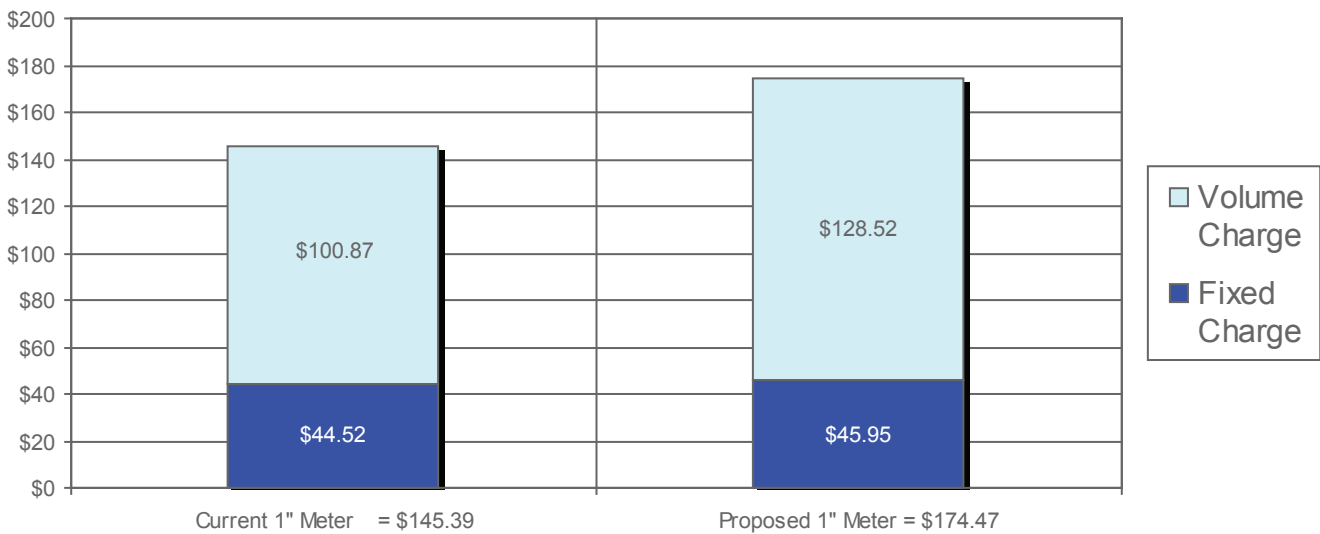
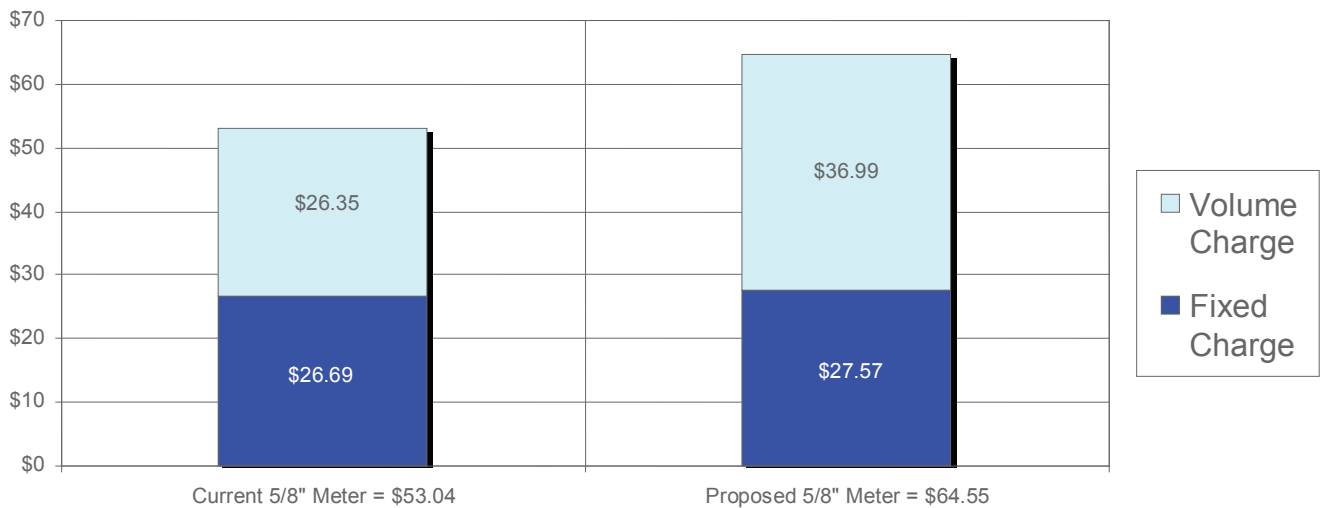


