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June 28, 2005

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Barbara H. Hall, Chairperson
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John O. Brenniger, Member
Pine-Strawberry Water Improvement District, Alternatives Study Committee
P.O. Box 134
Pine, AZ 85544-0134

Re: Water Price (Brenniger Letter June 28, 2005)

Dear Chairperson and Board Members,

Thank you to Mr. Brenniger for his response to my previous correspondence related to Water Supply Alternatives JB1, JB4, and JB5 presently being considered by the Board of Directors (the "Board") of the Pine-Strawberry Water Improvement District ("PSWID"). I can assure each member of Board of PSWID that Brooke Utilities ("Brooke") and its operating water subsidiaries remain interested in meaningful and productive dialog concerning purchasing future wholesale water supplies from the District.

I confess that I am confused by the relevance of documents referenced in Mr. Brenniger's correspondence as they relate to pricing commodity water. It seems to me that simplicity is always the best approach for business negotiations and the related documents tend to undermine the objective of discovering water for Pine and Strawberry. Of course, Brooke has long understood

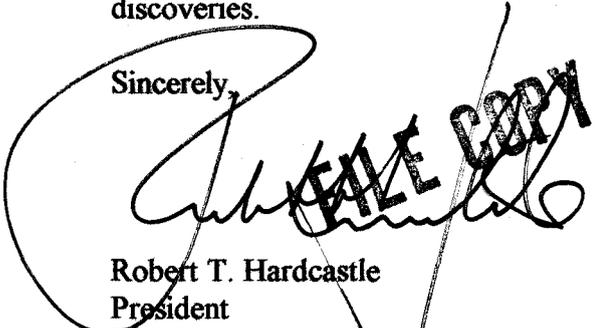
Pine-Strawberry Water Improvement District
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the importance of projecting customer demand, customer count, and the required related water supplies for an expanding population.

However, in the instant case the objective seems clear. The communities require several multiples of currently produced quantities of water. It seems of little difference whether 100, 200, or 500 gallons per minute of water are discovered from one or multiple sources. The discovery of water, or lack thereof, represents an investment that can only be recovered through a pricing structure that considers all components of cost, risk, and return. Otherwise, commodity pricing is dependent on the regulatorily approved price of water. The only component of negotiation is represented by the potential shortfall between the two prices in the event the return is not satisfactory to meet the expectations of investors.

In this regard I encourage PSWID to analyze this issue using unconventional methods if necessary and to avoid being distracted with foundational facts having limited application. In this regard, I urge PSWID to expedite any such analysis and implementation of water source discoveries.

Sincerely,


Robert T. Hardcastle
President

cc:

RTH correspondence file
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JS, Esq.
MRWRMS Committee
HJ, Gila Co.
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