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February 5, 2004

Carole Washburn, Executive Secretary
Washington Utilities and Transportation Commission
1300 South Evergreen Park Drive SW
Olympia, WA 98504-7250

Re: American Water Resources, Inc.

Dear Ms. Washburn:

Please accept this letter as a Petition for Accounting Order on behalf of American Water Resources, Inc. (AWRI). In order to comply with the Commission's filing rules, nineteen copies of this letter are filed with this original.

I am pleased to report that a settlement has been reached in the matter of Davenport v. American Water Resources, Inc., Thurston County Cause No. 02-2-01478-7. A copy of the Settlement Agreement reached in that matter is attached. In order to fulfill the terms of the Settlement Agreement, Commission approval of the treatment of the settlement terms is required.

BACKGROUND

The issue in Davenport is the alleged improper location of a water main on Mr. Davenport's property. The water main was installed by a predecessor-in-interest to AWRI. AWRI had no reason to believe that the water main was located anywhere other than on the easement it was purported to be covered by. However, it turned out that the water main had been installed outside of the easement area. Mr. Davenport originally sought recovery of damages in the amount of \$50,000.00. This matter was proceeding towards trial. The case had been set for a two day trial. However, under court rules, mandatory mediation was required.

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COMMISSION

AWRI retained experts to bolster its position that any damage to Mr. Davenport's property was minimal, at best. Based on the experts' analysis, AWRI took an aggressive position in the mediation. As a result, AWRI was able to reach settlement in the Davenport matter at a price that was less than the estimated out-of-pocket costs for pursuing the matter to trial.

The basic amount of the settlement is the payment of \$5,000.00, \$2,000.00 upon approval of this Petition for Accounting Order by the Commission, and the remaining \$3,000.00 to be paid in six month increments at \$500.00 each. In addition, Mr. Davenport is to receive water service up to a maximum of \$30.00 per month for five years. Thus, the total value of the settlement may be up to \$6,800.00.

In addition to the settlement amount, AWRI has incurred attorney fees through January 31, 2004 in the amount of \$7,930.68. Further, it is obligated to Foresight Surveying the amount of \$376.50. AWRI also owes Habitat Technology the sum of \$1,661.51. Foresight Surveying and Habitat Technology are the experts relied upon by AWRI. Finally, there are out of pocket costs for the mediation of \$400.00 owed to the mediator. This produces a sum total of out of pocket costs of \$10,368.69.

On a related development, AWRI was able to secure a contribution to the case costs from the prior owner of the water system. That contribution is in the amount of \$1500.00. This brings the net out-of-pocket amounts to \$8,868.69.

AWRI believes that the resolution of the Davenport matter is the equivalent of constructing a main to serve the customers on the Lew's 81st Street system. There are currently nineteen active connections on the system. Construction of a facility improvement is an authorized activity for use of funds from Docket No. UW-980076. AWRI, through this Petition, is requesting authorization to pay the settlement costs and costs of litigation as an authorized use of funds under UW-980076.

REQUESTED ACCOUNTING TREATMENT

In general terms, securing an easement results in an asset that has an indefinite life. As a result, AWRI proposes that the amount for the easement of \$5,000.00 be booked as a plant-in-service amount of \$5,000.00 with an indefinite life and that the payments from the facilities charge account be booked as CIAC in an equal amount to offset the \$5,000.00 addition to plant-in-service. The \$5,000.00 amount would not be depreciated, nor would the CIAC associated with that amount be amortized. This treatment should have no effect, one way or the other, on the calculation of rate base.

As to the water to be consumed by Mr. Davenport in the maximum amount of \$30.00 per month for five years, AWRI is not asking that that amount be treated as a plant-in-service item. Nor, is AWRI asking that the amounts that Mr. Davenport would otherwise pay for rates be reimbursed to the company out of the facilities charge account. AWRI proposes that the amount be considered a liability of AWRI that would not result in an expense for ratemaking purpose. Further, AWRI proposes that the revenue that would otherwise be received from Mr. Davenport had he been paying for the usage up to \$30.00 per month not be imputed as revenue in a ratemaking proceeding. This should then have no effect, one way or the other, for ratemaking purposes.

