

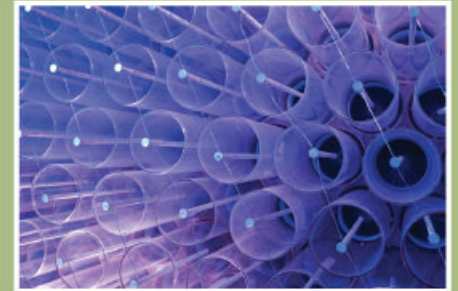
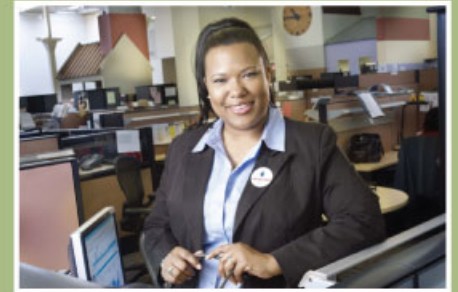


ARIZONA
AMERICAN WATER

Investing in Your Community

Follow-Up Meeting
On Proposed Water Rate Increase

February 9, 2009





Paradise Valley-Scottsdale Water District Facts

- Our company has served parts of Paradise Valley and Scottsdale for more than 40 years, since 1969.
- Until 2002, we were known as Paradise Valley Water Company.
- In 2002, we changed our name to Arizona American Water.
- We are the same company you have known for more than 40 years, and we are committed to providing our Paradise Valley and Scottsdale customers with high-quality, reliable water service!



Paradise Valley Water Bill

Billing Summary			
-----Prior Balance-----			
<i>Balance from last bill</i>			
<i>Payments as of Dec 05, 2008. Thanks!</i>			
Total prior balance, Dec 05, 2008			
-----Current Water Charges-----			
<i>Basic Service</i>			
<i>Water Volume</i>	(<i>\$.760 x</i>	<i>25.00</i>)	
	(<i>\$ 1.650 x</i>	<i>53.00</i>)	
Total Use Billed			
-----Other Current Charges-----			
<i>CAP Surcharge - Residential</i>			
<i>Arsenic Recovery (EPA mandate)</i>			
<i>ACC Resid Reg Assmnt Fee</i>			
<i>Land Sale Credit</i>			
Total other charges, Dec 05, 2008			
-----Taxes-----			
<i>City Tax - Paradise Valley</i>			
<i>County Tax - Maricopa</i>			
<i>State Tax</i>			
<i>Water Use Tax</i>			
<i>ADWR Withdrawal Fee</i>			
Total taxes, Dec 05, 2008			
-----TOTAL AMOUNT DUE-----			
			\$191.41
Do not send payment. Total Amount Due will be deducted from your bank account on Dec 29, 2008			

Water Charges cover all costs to deliver high-quality, reliable water service.

Arsenic Recovery Surcharge pays for arsenic removal facility required by EPA.

