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Arizona Corporation Commission
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A Professional Corporation
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Attorneys for EPCOR Water (USA) Inc.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF ARIZONA-AMERICAN WATER COMPANY, AN ARIZONA CORPORATION, FOR A DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND CHARGES BASED THEREON FOR UTILITY SERVICE BY ITS AGUA FRIA WATER DISTRICT, HAVASU WATER DISTRICT AND MOHAVE WATER DISTRICT	DOCKET NO: W-01303A-10-0448 **NOTICE OF FILING LETTER OF INTENT**

The Settling Parties[1] hereby file their "Letter of Intent" in contemplation of their Proposed Settlement Agreement as discussed during the settlement discussions held on December 6, 2011. The Letter of Intent has been signed by all of the parties with the exception of the City of Surprise. Counsel for the City hopes to obtain the City Council's

[1] Settling Parties include EPCOR Water (USA) Inc. ("EPCOR Water USA"); Arizona-American Water Company ("AAWC"); Arizona Corporation Commission Utilities Division ("Staff"); the Residential Utility Consumer Office ("RUCO"); Verrado Community Association, Inc. ("Verrado"); DMB White Tank, LLC ("DMB"); Water Utility Association of Arizona ("WUAA"); Mashie, LLC dba Corte Bella Golf Club ("Corte Bella"); Cross River Homeowners Association ("CRHA"); and Sun City Grand Community Association (for itself and as class representative for Arizona Traditions Homeowners Association, Inc., Happy Trails Community Association, The Surprise Farms III Community Association, Greer Ranch South Homeowners Association, Northwest Ranch Homeowners Association, Russell Ranch Homeowners Association, Clearwater Farms Unit II Property Owners Association, Surprise Farms Unit II Community Association, Clearwater Farms Three Homeowners Association, Legacy Park South Homeowners Association, Sun Village Community Association, Sycamore Estates Parcel 13 Community Association, Surprise Farms Community Association, Phase 1A, Cortessa Community Association, and Summerfield at Litchfield Subdivision Homeowners Association) ("SCGCA").

approval during the Council's scheduled meeting at 4:00 p.m. on December 8, 2011. If the Council approves the Letter of Intent, counsel for the City will file the signature page for the City of Surprise separately.

RESPECTFULLY SUBMITTED this 2nd day of December, 2011.

FENNEMORE CRAIG, P.C.

Jay L. Shapiro
Patrick J. Black
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Attorneys for EPCOR Water (USA) Inc.

ORIGINAL and 13 copies filed
this 8th day of December, 2011, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

COPY hand-delivered
this 8th day of December, 2011 to:

Dwight D. Nodes
Asst. Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
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Phoenix, Arizona 85007-2927

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Surprise Farms 5 Community Association
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Tempe, AZ 85282

Dana Miller
Western Meadows Homeowners Association
1600 W Broadway Road, Suite 200
Tempe, AZ 85282

By: _____

2515018

LETTER OF INTENT

The Settling Parties[1] have agreed in principle to a settlement to resolve all issues arising out of the Application of Arizona-American Water Company (the "Company") in Docket No. W-01303A-10-0448 (the "Rate Case"). The terms and conditions set forth below summarize the general terms and conditions for the settlement and shall serve as a basis for the parties finalizing a formal Settlement Agreement ("Final Agreement") to be agreed to by the parties for presentation to the Arizona Corporation Commission ("Commission").

The terms and conditions are as follows:

AGUA FRIA WATER DISTRICT

1. New rates shall not become effective before July 1, 2012.

2. All of the White Tanks Plant and White Tank Plant related deferrals shall be included in rate base as proposed by the Company in the amount of $78.9 million.

3. The original cost rate base for the Agua Fria Water District shall be $137,422,983.

4. Rate increases shall be based on an adjusted test year revenue of $24,197,216.

5. The Company shall be authorized a 58% overall revenue increase phased in over three years in twelve-month increments as follows:

Period[2]	Percentage Increase	Revenue Increase
July 1, 2012 to June 30, 2013	39%	$9,437,026
July 1, 2013 to June 30, 2014	9.5%	$11,735,788
July 1, 2014 to June 30, 2015	9.5%	$14,034,551

6. The Company agrees to forego authorized revenue and carrying costs during the term of the Phase In as set forth above.

7. The approved return on equity shall be 10.6% and the authorized rate of return shall be 7.1%. Other components shall include:

   Cost of long-term debt: 5.66%
   Cost of short-term debt: 0.41%

---

[1] Arizona-American Water Company; EPCOR Water (USA), Inc.; Sun City Grand Community Association, as representative for the Class of Homeowners Associations; DMB White Tank, LLC; Verrado Community Association, Inc.; City of Surprise; Cross River Homeowners Association; Residential Utility Consumer Office; Arizona Corporation Commission Utilities Division Staff; Water Utility Association of Arizona; and Mashie LLC dba Corte Bella Golf Club.

