

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 GARY PIERCE
CHAIRMAN
3 BOB STUMP
COMMISSIONER
4 SANDRA D. KENNEDY
COMMISSIONER
5 PAUL NEWMAN
COMMISSIONER
6 BRENDA BURNS
COMMISSIONER

7
8 IN THE MATTER OF THE APPLICATION OF
CHAPARRAL CITY WATER COMPANY,
9 INC., AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE FAIR VALUE OF
10 ITS UTILITY PLANT AND PROPERTY AND
FOR INCREASES IN ITS RATES AND
11 CHARGES FOR UTILITY SERVICE BASED
THEREON.

Docket No. W-02113A-07-0551

**RUCO's RESPONSE TO
COMMISSIONER BURNS' LETTER
OF MARCH 8, 2011**

12
13 The Residential Utility Consumer Office ("RUCO") hereby responds to the questions
14 posed by Commissioner Brenda Burns in her correspondence docketed on March 8, 2011.

15
16 **Questions 1a-f: Commissioner Burns first requests the parties review a time line
of Arizona Corporation Commission cases and decisions which was attached to her
correspondence for accuracy and completeness.**

17
18 The timeline does not include all of the pertinent facts, but appears accurate with
19 certain exceptions. Attachment 1 hereto, is RUCO's revised Case Timeline.

20 **Questions 2a-c: Second, Commissioner Burns questions whether notice of
rehearing is required, if so, was it provided and how such notice should be provided.**

21
22 The answer to the first part of the question is yes. Commission Rule R14-2-105 requires
23 notice. It provides:
24

1 “every public service corporation **shall** give notice to customers affected
2 of **any** hearing at which the fair value of that corporation’s property is to
3 be determined and just and reasonable rates and charges are to be
4 established.”

5 The rule is clear and unambiguous.

6 Notice must be given

- 7 1) to customers
8 when
9 a) fair value is to be determined; and
10 b) rates are established

11 The rehearing addresses the settlement proceeds. The ROO’s recommendation to
12 share the proceeds changes the a) fair value determination of the property and the b) rates
13 charged to customers. For this rehearing, notice to customers is required.

14 There was some suggestion that notice to existing parties is sufficient. It is not. Rule R-
15 14-205 specifically requires the Company to notice its “customers.” “Customers” is a term
16 defined in Commission Rule R14-2-401 as: “the person or entity in whose name service is
17 rendered, as evidenced by the signature on the application or contract for that service, or by
18 the receipt and/or payment of bills regularly issued in his name regardless of the identity of the
19 actual user of the service.” Notice to the four parties who intervened in the preliminary matter
20 does not constitute notice to the Company’s 13,000+ customers within the plain meaning of the
21 Commission’s rules.

22 Moreover, given that those customers have been paying increased rates believing the
23 prior order was final, they should certainly have been notified that the Company seeks to add
24 \$760,000 to rate base and \$100,000 to operating expenses via a re-hearing. The purpose of
the rehearing is to reconsider changes to the fair value of the utility’s property that was already
decided by the Commission. The original notice, filed at or about the time the Application was

1 filed, described a different purpose. Without additional notice of the rehearing, customers
2 would have no idea of the rehearing or its purpose. Certainly, the Commission sought to avoid
3 this exact situation when it adopted the rule. Any other interpretation is counter intuitive.
4 Because the Company did not provide notice of the rehearing to its customers, the ROO
5 should be rejected and the Commission should reaffirm its prior Decision.

6
7 **Questions 3a-f: Commissioner Burns asks how proceeds from a settlement
8 agreement are typically split, whether there is a reason to deviate from the norm and
9 how the parties would be affected by a deviation from the norm in this case.**

10 Although these questions are important questions, they are subject to the Commission's
11 overriding obligation to establish just and reasonable rates. A public utility that is efficiently and
12 economically managed is entitled to recover the cost of **its** investment and the opportunity to
13 earn a reasonable return thereon.¹ Arizona courts have held similarly, finding that a water
14 utility is entitled a fair return on fair value of **its** properties devoted to public use, no more and
15 no less.² The Commission should not provide the Company a return on a third party
16 investment, but its own investment.

17 The Company's investment includes Wells 8 and 9 and \$30,000 spent on litigation
18 expenses. Robert Hanford, the Company's district manager, admitted that Well No. 8 went
19 into service in 1971 and had an original cost of \$49,329.³ He also admitted that Well No. 9
20 went into service in 1972 at an original cost of \$54,139.⁴ The Company's total investment in
21 Wells Nos. 8 and 9 is \$103,468.00. Of that amount, Mr. Hanford testified 100% has already
22 been recovered from ratepayers. He testified:

23 ¹ Bluefield Water Works & Improvement Co. v. Public Service Commission of West Virginia, 262 U.S. 679(1923)
and Federal Power Commission v. Hope Natural Gas Company 320 U.S. 391(1944).(emphasis added).

24 ² Arizona Corp. Commission v. Arizona Water Co. 85 Ariz. 198, 335 P.2d 412 (1959)(emphasis added).

³ See Rehearing Exhibit R-3 Company's Response to Staff DR MEM 7.3.

⁴ Id.