Q. What is the amount of the proposed rate increase?

A. If the Arizona Corporation Commission (ACC) approves the company's request in full, an average residential customer bill will increase approximately 21%, depending on the size of water meter. The following graphs show two typical residential customer bills. The first is a customer with a 5/8-inch meter using 20,000 gallons of water per month, and the second is a customer with a larger 1-inch meter using 57,000 gallons per month. The graphs show the proportion of the company's proposed rate increase that is included in the Basic Service (fixed) charge and the Water Volume (variable) charge. Because more of the increase is included in the variable water volume charge, the increase proposal is structured to promote water conservation. Each household can reduce the impact of the rate increase by reducing the amount of water they use.

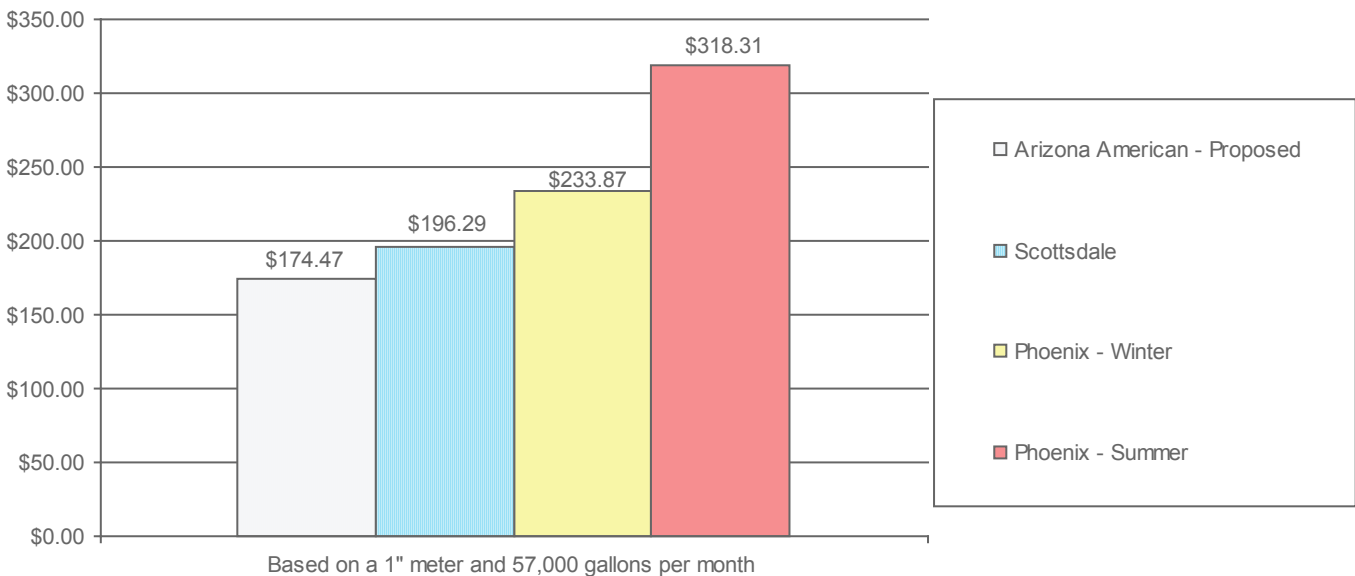
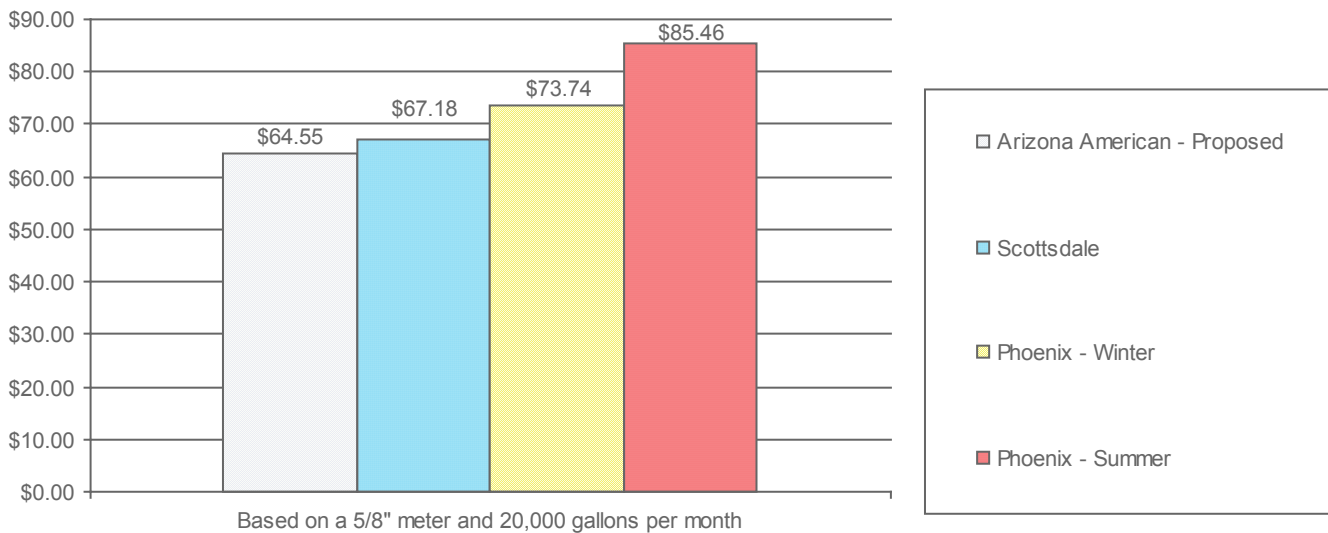


Q. Why is the proposed increase now lower than the percentage increase originally communicated to customers last year?

A. There are two reasons. First the company and the ACC staff have agreed to eliminate approximately \$2 million in investments from the rate case because of a delay in completing one project. Eliminating the costs of the investment reduced the proposed rate increase by 10% or 11%, depending on your meter size. The second is explained on the “arsenic handout” that is part of your package. The “arsenic recovery” surcharge that you are currently paying is being included in the base water rates as part of this case. Even though you are already paying this charge, the ACC required that the company include the percentage of your bill dedicated to arsenic removal as part of the proposed base rate increase.

Q. How do the rates proposed by Arizona American Water compare to neighboring water providers?

A. As can be seen in the following two charts, even if the ACC were to grant the full amount of the company’s requested rate increase, the monthly bill for an average residential customer would be lower than both the City of Scottsdale and the City of Phoenix. The first chart represents an average customer with a smaller 5/8-inch meter using 20,000 gallons per month, and the second chart represents an average customer with a larger 1-inch meter using 57,000 gallons per month. Actual customer cost will vary based on the amount of water used.



