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BEFORE THE ARIZONA CORPORATION COMMISSION 3:52

Arizona Corporation Commission

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ARIZONA CORPORATION COMMISSION
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IN THE MATTER OF THE JOINT APPLICATION
OF SUN CITY WATER COMPANY AND SUN
CITY WEST UTILITIES COMPANY
(APPLICATION NOW ASSUMED BY ARIZONA-
AMERICAN WATER COMPANY) FOR
APPROVAL OF CENTRAL ARIZONA PROJECT
WATER UTILIZATION PLAN AND FOR AN
ACCOUNTING ORDER AUTHORIZING A
GROUNDWATER SAVINGS FEE AND
RECOVERY OF DEFERRED CENTRAL ARIZONA
PROJECT EXPENSES.

Docket Nos.: W-01656A-98-0577
SW-02334A-98-0577

ARIZONA-AMERICAN WATER
COMPANY'S CLOSING BRIEF

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Following the January 9-10, 2002 hearing, Arizona-American Water Company
("Az-Am") submits the following closing brief.¹

I. BRIEF STATEMENT OF THE CASE.

This case focuses on the Sun Cities/Youngtown Groundwater Savings Project
("GSP"). The GSP is a public project designed to use CAP water in the Sun Cities and prevent
further environmental damage from excessive groundwater mining. The Sun Cities community
and ACC Staff fully support the GSP. Intervenor SCTA, however, has refused to support any
efforts to use CAP water in the Sun Cities. In prior proceedings in this docket, SCTA raised a

¹ In Decision No. 63584, the ACC approved the transfer of Citizens' water assets
and certificates to Arizona-American Water Company, including Sun City Water Company and
Sun City West Utilities Company. The sale closed on January 15, 2002. Thus, this application
now resides in the name of Arizona-American Water Company through Sun City Water
Company and Sun City West Utilities Company. Pursuant to Decision No. 63584, Arizona-
American Water Company will assume and be liable for all contracts, permits and unperformed
obligations of Sun City Water Company and Sun City West Utilities Company.

1 variety of unsupported and inconsistent arguments in an effort to overturn the GSP. Both
2 Hearing Division and the ACC rejected SCTA's attempts to block the GSP.

3 In Decision No. 62293, the ACC recognized the need for the GSP and approved
4 the project concept. See Decision No. 62293, pp. 12-16. Because the GSP was in the conceptual
5 stage, the ACC placed two conditions on final approval. First, the ACC required Az-Am to
6 perform an engineering analysis to evaluate (i) the feasibility of a joint facility with the Agua
7 Fria Division including the timeframe for any such joint facility; and (ii) the need for all major
8 elements of the proposed GSP. Second, the ACC ordered Az-Am to provide evidence of binding
9 commitments from the golf courses participating in the GSP. Id.

10 Based on the underlying record and January 9-10 hearing, Az-Am has satisfied
11 Decision No. 62293. Az-Am compiled its Preliminary Engineering Report (PER) for the GSP.
12 The PER complies with Decision No. 62293 by evaluating the feasibility of a joint facility with
13 the Agua Fria Division and the need for all major elements of the proposed project. Az-Am also
14 demonstrated binding commitments from golf courses to participate in the GSP.

15 On those issues, SCTA and RUCO provided no substantial evidence to the
16 contrary. Instead, SCTA (and RUCO) rehashed the same rate shock, recharge and Sun City
17 West arguments raised in the prior hearings. The ACC rejected those arguments in Decision No.
18 62293 and SCTA wants the ACC to reconsider the GSP concept. The proposed GSP, however,
19 is the best and cheapest option to use CAP water directly in Sun City and Sun City West.

20 **II. THE ADMINISTRATIVE LAW JUDGE SHOULD APPROVE THE GSP.**

21 **A. Limited Scope of the January 9-10, 2002 Hearing.**

22 On March 14, 2001, Hearing Division issued a proposed order recommending
approval of the GSP and authorization for Az-Am to proceed with project construction. See

1 Proposed Order dated 3/14/01, p. 9. In Hearing Division's view, the PER satisfied Az-Am's
2 obligations under Decision No. 62293. At a special open meeting on May 11, 2001, however,
3 the ACC directed Hearing Division to conduct another evidentiary hearing (at SCTA's urging) to
4 evaluate whether the PER and Supplemental PER complied with Decision No. 62293. See
5 Procedural Order dated 5/17/01.

6 As such, the Administrative Law Judge must decide the following three issues:

- 7 (1) Does the PER satisfy Decision No. 62293 by addressing the feasibility of a joint
8 project with the Agua Fria Division (including timeframes for any such joint facility)?
- 9 (2) Does the PER address the need for all major elements of the GSP?
- 10 (3) Did Az-Am provide evidence of binding commitments from the participating Sun
11 City and Sun City West Golf Courses (including terms and conditions)?