1 ...both wells were constructed over 36 years ago and have been fully
2 depreciated and have no impact on rate base in the instant case.⁵

3 By its own admission, the Company has fully recovered the cost of Wells Nos. 8 and 9
4 and received a reasonable return thereon. In Decision No. 71308, the Company recovered
5 \$30,000 in attorneys' fees spent on litigating the FHSD settlement. The Company has
6 recovered 100% of **its** investment and that is the reason why the proceeds should not be split
7 in this case.

8 The Company claims that consistent with Decision No. 66849, the Commission should
9 allocate 50% of the Settlement Proceeds to the shareholders.⁶ The ROO adopts the position.
10 The ROO's reliance on Decision No. 66849 which split the proceeds in that case is misplaced.
11 There are overwhelming factual differences which distinguish the subject case from the
12 Arizona Water case.

13 Arizona Water's wells were contaminated by Pinal Creek Group ("PCG"), a mining
14 company. As part of the agreement with PCG, Arizona Water received \$1.4 million paid over
15 three years and replacement water from various PCG wells through an interconnection linking
16 the PCG Wells and distribution system with Arizona Water's water distribution system. Id. In
17 addition to the cash payment, Arizona Water received 100 gallons per minute ("gpm") in 1998
18 increasing its flow up to 600 gpm by October 2003 with a guaranteed supply of 600 gpm
19 through 2028. Id. In summary, PCG gave Arizona Water a 30-year guaranteed water supply
20 and significant infrastructure. The replacement water and infrastructure provided by PCG was
21 valued between \$5.48 to \$7.97 million. Id. at 34. On these facts, the Commission ordered a

22
23 ⁵ Original Transcript ("OT"): 255-278, 416-417. *See also* Rehearing Exhibit R-1 Direct Testimony of William
24 Rigsby which includes Attachment A, a copy of Exhibit S-2 to the Original Proceeding, Millsap's Direct Testimony
25 at 13 and Rehearing Exhibit R-3 Company's response to Staff DR MEM DR 7.3.

26 ⁷ In the Matter of Arizona Water, Docket No. W-01445A-02-0619, Decision No. 66849.

1 split of the \$1.4 million in settlement proceeds and RUCO did not disagree because the
2 Company had procured a 30-year guaranteed water supply at no additional cost to ratepayers.

3 The ruling in Decision No. 66849 should not be applied here because the facts are
4 drastically different. American States did not procure replacement water or infrastructure for
5 Chaparral's ratepayers in addition to the cash settlement. Although FHSD initially agreed to
6 build a replacement well for Chaparral which has been referred to in the documents as the
7 Community Center Well, it did not. Instead, FHSD provided \$1.52 million in a cash settlement.
8 Because American States failed to secure a replacement water source and infrastructure, as
9 Arizona Water did, it should not be entitled to the same 50/50 split of the proceeds.

10 Mr. Hanford testified that the purpose of the settlement was to replace water that Well
11 No. 9 would produce over the remainder of its useful life.⁷ The Agreement itself says the
12 American States intends to use the money paid by the FHSD to “fund projects to improve
13 CCWC’s water production, treatment and distribution system.” In this case, in Decision No.
14 71308, the Commission authorized recovery of \$1.28 million for the cost of an additional CAP
15 water allocation from Chaparral's ratepayers.⁸ The entire amount has been placed in rate
16 base as a deferred regulatory asset. Id. Ratepayers are harmed because they will pay more
17 than 100% of the cost of the additional CAP allocation because the current order treats the
18 allocation as a deferred regulatory asset and allows the Company a return on the deferred
19 regulatory asset in perpetuity.⁹ Id. Because the Company admits that the Settlement Proceeds
20

21 ⁷ OT: 100, 416-417. See also Exhibit A-1 to the Original Hearing, Hanford’s Direct Testimony at 10, ll. 11-13,
22 and Rehearing Exhibit R-1 Direct Testimony of William Rigsby which includes Attachment A, a copy of Exhibit S-
2, Millsap’s Direct Testimony at 13.

23 ⁸ In the Matter of Chaparral City Water Co., Docket No. W-02113A-07-0551, Decision No. 71308 at 16-17.

24 ⁹ Id. at 16-17. Note: There was some indication that RUCO had erred in this analysis. RUCO has not.
Although 50 percent of the O & M fees associated with CAP distributions have been deferred, ratepayers will pay
a return on the CAP allocation in perpetuity. Id. at 23-24.

1 were in part for additional water, the settlement proceeds should be used to mitigate the \$1.28
2 million cost of water added to rate base in this case as a deferred regulatory asset.

3 Allowing shareholders any portion of the Settlement Proceeds would allow the
4 shareholders to earn a return in perpetuity on an investment they did not make which would be
5 legally impermissible, given the well-settled legal principles that allow shareholders to earn a
6 return only on their **own** investments. Approval of the prior order does not harm shareholders
7 because they have already received all to which they are legally entitled. Although the
8 Commission may consider other apportionment, given the absence of notice and the fact that
9 the Company has already received all to which it is entitled, any other decision would be
10 legally prohibited, inequitable and appealable.