Q. What is Arizona American Water doing to control its costs?

A. Our company and our employees are very sensitive to the need to operate as efficiently and effectively as possible. It is important to understand that the rate application currently pending is based on costs and investments that occurred between 2005-2007, long before the current economic concerns were known. In addition, \$23 million of the total \$31.5 million of investment that are included in the rate application relate to the arsenic treatment facility we were required to build to satisfy a mandate from the U.S. Environmental Protection Agency (USEPA). Water utilities are very capital intensive to ensure our continued ability to provide reliable water service to customers.

In spite of the cost pressures from investments, there are ways we are able to conserve costs. As part of our affiliation with American Water, we are able to achieve substantial cost savings on materials and supplies such as fire hydrants, pipe, meters and the like. We are also able to participate in national procurement of chemicals and other goods needed in the operation of our business. The discounts we are able to obtain result in costs for those items that are lower than any other water utility can achieve, and the savings are passed on to the customers in the rates we charge.

Beyond these items, our employees are focused on operating efficiently. We have eliminated 25 positions within our company, delayed replacing older vehicles, reduced overhead expenses in our office and are critically reviewing our maintenance expenses. The reality is that our costs are also increasing for short- and long-term debt required to support our capital investment needs, and for chemicals that are petroleum-based or that are by-products of processes that are related to automotive manufacturing.

Q. What has Arizona American Water done to ensure that TCE contamination—such as happened in Paradise Valley and Scottsdale in January of 2008—does not occur again?