12 Based on the underlying record and the evidence, the answer is YES to all three questions.²

13 ***B. The Public Need for the Groundwater Savings Project.***

14 With respect to the public need for the GSP, the underlying record is undisputed
15 on two points. One, the Sun Cities pump approximately 34,000 acre-feet of groundwater per
16 year with only about 2,000 acre-feet of recharge in Sun City West. See 1/9/02 Hearing
17 Transcript, Husted Testimony, pp. 60-63. Two, the "consequences of excessive groundwater
18 withdrawal include decreased water levels, diminished water quality, well failures, increased
19 pumping costs, and more land subsidence." See Decision No. 62293, p. 18.

20 The GSP is a water use plan developed by the 19 member Sun Cities Community
21 CAP Task Force. Put simply, the Task Force developed a community consensus for the best
22

² Unfortunately, however, much of SCTA's and RUCO's arguments and testimony go way beyond those issues. As such, Az-Am incorporates by reference its arguments and legal authority set forth in its July 23, 2001 Motion to Strike. Az-Am also incorporates by reference its December 18, 2000 Response to Comments filed by SCTA, RUCO and Staff regarding the PER.

1 plan to use CAP water in the Sun Cities and provide direct and immediate benefits to Sun City
2 and Sun City West. See CAP Task Force Final Report (exhibit A).³ In Decision No. 62293, the
3 ACC found that the GSP “ will provide direct benefits to the Sun City areas.” See Decision No.
4 62293, p. 19. Thus, the Task Force recommended and the ACC approved the GSP concept. Id.

5 The approved GSP concept involves using all of Sun City’s CAP allotment (4,189
6 acre-feet) in Sun City and all of Sun City West’s CAP allotment (2,382 acre-feet) in Sun City
7 West. Id.; CAP Task Force Final Report, pp. 22-25; Decision No. 62293, pp. 12-16. The GSP
8 serves the public interest by alleviating further environmental damages resulting from
9 overdrafting of the Sun City and Sun City West aquifer. Id. In Decision No. 60172, the ACC
10 expressly determined that the Companies’ decision to obtain allocations of CAP water was a
11 prudent planning decision. See Decision No. 60172, pp. 9-10. Az-Am then turned its efforts to
12 developing a plan to use CAP water in the Sun Cities. That led to the formation of the CAP Task
13 Force. See Decision No. 62293, pp. 2-5; CAP Task Force Final Report, pp. 2-6. The Task Force
14 recommended the GSP after considering evidence and expert testimony relating to groundwater
15 decline and the need for alternative water sources in the Sun Cities. Id.

15 C. Decision No. 62293.

16 In Decision No. 62293, the ACC adopted the findings of the CAP Task Force and
17 the recommendations to implement an interim CAP water usage plan (via recharge at the MWD
18 Groundwater Savings Facility). The ACC then adopted the GSP concept as the permanent plan

19 _____
20 ³ The CAP Task Force Final Report was previously entered into the record in prior
21 proceedings in this docket. Attached as Exhibit A to this brief is a copy of the relevant pages
22 from the Task Force Report mentioned at the January 9-10, 2002 hearing. It should be noted that
17 members of the Task Force signed the final report “to use the CAP water ultimately in a
groundwater savings project with local golf courses.” See CAP Task Force Final Report,
Resolution page (exhibit A). Only Sun City Taxpayers Association (SCTA) representatives Mr.
Dare and Ms. Charlesworth refused to sign the final report. Id.

1 to provide direct benefits to the Sun Cities. The GSP--unlike the various alternatives suggested
2 by SCTA--will result in direct benefits to Sun City/Sun City West because each city's CAP
3 allocation will be used in each city and each city's pumps will be turned off accordingly.

4 The ACC adopted the following findings from the Task Force Final Report:

- 5 • "It was in the public interest to retain the CAP water allocation of 6,561 acre
6 feet." See Decision No. 62293, p. 5.
- 7 • "The interim solution which recommended that the Sun Cities recharge its CAP
8 allotment at the existing Maricopa Water District ("MWD") recharge facility
9 meets criteria of 'use and useful.'" Id.
- "The long-term solution is to deliver CAP water to the Sun Cities through a non-
potable pipeline where the water would be used to irrigate golf courses that have
historically used groundwater." Id.