11 **Questions 4a-o: Commissioner Burns's next questions relate to the history, the
12 construction and use of Well Nos. 8 and 9, their impact on rate base. She also asks
13 about the Community Center Well, the intended replacement well which did not
14 materialize, its potential impact on rate base of and how loss of use of any of the wells
15 would impact on rates.**

16 RUCO has limited information and relies in great part on the Company's witnesses for
17 its responses. Mr. Hanford asserted that Well No. 8 went into service in 1971 and had an
18 original cost of \$49,329.¹⁰ He also admitted that Well No. 9 went into service in 1972 at an
19 original cost of \$54,139.¹¹ Mr. Hanford also testified that both wells were fully depreciated
20 and would have no impact on rate base in the instant case.¹² Translated, that means, the
21 Company could have continued to use the wells and the water they produced without imposing
22 additional rate increases on ratepayers.

23 ¹⁰ See Rehearing Exhibit R-3 Company's Response to Staff DR MEM 7.3.

24 ¹¹ Id.

¹² Original Transcript ("OT"): 255-278, 416-417. See also Rehearing Exhibit R-1 Direct Testimony of William Rigsby which includes Attachment A, a copy of Exhibit S-2 to the Original Proceeding, Millsap's Direct Testimony at 13 and Rehearing Exhibit R-3 Company's response to Staff DR MEM DR 7.3.

1 The Company asserts that Well No. 8 has not been used for years, does not produce
2 potable water and therefore is of no value to ratepayers. As William Rigsby, RUCO's witness
3 testified, Well No. 8 was an irrigation well used to supply water to the well-known fountain in
4 Fountain Hill's park.¹³ This amount of irrigation water generated from Well No. 8 and the
5 cessation of use of the well were not facts developed on the record. RUCO has researched
6 the Company's filings with the Arizona Department of Water Resources ("ADWR") in an
7 attempt to fully respond to Commissioner Burn's questions. See Exhibit A. ADWR's records
8 confirm that Well No. 8 produced irrigation water. Id. According to ADWR, the Company
9 reported withdrawals of 443 acre feet of water from Well No. 8 from 1981-2006, including 190
10 acre feet in 2006. Id. As William Rigsby, RUCO's witness testified, the revenues the
11 Company generated from irrigation water sales to Fountain Hills, allowed the Company to
12 charge lower rates to its residential customers.¹⁴ The sale of the irrigation water produced by
13 Well No. 8 represents an alternative revenue source which mitigates residential water users'
14 rates. Because the Company gave up the use of Well No. 8 and the revenue it produced, the
15 revenue is no longer available to mitigate residential rates.

16 The Company admits Well No. 9 produced potable water, but asserts it hasn't used Well
17 No. 9 for a period of years. Again, the Company did not supply all of the specific details in the
18 record, but in an attempt to provide the information requested, RUCO researched the
19 Company's filings with ADWR. See Exhibit B. ADWR records reflect that as constructed, Well
20 No. 9 had the capacity to produce 2020 gpm. Id. From 1984 to 2001, the Company reported
21 withdrawing 11,324.48 acre feet from Well No. 9. Id. According to the Settlement Agreement,
22 FHSD attempted to build the Community Center Well to replace Well No. 9. For whatever

23 ¹³ RT: 8-9.
24 ¹⁴ Id.

1 reason, the Community Center Well was not provided to Chaparral. In lieu of Community
2 Center Well, FHSD provided Settlement Proceeds. The Company's argument that Well No. 9
3 had no value to ratepayers is without merit. The Community Center Well was supposed to
4 replace Well No. 9 which clearly had a large water production capacity. Regardless, the fact
5 that the Company procured a \$1.52 million settlement for the loss of Well No. 9 and its
6 replacement, the Community Center Well is evidence enough of their value. Had FHSD
7 provided the Community Center Well as a replacement well, it would have been included in
8 rate base as AIAC or CIAC or a deduction to rate base. The Settlement Proceeds intended to
9 compensate for the loss of use of the Community Center Well should be treated in the same
10 fashion—a deduction from rate base. The shareholders should not be entitled to a return on
11 an investment they never made.

12
13 **Questions 5a-f: Commissioner Burns asks for additional details related to the
FHSD Settlement Agreement and how the Settlement Proceeds should be treated
relative to the PCG settlement in the Arizona Water case, Decision No. 66849.**

14
15 Many of these questions have been addressed above in response to Questions 3a-f.
16 One issue that has not been addressed is the notion that ratepayers will be compensated fairly
17 by a 50/50 split of the Settlement Proceeds by the provision in the ROO that would allow them
18 to share in the sale of Well Nos. 8 and 9 in the future. Who among us would give up \$760,000
19 today in exchange for the opportunity to share in 50 percent of \$0 in the future? The answer is
20 no one. The ROO justifies a 50/50 split of settlement proceeds by arguing that ratepayers will
21 be able to recover 50 percent of the future sales proceeds of the land on which Wells No. 8
22 and 9 are located ignoring the actual expected value from future sales. The FHSD settlement
23
24

1 agreement allows the FHSD a 15-year option to purchase Well No. 8 for no additional sums.¹⁵
2 The Company admits that the land upon which Well No. 9 is located has nominal value.
3 Therefore, ratepayers will not recover anything in the future from the sale of Well No. 8 or 9
4 that would logically support relinquishment of \$760,000, today. Because the sale of the land
5 upon which Well Nos. 8 and 9 are located will not generate any significant additional revenues,
6 the Commission should reject the ROO and reaffirm its prior decision allocating the \$1.52
7 million to ratepayers.