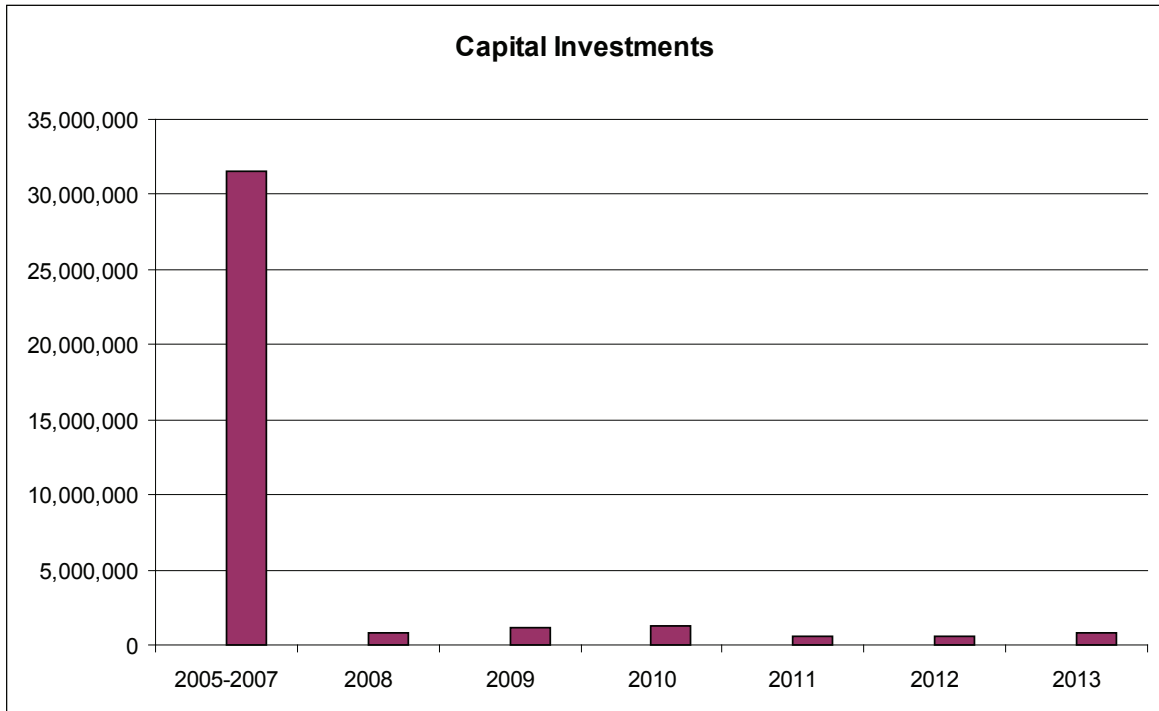
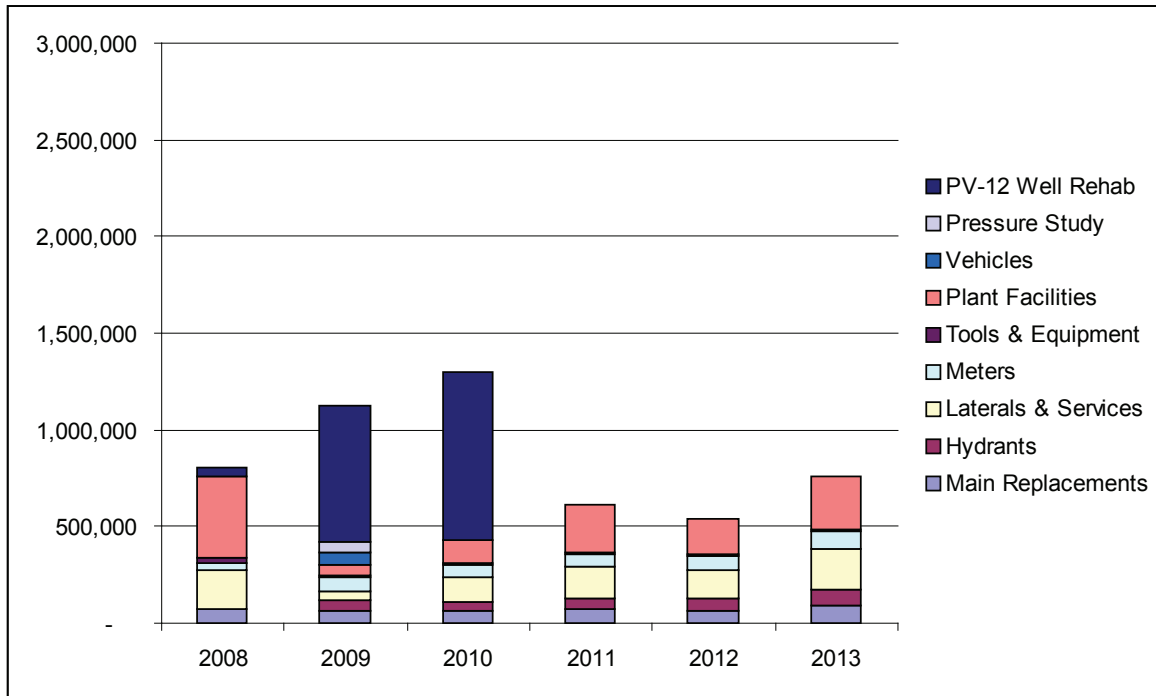
A. The malfunction that occurred in January 2008 at our Miller Road Treatment Facility involved a well known as PCX-1. The PCX-1 well is owned by the Salt River Project (SRP) and is located approximately $\frac{3}{4}$ of a mile south of the Miller Road Treatment Facility. The PCX-1 well is operated by Motorola under an agreement with SRP and is used by Motorola to fulfill its obligation with the USEPA to clean up groundwater TCE contamination associated with the North Indian Bend Wash Superfund site. Since 1995, Arizona American Water allowed the treated water from the PCX-1 well to be used as drinking water in its Paradise Valley-Scottsdale system.

The most important step that Arizona American Water has taken since the January 2008 incident was to physically disconnect the PCX-1 well from the Arizona American Water system. It is no longer possible for PCX-1 water to enter Arizona American Water's Paradise Valley-Scottsdale water system.



Q. What capital projects is Arizona American Water planning for its Paradise Valley-Scottsdale system over the next five years?

A. As can be seen in the chart below, during the three-year period 2005-2007, Arizona American Water invested approximately \$31.5 million in the system, which included \$23 million for the arsenic treatment facility. Those investments are a significant part of the rate application currently at the ACC. During the next six years, 2008-2013, Arizona American Water plans to invest approximately \$6 million in the Paradise Valley-Scottsdale service area. The lower amount of investment will help moderate future rate increases. The types of investments can be seen in the chart below.