Fees and taxes are collected for state and local government



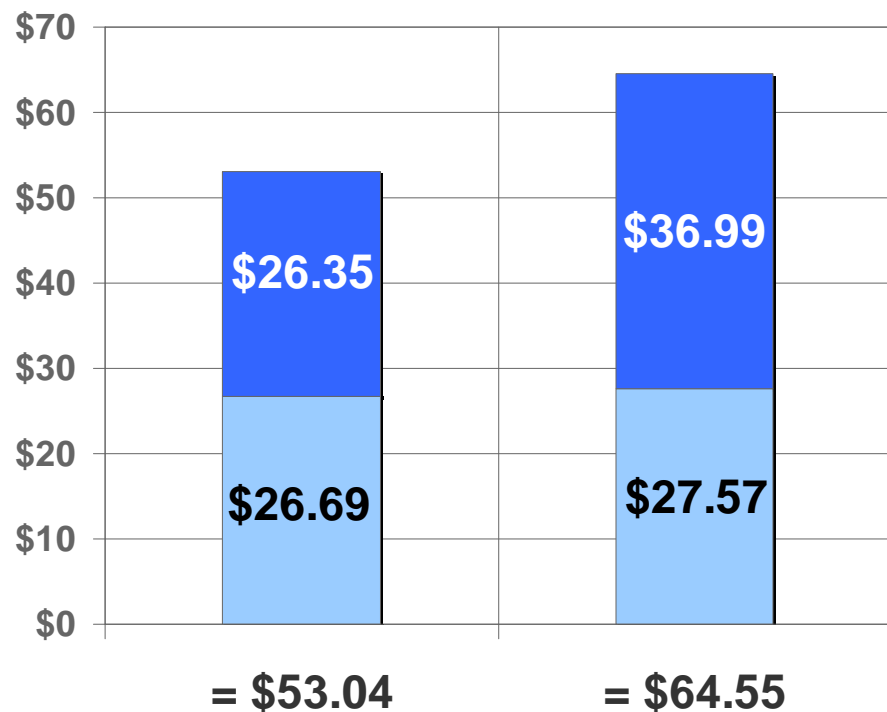
2009 Proposed Water Rate Increase

- Last general rate increase granted by the Arizona Corporation Commission (“ACC”) in 2006 based on expenses and investments made during the years 2002-2004.
- Current rate case filed with the ACC in May 2008 based on operating expenses and capital investments made during the years 2005-2007.
- Open Hearing is at the ACC on March 19th at 2:30 p.m. Decision from ACC expected in late summer or fall.



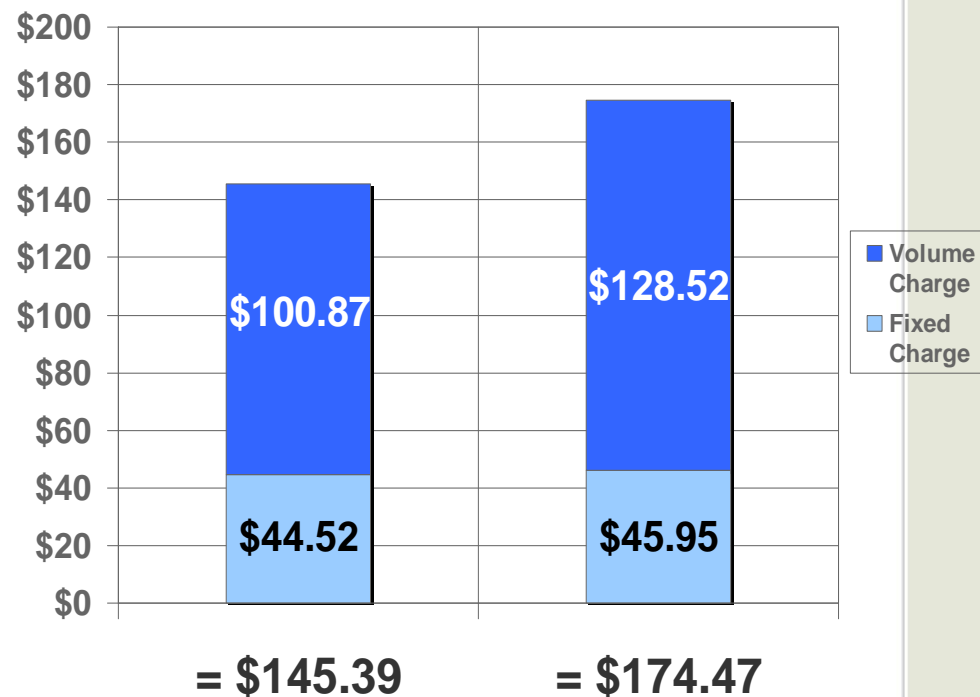
Current Average Residential Bill vs. Proposed Average Residential Bill