[2] This assumes an effective date of new rates of July 1, 2012 and will be adjusted accordingly.

Capital Structure: a) long-term debt, 47.38%; b) short-term debt, 11.35%; c) equity, 41.27%

8. The Company's next rate case filing shall use a test year including at least six months of actual experience with the final phase of rates.

9. The Settling Parties accept Staff's proposed depreciation rates.

10. Until new rates are in effect in the next rate case, the Company will credit back to customers the revenue requirement equivalent of hook-up fees actually collected under the Company's White Tanks HUF Tariff Part B in the prior 12 months commencing in Year 2 of the phase in. This credit will be shown as a special line item on customer bills. Company will work with Staff on a plan of administration for these credits on each anniversary.

11. Until new rates are in effect in the next rate case, the Company will credit back to customers any sales of non-firm treatment services. For Year 2 of the phase in, the Company will credit back to customers any sales of non-firm treatment services in the prior 18 months using a formula to be agreed by the parties (i.e. incremental revenues from sales minus expenses in excess of amounts in rates) In Year 3 of the phase in, the Company will credit back to customers any sales of non-firm treatment services accruing in the prior 12 months using the same formula. This credit will also be shown separately with the HUF-related credit. Company will work with Staff on a plan of administration for these credits on each anniversary.

12. The non-potable irrigation rate for the Corte Bella Golf Club shall be $.92 per 1000 gallons.

13. The illustrative, typical bill impact shall be as follows:

Customer Class	**Present Rate**	**Settlement Step 1**	**Settlement Step 2**	**Settlement Step 3**
Residential 5/8" & ¾" (7362 gals)	$30.32	$43.27	$46.35	$49.42
Residential 1" (11,595 gals)	$66.29	$94.55	$101.95	$108.05

14. The Settling Parties acknowledge and agree that these preliminary figures shall be verified against the supporting A through H schedules which reflect the agreed upon settlement terms as part of the Final Agreement.

MOHAVE WATER DISTRICT

1. The original cost rate base for the Mohave Water District is $11,418,252.

2. Rate increases shall be based on an adjusted test year revenue of $4,904,592.

3. The Company shall be authorized a revenue increase of $1,812,486.

4. New rates shall not become effective before July 1, 2012.

5. The approved return on equity is 10.6% and the authorized rate of return is 7.1%. Other components shall include:

   Cost of long-term debt: 5.66%
   Cost of short-term debt: 0.41%
   Capital Structure: a) long-term debt, 47.38%; b) short-term debt, 11.35%; c) equity, 41.27%

6. The Settling Parties accept Staff's proposed depreciation rates.

7. The Company agrees to develop a five year plan to reduce non-revenue water in the Mohave District. The plan shall be based on leak survey and system analysis performed by the Company to determine the most cost effective approach to reducing water loss. Such plan shall be filed by the Company in this docket by March 1, 2013.

8. The Company accepts Staff's adjustment GWB-13 relating to excess water loss.

9. The rate design shall based on Staff's proposed rate design as set forth in the Final Agreement's H Schedules.

10. The Settling Parties acknowledge and agree that the final figures shall be verified against the supporting A through H schedules which reflect the agreed upon settlement terms as part of the Final Agreement.

HAVASU WATER DISTRICT

1. The original cost rate base for the Havasu Water District is $3,578,982.

2. Rate increases shall be based on an adjusted test year revenue of $1,271,706.

3. The Company shall be authorized a revenue increase of $609,838.

4. New rates shall not become effective before July 1, 2012.

5. The approved return on equity is 10.6% and the authorized rate of return is 7.1%. Other components shall include:

   Cost of long-term debt: 5.66%
   Cost of short-term debt: 0.41%
   Capital Structure: a) long-term debt, 47.38%; b) short-term debt, 11.35%; c) equity, 41.27%

6. The Settling Parties accept Staff's proposed depreciation rates.

7. The Company agrees to develop a five year plan to reduce non-revenue water in the Havasu District. The plan shall be based on leak survey and system analysis performed by the Company to determine the most cost effective approach to reducing water loss. Such plan shall be filed by the Company in this docket by March 1, 2013.

8. The Company accepts Staff's adjustment GWB-13 relating to excess water loss.

9. The rate design shall be based on Staff's proposed rate design as set forth in the Final Agreement's H Schedules.

10. The Settling Parties acknowledge and agree that the final figures shall be verified against the supporting A through H schedules which reflect the agreed upon settlement terms as part of the Final Agreement.