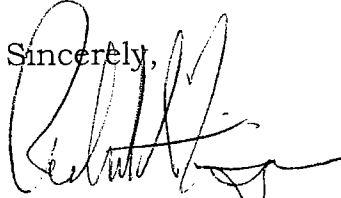
Finally, the costs of litigation in the amount of \$10,368.69 are asked to be paid from the facilities charge account. These amounts would be capitalized as part of the easement costs and carried with an indefinite life. The amounts that are paid out of the facilities charge account to satisfy these obligations would be carried as CIAC. As with the amounts for the direct payments to Mr. Davenport, the plant-in-service amount would not be depreciated and the CIAC amount would not be amortized. This again should produce a net effect for ratemaking purposes that does not either increase or decrease rate base.

Carole Washburn
February 5, 2004
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CONCLUSION

Based on the foregoing, AWRI respectfully requests that the Commission issue an accounting order that accomplishes the foregoing request so that the Davenport matter can be finally resolved.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard A. Finnigan', written over the word 'Sincerely,'.

RICHARD A. FINNIGAN

RAF/km
Enclosure

cc: Virgil Fox
Lisa Watkins
Jim Ward
Gene Eckhardt

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into by and between Mark J. Davenport ("Davenport") and American Water Resources, Inc. ("AWRI"). Davenport and AWRI may be referred to individually as "Party" and collectively as the "Parties." This Agreement is entered into on the last day that either of the Parties signs and executes this Agreement, as witnessed by the signatures on the last page of this Agreement.

Recitals

1. This Agreement is entered into as a compromise by and between Davenport and AWRI for the settlement of all controversies, differences, claims, and causes of action which do or may exist between them for any actions or omissions related to or arising out of:
 - a. The lawsuit, and claims and counterclaims asserted therein, pending in the Superior Court for Thurston County, Washington, Cause No. 02-2-01478-7;
 - b. Any claims, known or unknown, which could have been asserted based on any of the items delineated in sub-paragraph a.
2. Together the matters set out in 1.a and 1.b shall be referred to as the "Settled Claims."
3. By this Agreement, the Parties intend to resolve, among other things, all differences between them arising out of the Settled Claims.
4. Each of the Parties hereto recognizes that it has an interest that is being compromised by this Agreement and that it is receiving valuable consideration for that compromise in the form of payments, promises, covenants, rights and assignments, including, among other things, dismissals of claims and releases.
5. Nothing in this Agreement shall constitute an admission of liability for Davenport or AWRI and the Parties expressly deny any wrongdoing or liability for any act or omission arising from Settled Claims.

WHEREFORE, in consideration of the mutual promises contained in this Agreement, and good and other valuable consideration, the Parties agree as follows:

