20    approximately \$2.4 billion (\$Cdn) in revenue from its various operations, and net income  
21    of approximately \$125 million (\$Cdn). No material changes to EPCOR's capital structure  
22    are expected as a result of the Transaction, and EPCOR will continue to finance capital  
23    projects in the same way it has in the past.

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

25             38.     For purposes of the Transaction, valuation was based on a 60/40 debt-to-  
26    equity capital structure. EPCOR does not have any intention to capitalize the operating  
   companies using a debt to capitalization ratio that is materially different.

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

3 39. An organizational chart identifying EPCOR and its affiliates and subsidiaries  
4 is attached as Exhibit 2.

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

7 40. Similar to current practice, the EPCOR Water USA group will file a single  
8 consolidated US federal return, but state returns will also be filed for each entity.  
9 However, taxes will be calculated on a stand-alone basis for entity financial statement and  
10 regulatory reporting requirements.

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

13 41. The Transaction is not anticipated to result in any material changes to the  
14 Company's cost of service or its cost of capital. Arizona-American will continue to be  
15 operated on a stand-alone basis, and will contract for services, equipment and supplies,  
16 and will raise capital as necessary for capital improvements.

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

18 42. EPCOR's business strategy is to own and operate water and wastewater  
19 treatment facilities and infrastructure and electrical transmission and distribution facilities  
20 in Canada and the United States, and to provide contract services of a like nature to  
21 municipal and other governmental entities. This Transaction will not result in any change  
22 to EPCOR's strategy. And, as stated above, Arizona-American will be operated on a  
23 stand-alone basis.

24 **9. Copies of All Relevant Documents and Filings with the United States Securities**  
25 **and Exchange Commission and Other Federal or State Agencies.**

26 43. Relevant filings by American Water with the United States Securities and  
Exchange Commission can be found on American's Water website at

1 <http://ir.amwater.com/phoenix.zhtml?c=215126&p=irol-sec>. EPCOR Utilities Inc. has  
2 continuous disclosure filings with Canadian securities regulators. The filings are available  
3 on the SEDAR website at [www.sedar.com](http://www.sedar.com). Filings by the parties with the New Mexico  
4 Public Regulation Commission can be found at [www.nmprc.state.nm.us](http://www.nmprc.state.nm.us).

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

10 44. As stated above, EPCOR owns interests in numerous water, wastewater and  
11 electric facilities in Canada. As such, it would be extremely difficult to provide this  
12 information due to the large number and diverse nature of the various companies and  
13 businesses that will become an “affiliate” of EPCOR under the definition of “affiliate”  
14 provided in R14-2-801(1). EPCOR USA has reviewed American Water’s projected  
15 capital budget for Arizona-American for the years 2011 through 2013 and intends  
16 generally to adopt the projected plan. Under that plan, capital projects totaling  
17 approximately \$36.8 million would be constructed over the next three years.<sup>2</sup> For the  
18 reasons previously stated, EPCOR has access to the capital market and will be able to  
19 support Arizona-American as appropriate.

20 45. For the reasons previously explained, this Transaction will not increase the  
21 risks of investment in Arizona-American. No utility funds will be co-mingled with non-  
22 utility funds, nor will any cross-subsidization of non-utility activities take place. Further,  
23 the Transaction will not alter the Commission’s existing regulatory oversight and approval  
24 authority with respect to Arizona-American’s rates, operations, or transactions with  
25 affiliates. For these reasons, the Transaction will not increase the level of risk associated  
26 with an investment in Arizona-American.

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<sup>2</sup> Should the transfer be approved, EPCOR USA may wish to include additional projects, 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 **11. An Explanation of the Manner in Which the Utility Can Ensure That**  
2 **Adequate Capital Will Be Available for the Construction of New Utility Plant**  
3 **and For Improvements In Existing Utility Plant At No Greater Cost Than If**  
4 **the Utility or Its Affiliate Did Not Organize or Reorganize a Public Utility**  
5 **Holding Company.**

6 46. Over the period of 2004 to 2009, EPCOR routinely financed an average of  
7 \$400 million (\$Cdn) annually in capital improvements for its water, wastewater and  
8 electric facilities. EPCOR maintains a Standard & Poor's credit rating of BBB+ stable for  
9 long-term unsecured debt and DBRS Ltd. affirmed its credit rating for EPCOR's long-  
10 term unsecured debt at A (low) stable. These ratings reflect EPCOR's ability to assist  
11 Arizona-American, if necessary, in obtaining capital.