Q. What is Arizona American Water doing to address water pressure concerns?

A. Even though water pressure in the system meets regulations, Arizona American Water has been working to address specific areas where some improvements are possible. The “fire flow project” that the company began in Paradise Valley a few years ago increased some pipe sizes and allowed pressure adjustments. That program was suspended when the surcharge needed to pay for the improvements was terminated.

During the past year, the company has further investigated pressure issues in a number of specific locations and concluded that an in-depth analysis of the existing system is required to understand pressure issues throughout the whole system. The company, therefore, is currently undertaking a comprehensive planning study of the Paradise Valley/Scottsdale system in 2009. Work has already begun and will result in recommended projects to address pressure and other issues within the system. Because the likely cost of these improvements will be high, Arizona American Water will host community meetings to share the results of the study and seek customer input.

Q. How long has Arizona American Water provided service in the communities of Paradise Valley & Scottsdale?

A. The company began to provide service in these communities back in the late 1960s, so we have been here for over 40 years. For most of this period our company was known as the Paradise Valley Water Company. In 2002 we changed our name to Arizona American Water but the company is the same, and is owned by American Water as it always has been.

Q. What is the relationship between Arizona American Water and the Five Star Development?

A. Five Star Development is developing the proposed Ritz Carlton project located in Arizona American Water’s service area. Arizona American Water has been working with Five Star Development to evaluate how best to serve water to its project without adversely affecting the company’s other customers. Arizona American Water made two requirements of Five Star Development: 1) that the project obtains new water rights to serve the project, and 2) that the project helps finance any infrastructure to treat and deliver the water to the resort.

Five Star announced last month that it has obtained sufficient water rights evidenced by an assured water supply certificate from the Arizona Department of Water Resources. Based on that certificate, Arizona American Water and Five Star Development will now begin working on an agreement which will outline the details of the infrastructure needed to treat and deliver the water to the Ritz Carlton project, the cost responsibilities, and the timing of the project.

Q. What happened to the money that was collected from the High-Block Surcharge (HBS) and Public Safety Surcharges (PSS)?

A. Arizona American Water has invested nearly \$7.2 million in fire flow improvement projects in the Paradise Valley/Scottsdale service area. The fire flow improvement projects have been paid off and the HBS will be terminated upon completion of the company’s current rate case

On September 1, 2008 the Arizona Corporation Commission terminated the PSS and reduced the HBS from \$2.15 to \$1.00 per 1,000 gallons used. Proceeds collected from the HBS and PSS have gone towards the payment of fire flow improvement projects construction costs completed by Arizona American Water.



Q. What happens to the Arsenic Recovery Surcharge in Arizona American Water’s current rate proposal?

A. Currently the costs of arsenic removal are included in a separate surcharge on your bill. The ACC approved the arsenic recovery surcharge because the project was mandated by the USEPA and the investment had to be completed between base rate case adjustments. In the company’s rate increase proposal, these costs will be rolled into your regular water charges and the surcharge will be terminated. Your bill will still include these treatment costs, but will no longer be presented as a surcharge item on the bottom half of your water bill. Further information is provided on a separate handout.

Q. Who do I contact if I have other questions?

A. You can stop by our office located at **6215 Cattle Track Road, Scottsdale, AZ**. The office is open between the hours of **8 a.m. to 4 p.m., Monday through Friday**. If you have a water emergency in the area, you can call **Steve Lutringer, Network Supervisor at (480) 445-2462** or if you have another question or concern, you can contact **Joni McGlothlin, External Affairs Manager, at (623) 238-0671**. You can also email Joni at **Joni.McGlothlin@amwater.com**. If you would like to obtain a calculation of the impact of the rate proposal on your account, please email us at **azrates@amwater.com**.



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