10 The ACC also determined that use of CAP water in the Sun Cities was necessary to prevent
11 "groundwater depletion of the aquifer, land subsidence and other environmental damage." Id.
12 at p. 18. For those reasons, the Commission approved the GSP concept:

13 "While there are clearly less costly options...we will approve the concept of the
14 groundwater savings project and approve the reasonable and prudent costs
associated with the completion of the preliminary design/updated cost estimates."
Id. at p. 16.

15 The ACC approved the GSP concept over five other proposed options--including (i) recharge at
16 the Agua Fria Recharge project, (ii) a "Citizens' Recharge Project", and (iii) a water
17 exchange/recharge project with MWD. Id. at p. 11.

18 The various GSP options proposed by SCTA and Mr. Husted revolve around
19 those specific concepts and, therefore, conflict with Decision No. 62293. For example, SCTA
20 and Mr. Husted voice criticisms of the PER for failing to consider recharge options (via the
21 Agua Fria site, Az-Am's own site or the MWD site). Mr. Husted also proposes that the GSP
22 revolve around using all of the CAP allocation (6,581 acre feet) in Sun City West and none in

1 Sun City directly. See Husted Test., 1/9/02 Tr., pp. 46-50. But the ACC (and the CAP Task
2 Force) rejected recharge as the preferred GSP alternative. See Decision No. 62293, pp. 11-16.

3 Further, Mr. Husted previously testified that recharge was not the preferred
4 alternative because “[t]he CAWCD and MWD recharge projects may provide very long range
5 and indirect benefits to Sun City ratepayers...” Id. at p. 83; Husted Pre-Filed Test., 9/10/1999,
6 p. 9. He even agreed that the ACC rejected the recharge concept in Decision No. 62293. See
7 Husted Test., 1/9/02 Tr., pp. 71-74. Mr. Husted’s proposal to use all of the CAP allocation in
8 Sun City West also clashes with Decision No. 62293 (and the CAP Task Force) because that
9 option doesn’t involve direct use of CAP water in Sun City. Mr. Husted admitted that his
10 proposed alternatives all involve unabated groundwater pumping in Sun City. Id. at p. 85.⁴

11 SCTA’s arguments and Mr. Husted’s testimony contravene the purpose and
12 spirit of the GSP concept. By his own admission, Mr. Husted focuses on using the CAP
13 allocation at the lowest possible cost to Sun City residents, rather than the best way to use CAP
14 water in the Sun Cities. The ACC, however, recognized that there were “less costly options” to
15 use CAP water and approved the GSP concept as the best project to address environmental
16 problems from excessive pumping in the Sun Cities. See Decision No. 62293, pp. 15-16.

16 ***D. The Preliminary Engineering Report.***

17 “The purpose of the PER is to comply with ACC Decision No. 62293 and also to
18 form the basis of work for the engineering team that will ultimately design and construct the
19 project.”” See Jackson Test., 1/9/02 Tr., p. 217; July 2000 PER (Exhibit A-1), p. A-1; Jackson
20 Pre-Filed Test., 7/31/01, pp. 3-6. Az-Am hired HDR Engineering to perform the preliminary

21 ⁴ In certain circumstances, Mr. Husted would advocate the limited use of CAP
22 water for the two northernmost golf courses in Sun City. See Husted Test., 1/9/02 Tr., p. 85.

1 design and cost estimating work for the GSP and PER. See Jackson Test, 1/9/02 Tr., P. 218. at p.
2 218. Dave Buras was HDR's project manager. HDR and AZ-Am formed an extensive project
3 team to evaluate the best and most viable options for the GSP. See Buras Test., 1/10/02 Tr., pp.
4 308-312.

5 The testimony from Mr. Jackson as Citizen's chief project engineer, Mr.
6 Buras as HDR's project engineer, Mr. Larson as Citizens' Water Resources Manager and
7 Mr. Scott as Staff's engineer all establish that the PER adequately addresses the cost and
8 engineering issues under Decision No. 62293. See 1/9/02 Hearing Tr., pp. 213-230;
9 1/10/02 Hearing Tr., pp. 305-312, 317-350, 355-369, 440-442; Jackson Pre-Filed Test.
10 (Ex. A-2), 7/31/01, pp. 3-19; Buras Pre-Filed Test. (Ex. A-4), 7/31/01, pp. 2-6; Larson
11 Pre-Filed Test. (Ex. A-5), 7/31/01, pp. 3-11; Scott Pre-Filed Testimony (Ex. S-1),
12 7/31/01, pp. 1-4.