8
9 **Questions 6a-b. Commissioner Burns asks if the Company intended the Settlement Proceeds to be used to obtain additional water and whether the \$1.28 million spent on the additional CAP allocation could be deemed additional replacement water.**

10
11 By the terms of the Settlement Agreement, the payment of \$1.52 million is “to fund
12 projects to improve CCWC’s water production, treatment and distribution system.” Whether
13 the Company meant for the \$1.28 million CAP allocation as replacement water or not, it has
14 been added to rate base in this case at significant expense to current ratepayers. RUCO does
15 not agree that the additional CAP allocation is fully used and useful to current ratepayers, but if
16 current ratepayers must pay increased rates to acquire the expensive allocation, then they
17 should receive 100 percent of the Settlement Proceeds to mitigate the impact of the cost of the
18 allocation. It is the only just and reasonable result.

19 **Question 7: Commissioner Burns asks if there are any other issues that should be addressed.**

20
21 The Company’s representatives have attempted to characterize the Company’s position
22 that the Settlement Agreement represents a sale of Well Nos. 8 and 9. It doesn’t. The
23 Commission should not be distracted by such arguments.

24 ¹⁵ There is no indication on the record that FHSP has exercised its option. There is also no indication of when wells may be sold.

1 COPIES of the foregoing hand delivered/
2 mailed this 23rd day
of March, 2011 to:

3 Hon. Teena Jibilian
4 Administrative Law Judge
5 Hearing Division
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007

By _____/s/_____
Ernestine Gamble

9 Janice Alward, Chief Counsel
10 Legal Division
11 Arizona Corporation Commission
12 1200 West Washington
13 Phoenix, Arizona 85007

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10645 N. Tatum Blvd.
Suite 200-676
Phoenix, AZ 85028

ATTACHMENT 1

CHAPARRAL CITY WATER COMPANY: CASE TIMELINE

1967:

Well No. 8 completed and placed in service in 1971. See Exhibit A.

February 12, 1970:

Well No. 9 completed and placed into service in 1972. See Exhibit B.

May 20, 1971:

Commission issues a CCN to Chaparral, owned by MCO properties, pursuant to Decision 41245.

June, 1972:

McCulloch Properties filed tardy Notices of Intent to Drill the already completed wells with the Arizona State Land Department. Thereafter, in July, 1972, the Company filed tardy pump reports for Well Nos. 8 and 9.

1982:

Well Nos. 8 and 9 registered as Well Nos. 55-604784 and 55-604785, respectively with Arizona Department of Water Resources.

1999:

American States offers to purchase Chaparral City Water from MCO Properties.

September, 2000:

The Commission approved the sale of Chaparral to American States.

August 14, 2002:

Arizona Water files for rate increase in Docket No. W-01445A-02-0619.

At issue is the proper treatment of the \$1.4 million proceeds of a settlement agreement between the Company and the Pinal Creek Group payable to Arizona Water over a three-year period. In addition to acquisition of a cash settlement, Arizona Water also negotiated for a 30-year guaranteed water supply at 600 gpm via interconnection of its water system with the wells and water distribution system of PCG, at no additional expense to the ratepayers. The water supply and distribution systems were valued between \$5.48 and \$7.97 million dollars. See Decision No. 66849 at 34.

Staff argued "ratepayers are entitled to entirety of the PCG Settlement proceeds." RUCO argued "settlement proceeds should be shared equally between ratepayers and shareholders" in part, because the replacement water provisions of the PCG Settlement provided ratepayers with the benefit of future quantities of

water...eliminating the risk associated with obtaining additional supplies in the area of a number of years.

March 19, 2004:

ACC issues Decision No. 66849 in the Arizona Water Docket No. W-01445A-02-0619.

The ACC “adopted RUCO’s analysis finding that ratepayers and shareholders benefited equally because ratepayers benefit from future quantities of water,...while shareholders benefit from securing an assured supply of water, effectively eliminating the risk associated with obtaining additional supplies in the area for a number of years. The Commission concluded that splitting the proceeds provides a reasonable balance between the rights and obligations of the shareholders and ratepayers, and will provide the Company with a sufficient incentive to pursue further litigation or settlement claims that the company and its customers may be entitled to receive.”

August 24, 2004:

Chaparral filed for a rate increase in Docket No. W-02113A-04-0616, seeking additional revenues of \$1,797,182. Matter hereinafter referred to as Chaparral I.

September 30, 2005:

Commission issued Decision No. 68176 in Chaparral I.

The Commission granted Chaparral a rate increase of \$1,107,596 based on a FVRB of \$20,340,298 and a fair rate of return on FVRB of 6.36 percent. Included in the increase was an award of \$285,000 for rate case expense. The Company subsequently appealed. The Court of Appeals held the Company did not make a clear and convincing showing that the Commission methods to determine cost of equity were unlawful or unreasonable and therefore affirmed Commission’s method of determining the COE. However, the Court of Appeals remanded the matter because the Commission erred in determining rates based on OCRB instead of FVRB.

September 26, 2007:

Chaparral filed a second rate case seeking a gross revenue increase of \$2,852,353 or 38.01 percent, based on a 9.96 percent FVRB of \$27,751,113 in Docket No. W-02113A-07-0551, hereinafter referred to as Chaparral II.

January 28 and 29, 2008:

Chaparral I reheard on remand.