5/8" Meter & 20,000 Gal/Month



An increase of 38¢ / day

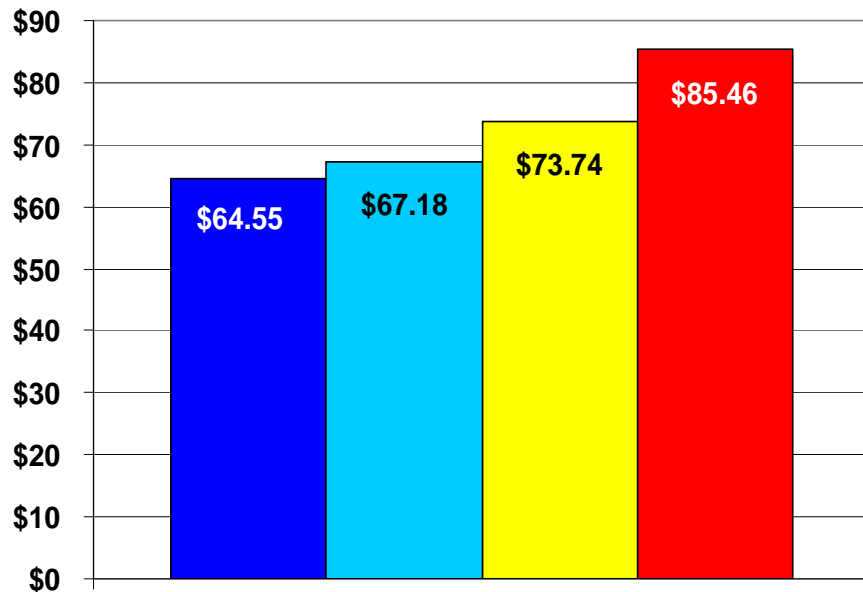
1" Meter & 57,000 Gal/Month



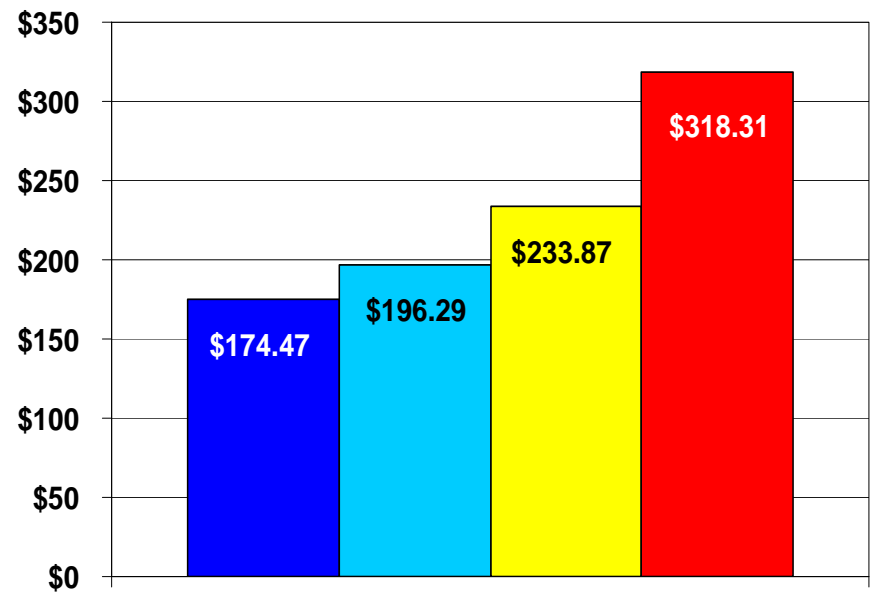
An increase of 97¢ / day





Proposed Rates Are Lower than Scottsdale and Phoenix





Based on a 5/8" meter and 20,000 gallons per month



Based on a 1" meter and 57,000 gallons per month

-  Proposed Arizona American
-  City of Phoenix Winter Months

-  City of Scottsdale
-  City of Phoenix Summer Months



Expenses Have Increased \$1.4 Million Since 2004

1. Depreciation & Amortization	\$190,000
2. Chemicals	\$145,000
3. Water Quality Laboratory, Customer Service Center and other Shared Services	\$450,000
4. Labor, Health Insurance, Pensions	\$275,000
5. Maintenance Expenses & Taxes	\$380,000