Agreement of the Parties

1. The recitals set forth above are hereby incorporated into and made a material part of this Agreement.

2. To the extent any action is brought to enforce the terms of this Agreement, the Superior Court for Thurston County, Washington, shall be the exclusive venue for any such proceedings.
3. In an effort to resolve the issues between the Parties and avoid further expense and time, AWRI agrees to make payment as follows:
 - a. Within sixty (60) days from the date this executed agreement is approved by the Washington Utilities and Transportation Commission ("WUTC"), AWRI shall make payment in the amount of two thousand dollars (\$2,000.00) to Davenport via his attorney of record, Allen T. Miller, Jr. at the law firm of Connolly Tacon & Meserve, P.C.
 - b. Thereafter, AWRI shall make payments in the amount of five hundred dollars (\$500.00) to Davenport once each six (6) months for a period of three years for a total payment of three thousand dollars (\$3,000.00) paid in addition to the \$2,000.00 described in Paragraph 3a. Payment of the \$500.00 checks shall be made to Davenport via his attorney of record, Allen T. Miller, Jr. at the law firm of Connolly Tacon & Meserve, P.C.
 - c. Thus, if the payment described in Paragraph 3a was made on April 1, 2004, the first \$500.00 payment would be due on or before October 1, 2004. Under this example subsequent payments would be made on April 1, 2005, October 1, 2005, April 1, 2006, October 1, 2006 and April 1, 2007. The total amount paid from AWRI to Davenport shall be five thousand dollars (\$5,000.00), as described herein.
 - d. Under no circumstances shall AWRI pay any interest to Davenport on any of the monies to be paid as described herein.
 - e. In addition to the payments described in Paragraphs 3a, 3b and 3c, AWRI shall provide water service to Davenport as that water service is currently operating without charge up to a maximum of thirty dollars (\$30.00) per month for a period of five (5) years. Thus, the total maximum amount of water provided to Davenport is sixty (60) months times \$30.00 equaling one thousand eight hundred dollars (\$1,800.00). Amounts not spent in one month cannot be carried over to any subsequent months. Thus, if Davenport only incurred twenty dollars (\$20.00) in total water service for one month, the additional ten dollars (\$10.00) for that month cannot be carried over to the next or any subsequent months.
 - f. The grant of water service described in Paragraph 3e above is transferable, meaning that Davenport can use this grant of water service as an incentive to induce a buyer to purchase his property. However, in the event that Davenport is able to partition the property, the grant of water service described above is still limited to a maximum of \$30.00 per month for five

years for all parcels combined. Thus, Davenport could apply fifteen dollars (\$15.00) per month to two parcels or thirty dollars (\$30.00) per month to one parcel. However, Davenport cannot obtain a \$30.00 per month credit for each of the parcels.

- g. Except as outlined above, no other payments or consideration shall be made by AWRI to Davenport, and the Parties expressly agree that each Party shall bear its own costs and attorneys' fees.
 - h. Payment shall be made by check from AWRI to Davenport, as described above, delivered by United States postal mail to Davenport's attorney, Mr. Miller.
 - i. Upon completion of the payments and water service, AWRI shall have no further liability to Davenport of any kind arising out of the Settled Claims.
 - j. As more fully described herein, all payment, grants or other consideration is expressly contingent upon the approval of the WUTC which approval is not guaranteed.
4. The Parties understand and agree that these payments as described in Paragraph 3 and its subparts are not an admission of liability in any way. The Parties further agree that such payments are fair and reasonable, in the best interests of all Parties involved, and an appropriate resolution of the disputes between the Parties.
5. In exchange for, among other things, the covenants set forth in this Agreement and the releases set forth below, upon execution of this Agreement, Davenport, for himself, his agents, heirs, predecessors, successors and assigns as the case may be, will be deemed to have remised, released and forever discharged AWRI, its agents, officers, directors, employees, attorneys, predecessors, successors, affiliates, subsidiaries, heirs and assigns as the case may be, from any and all claims, demands, suits, causes of action, damages, costs, expenses, fees and all other liability of any kind, in law or in equity, liquidated or contingent, known or unknown, including but not limited to those which were or should or could have been raised from or related to the Settled Claims, except for those obligations imposed by this Agreement.
6. Further, in exchange for the covenants set forth in this Agreement, upon execution of this Agreement, AWRI, for itself, its agents, officers, directors, employees, predecessors, successors, heirs and assigns as the case may be, will be deemed to have remised, released and forever discharged Davenport, his agents, attorneys, heirs, predecessors, successors and assigns as the case may be, from any and all claims, demands, suits, causes of action, damages, costs, expenses, fees and all other liability of any kind, in law or in equity, liquidated or contingent, known or unknown, including but not limited to those which were or should or could have

been raised from or related to the Settled Claims, except for those obligations imposed by this Agreement.