July 28, 2008:

Commission issued Decision No. 70441 in Chaparral I rehearing.

The Commission found that because both OCRB-based WACC and the FVRB include inflation, applying the WACC from Decision No. 68176 to FVRB would over-compensate the company for inflation. Commission granted an increase in revenues of \$1,119,739 based on a 6.40 FVROR, multiplied by a FVRB of \$20,340, 298. Company alleged to have spent \$200,000 on the appeal and remand and requested \$100,000. As a result of the Company's appeal and remand, the Company derived \$12,000 in additional revenue per year. The Commission denied the Company's request for rate case expense related to the remand and rehearing. Company appealed and lost.

October 21, 2009:

Commission issued Decision No. 71308 in Chaparral II

The Commission granted the Company a gross revenue increase of \$1,764,371 based on a Fair Value Rate of Return 7.52% applied to a Fair Value Rate Base \$26,776,414. The Commission's Order, based on Commissioner Pierce's amendments, allocated 100% of the Settlement Proceeds to ratepayers except \$30,000 in attorney's fees associated with negotiation of the FHSD settlement, and \$280,000 in rate case expense for Chaparral II and no fees for the appeal and remand proceeding.

December 8, 2009:

Commission issued Decision No. 71424 nunc pro tunc, correcting computation error in rate design.

February, 2010:

Chaparral II set for rehearing.

April, 2010:

Chaparral II reheard.

June 7, 2010:

American States sells Chaparral to Epcor for \$35 million, which is \$9 million above Chaparral's book value of \$27 million.

By the terms of the agreement, benefit, if any, associated with the rehearing will inure to American States the seller, not Epcor the purchaser. As such, if the Commission approves the sale, American States will make \$9 million profit from the sale of Chaparral **and** \$760,000 from the Settlement Proceeds, and the \$100,000 in additional rate case expense. See Exhibit C, Chaparral's response to RUCO's First Set of Data Requests which includes the May 26, 2010 Minutes of the Combined Board of Directors of American States Water Company .

December 2010:

Chaparral/Epcor hearing on sale held.

February 14, 2011

ROO is issued in Chaparral II.

March 14, 2011:

ROO issued in the matter of the sale of Chaparral to Epcor, recommending approval subject to certain conditions.

EXHIBIT A

Acting Director
Sandra A. Fabritz-Whitney

ADWR
Arizona Department of Water Resources
ARIZONA DEPARTMENT OF WATER RESOURCES

Government

AZ.GOV
Arizona's Official Web Site

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Search Map Data Export Well Registry Help Email

Well Registry Information

Registration Number 55-604784

General	Construction	Status	Owner	Driller	Pump Data
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Associated Permits

Prog.	Certificate	Conv	Name	Program Type	Issue Date	Begin Date	End Date
56	002011	0000		WATER PROVIDERS			
59	572385	0000		WITHDRAWAL PERMITS		1/27/1999	1/27/2001

Pumping Data

Total Water (Acre-Ft) 443.72

Year	Amount of Water (Acre-Ft)	Water Movement	Water Type
1984	86	WITHDRAWAL	GROUNDWATER
1985	130	WITHDRAWAL	GROUNDWATER
1986	30	WITHDRAWAL	GROUNDWATER
1987	0.18	WITHDRAWAL	GROUNDWATER

Well Registry is ADWR's well database containing reported information on well status, location and construction

6

REGISTRY_ID	YR	WATER_QTY	WATER_MOVEMENT	WATER_TYPE
604784	1984.00	86.00	WITHDRAWAL	GROUNDWATER
604784	1985.00	130.00	WITHDRAWAL	GROUNDWATER
604784	1986.00	30.00	WITHDRAWAL	GROUNDWATER
604784	1987.00	0.18	WITHDRAWAL	GROUNDWATER
604784	1988.00	0.91	WITHDRAWAL	GROUNDWATER
604784	1991.00	3.87	WITHDRAWAL	GROUNDWATER
604784	1996.00	2.66	WITHDRAWAL	GROUNDWATER
604784	2006.00	190.10	WITHDRAWAL	GROUNDWATER

DEPARTMENT OF WATER RESOURCES
99 EAST VIRGINIA AVENUE
PHOENIX, ARIZONA 85004



REGISTRATION OF EXISTING WELLS

READ INSTRUCTIONS ON BACK OF THIS FORM BEFORE COMPLETING
PRINT OR TYPE - FILE IN DUPLICATE

REGISTRATION FEE (CHECK ONE)
EXEMPT WELL (NO CHARGE)
NON-EXEMPT WELL - \$10.00

05
FOR OFFICE USE ONLY
REGISTRATION NO. 55-604784
FILE NO. A(3-6)14 cdb
FILED 3-15-82 AT 9:00am
(DATE) (TIME)
INA
AMA Phoenix

- Name of Registrant:
Chaparral City Water Co.
P. O. Box 17030, Fountain Hills, Arizona 85268
(Address) (City) (State) (Zip)
- File and/or Control Number under previous groundwater law:
A (3-6) 14-8
(File Number) 35- (Control Number)
- a. The well is located within the NW $\frac{1}{4}$ SE $\frac{1}{4}$ SW $\frac{1}{4}$, Section 14,
of Township 3N N/S, Range 6E EW, G & SRB & M, in the
County of Maricopa.
b. If in a subdivision: Name of subdivision _____
Lot No. _____, Address _____
- The principal use(s) of water (Examples: irrigation - stockwater - domestic - municipal - industrial)
Municipal
- If for irrigation use, number of acres irrigated from well _____
- Owner of land on which well is located. If same as Item 1, check this box