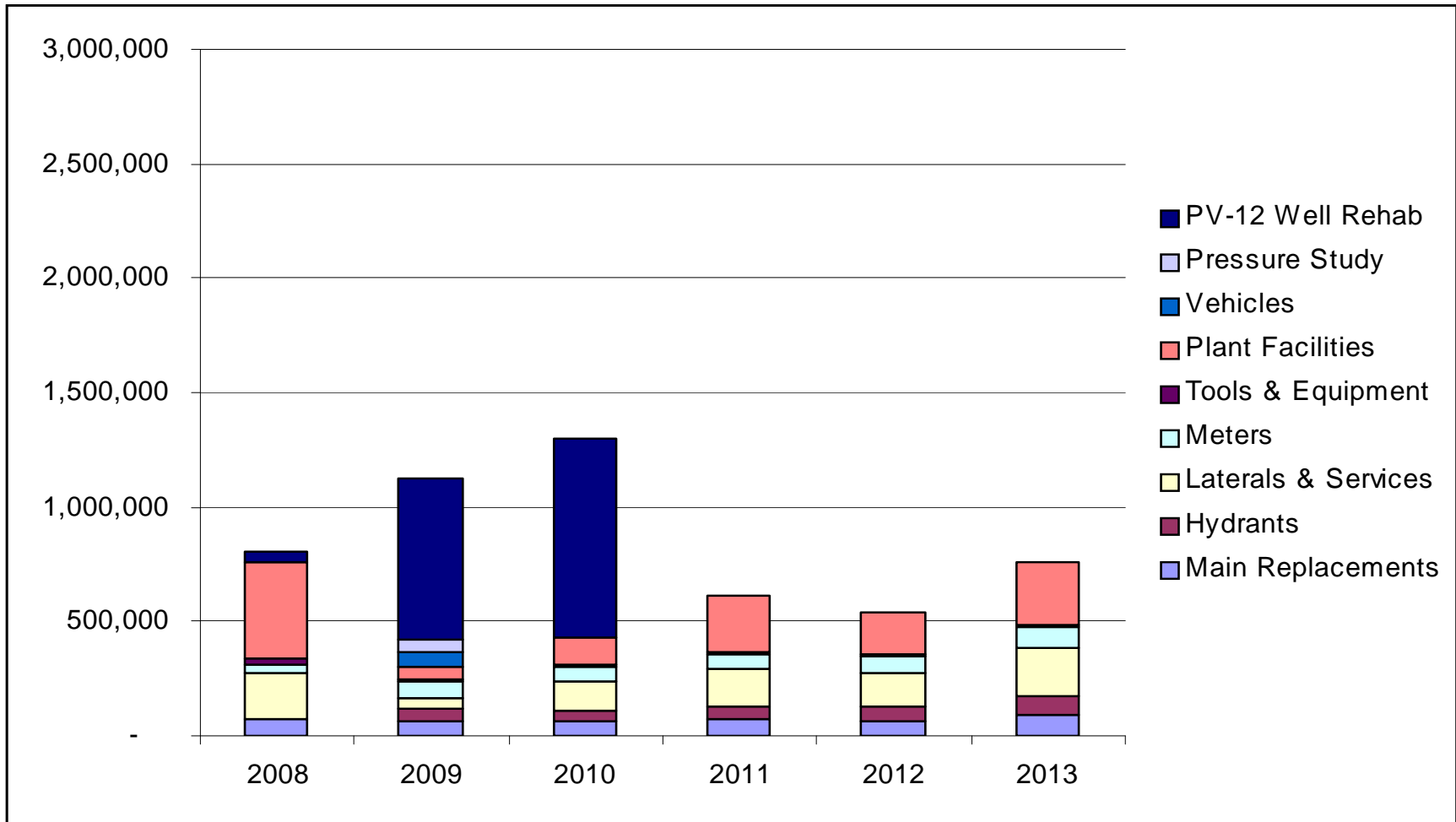


2005-2007 Investments in the Paradise Valley-Scottsdale System

Arsenic Treatment Facility	\$23 million
Fire Flow Improvements	\$ 7 million
Water Mains and Pipes	\$260,000
Wells, Pumps & Equipment	\$280,000
New Service Line Installations	\$490,000
Total	\$31 million



2008-2013 Planned Capital Investments Will Be Lower Than 2005-2007





Summary

- **Primary drivers for the rate increase are capital investments made in the Paradise Valley-Scottsdale service area and increases in operating expenses since 2004.**
- **Planned capital investments through 2013 will be lower than recent levels, which should help moderate future rate increase requests.**
- **Even with the proposed increase, Arizona American Water's average residential rates are lower than both Scottsdale and Phoenix.**



How to Contact Us

We are located at:

**6215 Cattle Track Rd.
Scottsdale, Arizona**

**Steve Lutringer, Paradise Valley Network Supervisor
Phone: (480) 445-2462**

**24-hour Customer Service Center: (800) 383-0834
Joni McGlothlin, External Affairs Manager (623) 238-0671**

**Or you can email us at: azrates@amwater.com
for a calculation of the impact of the rate proposal on your account.**



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Efforts to Address Water Pressure Concerns

- Hilly topography causes both low pressure and high pressure problems in different parts of Paradise Valley/Scottsdale system
- Older design of piping system makes global efforts to moderate pressures at all elevations very expensive
- Some specific areas have been addressed but our success is limited
- Fire flow improvement project would have addressed some pressure problems due to installation of larger and newer piping
- Company is currently performing an update to its comprehensive planning (engineering) study of the system this year
- Depending on study results, some funding has been identified over the next few years for possible solutions in some areas
- Arizona-American will host community meetings to share the results of the study and seek customer input.



Status on Fire Flow Projects

- Based on community involvement, Arizona-American embarked on construction of “Fire Flow Improvement Projects” beginning in 2003.
- Over \$7 million was invested in these projects between 2003 and 2008.
- Most of the fire flow projects were to be funded by a Public Safety Surcharge (PSS) and a High Block Surcharge (HBS) on customer bills.
- Last September the Arizona Corporation Commission terminated the PSS and reduced the HBS from \$2.15 to \$1.00 per 1,000 gallons.
- As a result of the loss of funding the Company was forced to suspend the remaining fire flow projects that had not yet been completed.
- The last project – the pipeline on McDonald Drive between Miller and Scottsdale Roads - was not fully paid off before the Commission decision in September.
- To date, the fire flow improvement projects have been paid off and the HBS will be terminated upon completion of the company’s current rate case.