7. In exchange for the promises and consideration made by AWRI to Davenport, and as an express part of this Agreement, Davenport agrees to indemnify AWRI against any claim or cause of action involving the placement of the easement and current location of the water line located on Mr. Davenport's property.
8. This Agreement, including but not limited to the release and indemnity provisions detailed herein, shall operate as an express easement from Davenport to AWRI for the actual location of the water line and five feet on either side of said water line for repair, maintenance or replacement, including access to and from said water line, regardless of any prior grant of easement related to the water line. The easement shall be perpetual and shall run with the land. The easement shall be as described in the map attached to this Agreement as Exhibit 1.
9. The Parties agree and understand that this Agreement is not effective or binding in any way unless and until all of its terms and conditions, including those listed in Paragraph 3 and all of its subparts, are expressly approved by the WUTC. AWRI shall have the obligation to present this Agreement to the WUTC for approval, and Davenport agrees to assist AWRI in any manner necessary to obtain WUTC approval of this Agreement. As used in this Agreement, "WUTC Approval" includes, but is not limited to, approval of the expenditure of monies to satisfy the amounts set forth herein from restricted accounts available to AWRI or other regulatory recovery of the amounts in a form acceptable to AWRI. The Parties understand that WUTC approval of this Agreement is not guaranteed. In the event that the WUTC rejects any part of this Agreement, the Agreement shall be null and void and of no effect. However, no Party shall have the right or ability to terminate or revoke this Agreement during the time that the WUTC is evaluating whether to accept or reject the terms and conditions herein.
10. During the time the WUTC is evaluating this Agreement, Davenport will take all necessary steps to ensure that the trial of this matter, currently scheduled for February 2-4, 2004, will be postponed. AWRI will take all necessary steps to assist Davenport in postponing the trial and any pre-trial conference or other deadline, including but not limited to trial briefs, exhibit designation and witness designation. If this Agreement is approved by the WUTC, the payment terms of this Agreement detailed in Paragraph 3, including all subparts, will begin as outlined herein. Additionally, immediately upon approval of this Agreement by the WUTC, Davenport will make all necessary arrangements to have the case dismissed with prejudice, with both sides bearing their respective costs and attorneys' fees. If this Agreement is rejected by the WUTC, the Parties agree to work together with the Court to reschedule the trial at a time mutually convenient for both Parties.

11. This Agreement shall be binding upon and inure to the benefit of the Parties hereto, and their respective predecessors, heirs, successors and assigns.
12. This Agreement may not be amended or modified except by a writing signed by all Parties.
13. This Agreement may not be assigned, in whole or in part, without the express written consent of all Parties.
14. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.
15. This Agreement shall not be effective as to any Party hereto until it has been signed by all Parties hereto.
16. In the event that either Party is required to enforce this Agreement through future litigation, the prevailing Party shall be entitled to its costs and reasonable attorneys' fees associated with that future litigation.
17. Signatures provided via facsimile shall be binding as if original inked signatures. Receipt of a signature via facsimile shall cause the same duties under this Agreement to arise which receipt of an original, inked signature would cause to arise under this Agreement.
18. This Agreement shall be construed under and governed by the laws of the State of Washington.
19. In the event that any provision of this Agreement should be held to be void, voidable or unenforceable, the remaining portions hereof shall remain in full force and effect.
20. Notice to Davenport shall be sent via United State postal mail to:

Mark J. Davenport
C/O Allen T. Miller, Jr.
Connolly, Tacon & Meserve, P.C.
201 5th Avenue, SW, Suite 301
Olympia, WA 98501-1060

21. Notice to AWRI shall be sent via United States postal mail to:

American Water Resources, Inc.
ATTN: Mr. Virgil Fox
921-B Middle Fork Rd.
Onalaska, WA 98570

22. Either Party may change the address to which notices or other correspondence shall go by informing the other Party in writing of that Party's new address.

IN WITNESS WHEREOF, the Parties to this Agreement execute this Agreement:

Entered into this ____ day of January, 2004.

Mark J. Davenport

Mark J. Davenport

Entered into this 27 day of January, 2004.

American Water Resources, Inc.

By: [Signature]

Its: AMS 1-30-04