(Address) (City) (State) (Zip)
- Well data (If data not available, write N/A)
 - Depth of Well 725 feet
 - Diameter of casing 10 3/4 inches
 - Depth of casing 725 feet
 - Type of casing Steel
 - Maximum pump capacity 640 gallons per minute.
 - Depth to water 267 feet below land surface.
 - Date well completed 10 4 67 test date
(Month) (Day) (Year)
- The place(s) of use of water. If same as Item 3, check this box
1/4 1/4 1/4, Section _____ Township _____ Range _____
1/4 1/4 1/4, Section _____ Township _____ Range _____
Boundaries of Fountain Hills
Attach additional sheet if necessary.
- DATE 1-14-82 SIGNATURE OF REGISTRANT W. A. Fisher Pres.

ARIZONA DEPARTMENT OF WATER RESOURCES
99 EAST VIRGINIA AVENUE
PHOENIX, ARIZONA 85004
Phone (602) 255-1581

APPLICATION FOR A RECOVERY
WELL PERMIT (45-667)
APPLICATION FEE \$50.00

FOR DEPARTMENT USE ONLY

Application No.	55-522513
Registration Permit No.	55-604784
File No.	A(3-6)14 edb
Date Received	9-30-88

- Name of Applicant MCO Properties
- | | | | | |
|-----------------------|-----------------------|-----------|--------------|-----------------------|
| <u>P.O. Box 17030</u> | <u>Fountain Hills</u> | <u>AZ</u> | <u>85768</u> | <u>(602) 837-9660</u> |
| Mailing Address | City | State | | Telephone number |
- The well is x (check) existing or _____ proposed new well. If existing, give well registration No. 55-604784.
- Owner of the land where wellsite is located is

<u>AS STATED ABOVE</u>				
Name	Address	City	State	Zip
- The recovered water will be used for Irrigation
- The legal description of the land where water will be used is:
1/4 1/4 1/4 Section 14 Township 3N N/S Range 6E E/W
- Name of driller Weber Well Drilling Co. License No. _____
- Design pump capacity 600 gallons per minute.
- Well depth 725 ft. Diameter 10 3/4 in. Proposed annual volume _____
acre feet.
- Construction ~~with permit~~ July 1967
Date
- Estimated time required to complete well -0-
- The recovery well will be operated under Storage and Recovery Project Permit
No. 64-_____.

MICROFILMED

Memo

To: Al Ramsey
From: Carol E. Norton
Subject: Fountain Hills Sanitary District - Ronald D. Huber Application to Withdraw Groundwater for Hydrologic Testing no. 59-572385
Date: January 15, 1999

The Hydrology Division is in receipt of the above referenced application to withdraw groundwater for hydrologic testing. The applicant intends to recharge 13.2 acre-feet of groundwater into an existing (pre-Code) well no. 55-604784 A(03-06)14 cdb. The purpose of the test is to determine aquifer characteristics of well injection recharge methods.

The Hydrology Division recommends issuance of this permit with the following condition:

Within 60 days of completion of the test, the results will be submitted to the Hydrology Division, Arizona Department of Water Resources, 500 North Third Street, Phoenix, Arizona 85004.

EXHIBIT B

Acting Director
Sandra A. Fabritz-Whitney

ADWR
Arizona Department of Water Resources
ARIZONA DEPARTMENT OF WATER RESOURCES

Government

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Well Registry Information

Registration Number 55- 604785

General	Construction	Status	Owner	Driller	Pump Data
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Associated Permits

Prog.	Certificate	Conv	Name	Program Type	Issue Date	Begin Date	End Date
56	002011	0000		WATER PROVIDERS			

Pumping Data

Total Water (Acre-Ft) 11324.48

Year	Amount of Water (Acre-Ft)	Water Movement	Water Type
1984	507	WITHDRAWAL	GROUNDWATER
1985	652	WITHDRAWAL	GROUNDWATER
1986	1010	WITHDRAWAL	GROUNDWATER
1987	1173.72	WITHDRAWAL	GROUNDWATER

Well Registry is ADWR's well database containing reported information on well status, location and construction

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REGISTRY_ID	YR	WATER_QTY	WATER_MOVEMENT	WATER_TYPE
604785	1984.00	507.00	WITHDRAWAL	GROUNDWATER
604785	1985.00	652.00	WITHDRAWAL	GROUNDWATER
604785	1986.00	1010.00	WITHDRAWAL	GROUNDWATER
604785	1987.00	1173.72	WITHDRAWAL	GROUNDWATER
604785	1988.00	1417.63	WITHDRAWAL	GROUNDWATER
604785	1989.00	1456.30	WITHDRAWAL	GROUNDWATER
604785	1990.00	1075.48	WITHDRAWAL	GROUNDWATER
604785	1991.00	1112.50	WITHDRAWAL	GROUNDWATER
604785	1992.00	291.07	WITHDRAWAL	GROUNDWATER
604785	1993.00	957.10	WITHDRAWAL	GROUNDWATER
604785	1994.00	479.60	WITHDRAWAL	GROUNDWATER
604785	1995.00	365.18	WITHDRAWAL	GROUNDWATER
604785	1996.00	518.34	WITHDRAWAL	GROUNDWATER
604785	1997.00	61.49	WITHDRAWAL	GROUNDWATER
604785	1998.00	94.12	WITHDRAWAL	GROUNDWATER
604785	1999.00	99.57	WITHDRAWAL	GROUNDWATER
604785	2000.00	21.13	WITHDRAWAL	GROUNDWATER
604785	2001.00	32.25	WITHDRAWAL	GROUNDWATER