12 **RELIEF REQUESTED**

13 47. WHEREFORE, for the reasons set forth herein, Arizona-American requests  
14 an order from the Commission that (i) declares that the Affiliated Interests Rules, A.A.C.  
15 R14-2-801 to R14-2-806, do not apply to the Transaction between EPCOR USA and  
16 American Water or, alternatively, (ii) grants a waiver under A.A.C. R14-2-806, with  
17 respect to American Water's sale of Arizona-American's outstanding shares of common  
18 stock to EPCOR USA.

19 Alternatively, Arizona-American requests that the Commission approve the  
20 Transaction under A.A.C. R14-2-803 without a hearing. For the reasons set forth above,  
21 the Transaction will not impair Arizona-American's financial status, prevent Arizona-  
22 American from attracting capital on fair and reasonable terms, or impair the ability of  
23 Arizona-American to provide safe, reasonable and adequate service, and therefore,  
24 approval is in the public interest.

25 Arizona-American also requests that the Debt Replacements be approved pursuant  
26 to A.R.S. §40-301 and §40-302.

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RESPECTFULLY SUBMITTED this 2nd day of March, 2011.

LEWIS AND ROCA LLP



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Thomas H. Campbell  
Michael T. Hallam  
40 North Central Avenue  
Phoenix, AZ 85004  
Attorneys for Arizona-American Water  
Company

ORIGINAL and thirteen (13) copies  
of the foregoing filed  
this 2nd day of March, 2011, with:

The Arizona Corporation Commission  
Utilities Division – Docket Control  
1200 W. Washington Street  
Phoenix, Arizona 85007

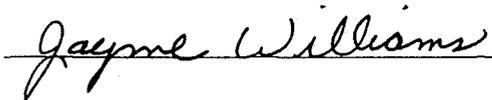
Copy of the foregoing hand-delivered  
this 2nd day of March, 2011, to:

Steve Olea  
Utilities Division  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

Lyn Farmer, Chief Administrative Law Judge  
Hearing Division  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

Janice Alward, Chief Legal Counsel  
Legal Department  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

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VERIFICATION

STATE OF ARIZONA  
County of Maricopa

}  
} ss:

PAUL TOWNSLEY, being first duly sworn upon his oath, deposes and says:

1. I am the President of Arizona-American Water Company, and am authorized to make this verification on behalf of Arizona-American 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.

  
Paul Townsley

SUBSCRIBED AND SWORN TO before me, the undersigned Notary Public, on the 2 day of March, 2011, by Paul Townsley, personally known to me or provided to me on the basis of satisfactory evidence to the the person who appeared before me.

  
Notary Public

My Commission Expires:  
June 22, 2014



**EXHIBIT 1**

**EPCOR Water (USA) Inc.**

List of Directors

<u>Name</u>	<u>Business Address</u>
Don Lowry	EPCOR Utilities Inc., 18 <sup>th</sup> 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

## Exhibit 1

**EPCOR Water (USA) Inc.**

## List of Officers

<b>Name</b>	<b>Position</b>	<b>Business Address</b>
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
Jamie Pytel	Acting Associate General Counsel and Acting 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 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

Exhibit 1

**EPCOR Water Development (West) Inc.**

List of Officers

<b><u>Name</u></b>	<b><u>Position</u></b>	<b><u>Business Address</u></b>
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
Jamie Pytel	Acting Associate General Counsel and Acting 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>
Don Lowry	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mark Wiltzen	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

## Exhibit 1

**EPCOR Water Services 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
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Duane Sommerfeld	Corporate Controller	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Jamie Pytel	Acting Associate General Counsel and Acting Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

## **EPCOR Utilities Inc.**

### List of Directors

<u>Name</u>	<u>Business Address</u>
Hugh Bolton	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Robert Phillips	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Sheila Weatherill	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Doug Mitchell	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Mike Percy	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
James Carter	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Alex Davidson	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Steve Matyas	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Larry Pollock	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Wesley Twiss	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Helen Sinclair	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1
Allister McPherson	EPCOR Utilities Inc., 18 <sup>th</sup> Floor, 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

## Exhibit 1

**EPCOR Utilities Inc.**

## List of Officers

<b><u>Name</u></b>	<b><u>Position</u></b>	<b><u>Business Address</u></b>
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Jamie Pytel	Acting Associate General Counsel and Acting Assistant Corporate Secretary	EPCOR Utilities Inc., 10065 Jasper Avenue, Edmonton, Alberta, Canada T5J 3B1

**EXHIBIT 2**

**EPCOR Utilities Inc.  
Corporate Organization  
Chart  
Exhibit 2**