GENERAL PROVISIONS

1. The Settling Parties agree that the Final Agreement will serve as a means to present their settlement to the Commission for a final order in the Rate Case.

2. The Settling Parties agree to support and defend the Final Agreement and to elicit support from their constituents for the Final Agreement and its approval by the Commission.

3. The Settling Parties will waive any rights to appeal the Commission's final order provided that the Commission approves all material provisions of the Final Agreement.

4. If required, the Settling Parties agree to promptly provide pre-filed testimony in support of the Settlement Agreement and to support a hearing on the Settlement Agreement for December 15-16, 2011.

ARIZONA-AMERICAN WATER COMPANY:

Signature:

Date: December 8, 2011

EPCOR WATER (USA), INC.:

Signature: _____

Date: _____

4. If required, the Settling Parties agree to promptly provide pre-filed testimony in support of the Settlement Agreement and to support a hearing on the Settlement Agreement for December 15-16, 2011.

ARIZONA-AMERICAN WATER COMPANY:

Signature:_____

Date: _____

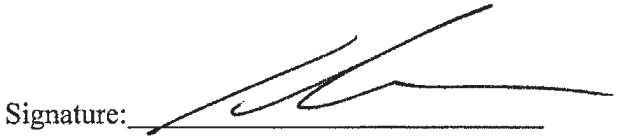
EPCOR WATER (USA), INC.:

Signature:_____

Date: 12/1/11

UTILITIES DIVISION STAFF OF THE

ARIZONA CORPORATION COMMISSION:

Signature: 

Date: 12/8/11

RESIDENTIAL UTILITY CONSUMER OFFICE:

Signature: _____

Date: _____

SUN CITY GRAND COMMUNITY ASSOCIATION,

on behalf of itself and the Class of Homeowners Associations:

Signature: _____

Date: _____

CROSS RIVER HOMEOWNERS ASSOCIATION:

Signature: _____

Date: _____

UTILITIES DIVISION STAFF OF THE

ARIZONA CORPORATION COMMISSION:

Signature:_____

Date: _____

RESIDENTIAL UTILITY CONSUMER OFFICE:

Signature: Jodi A. Jerich

Date: 12-8-11

SUN CITY GRAND COMMUNITY ASSOCIATION,

on behalf of itself and the Class of Homeowners Associations:

Signature:_____

Date: _____

CROSS RIVER HOMEOWNERS ASSOCIATION:

Signature:_____

Date: _____

12/08/2011 11:07 6023644846 RUCO PAGE 07/09

UTILITIES DIVISION STAFF OF THE

ARIZONA CORPORATION COMMISSION:

Signature:_____

Date: _____

RESIDENTIAL UTILITY CONSUMER OFFICE:

Signature:_____

Date: _____

SUN CITY GRAND COMMUNITY ASSOCIATION,

on behalf of itself and the Class of Homeowners Associations:

Signature: _____

Date: 12/8/11

CROSS RIVER HOMEOWNERS ASSOCIATION:

Signature:_____

Date: _____

UTILITIES DIVISION STAFF OF THE

ARIZONA CORPORATION COMMISSION:

Signature:_____

Date: _____

RESIDENTIAL UTILITY CONSUMER OFFICE:

Signature:_____

Date: _____

SUN CITY GRAND COMMUNITY ASSOCIATION,

on behalf of itself and the Class of Homeowners Associations:

Signature:_____

Date: _____

CROSS RIVER HOMEOWNERS ASSOCIATION:

Signature:_____

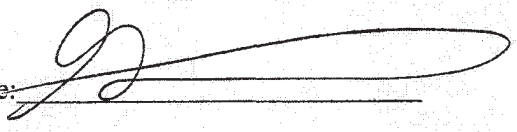
Date: 12.7.11

CITY OF SURPRISE:

Signature:_____

Date: _____

WATER UTILITY ASSOCIATION OF ARIZONA:

Signature: 

Date: 12-8-2011

DMB WHITE TANK, LLC

Signature:_____

Date: _____

VERRADO COMMUNITY ASSOCIATION, INC.:

Signature:_____

Date: _____

WATER UTILITY ASSOCIATION OF ARIZONA:

Signature:_____

Date: _____

DMB WHITE TANK, LLC

Signature: _____

Date: 12-7-11

VERRADO COMMUNITY ASSOCIATION, INC.:

Signature:_____

Date: _____

WATER UTILITY ASSOCIATION OF ARIZONA:

Signature:_____

Date: _____

DMB WHITE TANK, LLC

Signature:_____

Date: _____

VERRADO COMMUNITY ASSOCIATION, INC.:

Signature: Mgulick

Date: 12-7-11

MASHIE, LLC DBA CORTE BELLA GOLF CLUB

Signature: Jon S. Burke

Date: 12-7-11