REGISTRATION OF EXISTING WELLS

READ INSTRUCTIONS ON BACK OF THIS FORM BEFORE COMPLETING
PRINT OR TYPE - FILE IN DUPLICATE

REGISTRATION FEE (CHECK ONE)
EXEMPT WELL (NO CHARGE)
NON-EXEMPT WELL - \$10.00

05
FOR OFFICE USE ONLY
REGISTRATION NO. 55-604785
FILE NO. A(3-6)14 cdlh
FILED 3-15-82 AT 9:00 am
(DATE) (TIME)
INA
AMA Phoenix

- Name of Registrant: Chaparral City Water Co.
P. O. Box 17030 Fountain Hills, Arizona 85268
(Address) (City) (State) (Zip)
- File and/or Control Number under previous groundwater law:
A (3-6) 14-9 35-
(File Number) (Control Number)
- a. The well is located within the NW $\frac{1}{4}$ SE $\frac{1}{4}$ SW $\frac{1}{4}$, Section 14,
of Township 3N N/S, Range 6E E/W, G & SRB & M, in the
County of Maricopa.
b. If in a subdivision: Name of subdivision _____
Lot No. _____, Address _____
- The principal use(s) of water (Examples: irrigation - stockwater - domestic - municipal - industrial)
Municipal
- If for irrigation use, number of acres irrigated from well _____
- Owner of land on which well is located. If same as Item 1, check this box

(Address) (City) (State) (Zip)
- Well data (If data not available, write N/A)
a. Depth of Well 750 feet
b. Diameter of casing 350' - 20" 415' - 16" inches
c. Depth of casing 750 feet
d. Type of casing Steel
e. Maximum pump capacity 2020 gallons per minute.
f. Depth to water 268 feet below land surface.
g. Date well completed 2 12 70
(Month) (Day) (Year)
- The place(s) of use of water. If same as Item 3, check this box
 $\frac{1}{4}$ $\frac{1}{4}$ $\frac{1}{4}$, Section _____ Township _____ Range _____
 $\frac{1}{4}$ $\frac{1}{4}$ $\frac{1}{4}$, Section _____ Township _____ Range _____
Boundaries of Fountain Hills
Attach additional sheet if necessary.
- DATE 1-14-82 SIGNATURE OF REGISTRANT W. A. Fisher Pres.

EXHIBIT C

CHAPARRAL CITY WATER COMPANY, INC.
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

DOCKET NO. W-02113A-10-0309

RESPONSE TO RUCO'S FIRST SET OF DATA REQUESTS

Response provided by: Chaparral City Water Company
Address: 12021 N. Panorama Dr., Fountain Hills, AZ 85268
Company Response Number: RUCO 1.4

Q. Board Meeting Minutes Please provide copies of the minutes from Chaparral City Water Company, Inc.'s board of directors' meeting during which the proposed reorganization was approved.

RESPONSE:

The minutes of American States Water Company and Chaparral City Water Company are attached.

MINUTES OF MEETING OF
THE COMBINED BOARD OF DIRECTORS OF
AMERICAN STATES WATER COMPANY
AND ITS SUBSIDIARIES

May 26, 2010

2:50 p.m.

A regularly scheduled meeting of the Combined Board of Directors (the "Board") of American States Water Company and its subsidiaries (together, the "Corporation"), was duly noticed, called and convened on Wednesday, May 26, 2010 at 2:50 p.m. Pacific Time, at The Langham Hotel, 1401 S. Oak Knoll Avenue, Pasadena, California.

ROLL CALL

Members Present: James L. Anderson
Diana M. Bontá
N.P. Dodge, Jr.
Anne M. Holloway
Robert F. Kathol
Gary F. King
James F. McNulty
Lloyd E. Ross
Robert J. Sprowls

Members Absent: None

Also present were Eva G. Tang, Senior Vice President - Finance, Chief Financial Officer, Treasurer and Corporate Secretary of the Corporation; Denise L. Kruger, Senior Vice President of Regulated Utilities for Golden State Water Company ("GSWC") and Chaparral City Water Company ("CCWC"); McClellan Harris III, Senior Vice President and Assistant Secretary of

Update on CCWC

Mr. Sprowls noted that with the assistance of New Harbor, Inc. ("New Harbor"), the Corporation's financial adviser, an auction process was underway to sell CCWC. He reported that the Corporation received first-round bids and selected four bidders to present binding, second-round bids, and to comment on a stock purchase agreement provided by the Corporation, by May 21, 2010. He reported that the Corporation had received an early second-round proposal from EPCOR Water (USA) Inc., a wholly-owned subsidiary of EPCOR Utilities Inc., an Alberta corporation (together, "EPCOR"), for approximately \$35 million enterprise value. He stated that after discussions with New Harbor, who believed the EPCOR bid would be superior to any other offer, at EPCOR's request, the Corporation entered an exclusivity agreement that will run until June 4, 2010. Mr. Sprowls discussed the other second-round bidders and their current indications of interest.

Mr. Sprowls noted that the transaction would require approval of the Arizona Corporation Commission. Mr. King asked whether the draft agreement contemplated any additional walk-away rights. Mr. Levin noted that there was a fiduciary out, allowing the Corporation to walk away for a \$1 million break up fee.

Mr. Sprowls reported that the EPCOR proposal was for a cash purchase of CCWC's common stock and EPCOR would assume CCWC's outstanding debt upon closing. He also noted that CCWC was recently granted a re-hearing with respect to a 2009 write-off of \$760,000 related to a settlement payment and that under the current EPCOR proposal should CCWC be

successful in the re-hearing before closing of the proposed sale, the Corporation could recapture such gain in the purchase price.

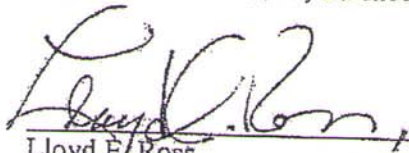
The Board discussed the merits of the EPCOR proposal. Upon motion duly made, seconded and unanimously approved, the Board approved the sale of CCWC on the terms outlined in the resolutions, in the form attached hereto as Exhibit C, and at an enterprise value price of \$33 million or more.

American States Utility Services, Inc. ("ASUS"); C. James Levin of O'Melveny & Myers LLP ("OMM"), counsel to the Corporation; and Reid A. Jason of OMM.

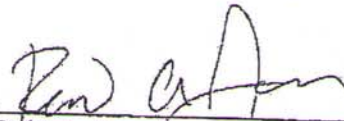
Chairman Ross presided at the meeting and Mr. Jason recorded the minutes.

ADJOURNMENT

Chairman Ross asked the Board if an executive session was needed. The Board concluded it was not necessary to meet in executive session. There being no further business to come before the Board, the meeting adjourned at approximately 6:20 p.m.



Lloyd E. Ross
Chairman.



Reid A. Jason
Acting Secretary

**RESOLUTIONS OF THE BOARD OF DIRECTORS
OF
AMERICAN STATES WATER COMPANY
(Sale of Chaparral City Water Company)**

WHEREAS, this Corporation, with the assistance of New Harbor, Inc., the Company's financial advisor ("New Harbor"), has conducted an auction for the sale of Chaparral City Water Company ("CCWC"), a wholly owned subsidiary of this Corporation;

WHEREAS, this Corporation has selected four bidders to provide second round bids and comments on a draft stock purchase agreement provided by this Corporation to such bidders;

WHEREAS, this Corporation has received a second round bid from EPCOR Water (USA) Inc., an Alberta corporation and wholly owned subsidiary of EPCOR Utilities, Inc., an Alberta corporation ("EPCOR USA") to purchase CCWC for an estimated purchase price of \$35 million, including a \$29 million cash purchase of CCWC's common stock and the assumption of approximately \$6 million in long-term debt;

WHEREAS, at the request of EPCOR USA, this Corporation has entered into an Exclusivity Agreement with EPCOR USA pursuant to which this Corporation granted EPCOR USA the exclusive right to negotiate the terms of a stock purchase agreement for a period ending on June 4, 2010;

WHEREAS, management of this Corporation has summarized the proposed terms of the sale of CCWC to EPCOR USA to the Board of Directors and Strategy and Corporate Development Committee of this Corporation; and

WHEREAS, the Strategy and Corporate Development Committee has recommended that the proposed sale of CCWC be submitted to this Board of Directors for approval;

NOW, THEREFORE, BE IT RESOLVED that Robert J. Sprowls and Eva G. Tang are, and each of them hereby is, authorized and directed, on behalf of this Corporation and in its name, to negotiate, execute and deliver a stock purchase agreement for the sale of CCWC at a sales price of not less than \$33 million, including assumption of approximately \$6 million in long-term debt;

RESOLVED FURTHER, that each of the officers of this Corporation is authorized hereby and, to the extent required, directed on behalf of this Corporation to prepare, sign and file, or cause to be prepared, signed and filed with the Arizona Corporation Commission and any other applicable regulatory authority all applications, requests for approval, consents, interpretations or other determinations, notices or filings (each a "Regulatory Filing"), and any modifications or supplements thereto, as may be necessary or convenient in connection with the proposed sale of CCWC, together with all agreements, information or documents and any publications necessary or appropriate in connection therewith;

RESOLVED FURTHER, that there is hereby adopted any resolution or resolutions in statutory or regulatory form that may be required by any regulatory authority in connection with any Regulatory Filings and the Corporate Secretary of this Corporation is authorized and empowered to certify to any such regulatory authority that any such form of resolution required by such regulatory authority has been adopted at this meeting; and

RESOLVED FURTHER, that each of the officers of this Corporation is authorized and, to the extent required, directed on behalf of this Corporation and in its name to execute any and all certificates, agreements or other instruments or documents and to do and cause to be done any and all other acts and things as such officers may in their discretion deem necessary or appropriate to carry out the purposes of the foregoing resolutions.