13 Az-Am and HDR performed a comprehensive evaluation of possible GSP
14 alternatives. Specifically, they analyzed the following options for the GSP:

15 (1) **Alternative A (Lake Pleasant Road):** Alternative A is the recommended GSP
16 option. Alternative A involves delivery of CAP Water at the CAP canal north of the Sun
17 Cities where the canal crosses Lake Pleasant Road. From there, a pipeline would convey
18 CAP water down Lake Pleasant Road/99th Avenue. The CAP water then would be
19 delivered to Sun City West through the existing Sun City West distribution system (goes
20 east to west) and to Sun City through a newly constructed pipeline. *Alternative A has the*
21 *lowest 50 year life cycle cost of the GSP options at \$16,460,928 (including \$15,036,691*
22 *in construction costs and \$1,424,238 in operation and maintenance (O&M) costs).* See
Jackson Test., 1/9/02 Tr., pp. 220-225; PER, pp. D-1 to D-61; E-1 to E-5.

(2) **Alternative B (115th Avenue):** Alternative B would take CAP water from the
CAP canal through the Beardsley Canal, and then cross the Agua Fria River to Az-Am's
water campus. CAP water then would be delivered west to Sun City West through the
existing Sun City West distribution system and east to Sun City through a newly
constructed pipeline. The life cycle cost for Alternative B is \$17, 278,912. Id.

(3) **Alternative C (El Mirage Road):** Alternative C essentially mirrors Alternative

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B except that the pipeline would be constructed farther west along El Mirage Road. The 50 year life cycle cost for Alternative C is \$17,949,879. Id.

(4) **Alternative D (Deer Valley Road):** Alternative D involves delivery of CAP water through the Beardsley Canal to Grand Avenue. From there, CAP water would be transported east to connect with the existing Sun City West distribution system and the newly constructed Sun City pipeline. Alternative D also would require a pumping station to deliver the water. The 50 year life cycle cost for Alternative D is \$20,571,684. Id.

(5) **Alternative E (through Sun City West distribution system):** Az-Am and HDR considered various options using Alternative E (the Sun City West Distribution System). *Alternative E was rejected for two reasons--(1) the existing SCW Distribution System isn't hydraulically capable of transporting the full CAP allotment from west to east and (2) the Recreation Centers of Sun City West (as Owner of the system) refused to allow use of the SCW System for transport of CAP water west to east.* See Jackson Test., 1/9/02 Tr., pp. 220-225; Buras Test., 1/10/02 Tr., pp. 329-334; PER, pp. D-45 to D-46, Appendix C.

The PER is a thorough and in-depth evaluation of GSP alternatives.

E. Feasibility of a Joint Project with the Agua Fria Division.

As mandated by Decision No. 62293, Part C to the PER includes a detailed and comprehensive evaluation of potential joint projects with the Agua Fria Division and the City of Surprise. See PER, Part C, pp. C-1 to C-6. Az-Am and HDR evaluated three joint projects with the Agua Fria Division and the City of Surprise. See Jackson Test., 1/9/02 Tr., pp. 220-225; PER, pp. C-1 to C-6. HDR and Az-Am rejected those alternatives due to timing issues and cost. Id.; Jackson Pre-Filed Test., pp. 13-16; Jackston Test., 1/9/02 Tr., pp. 226-227. All three joint projects would cost \$2,000,000 more than the preferred Alternative A. See PER, p. E-4.

The evidence is clear that Az-Am fully evaluated a potential joint project with the Agua Fria Division. Id.; Buras Test., 1/10/02 Tr., pp. 350-352. Mr. Husted offered little testimony contesting the PER's evaluation of possible joint projects with the Agua Fria Division. See Husted Pre-Filed Testimony, 7/10/01, p. 28. Rather, Mr. Husted conceded that he didn't perform any independent engineering or design evaluation of the PER. See Husted Test., 1/9/02 Tr., pp. 50-55. Instead, his testimony focuses on reconsideration of the GSP concept,

1 recharge options and use of the existing SCW distribution system. Mr. Husted didn't offer any
2 valid, let alone persuasive, testimony regarding potential projects with the Agua Fria Division.⁵

3 ***F. The Need for All Major Elements of the GSP.***

4 Next, section D of the PER is devoted to evaluating and demonstrating the need
5 for major elements of the GSP. See PER, Part D, pp. D-1 to D-62. The preferred Alternative A
6 includes a CAP trunk line (\$7,389,787), a Sun City distribution system (\$7,326,884) and a
7 SCADA system (\$1,744,257) as its major elements. See PER, p. E-4. The PER contains a
8 detailed analysis of the need for each element of Alternative A and the other alternatives. Id. at
9 pp. D-51 to D-61, E-1 to E-6; Jackson Test., 1/9/02 Tr., pp. 213-231; Buras Test., 1/10/02 Tr.,
10 pp. 305-311, 350-355.

11 SCTA takes issue with various elements of the proposed GSP. SCTA argues that
12 the distribution system and trunk line are unnecessary because the GSP could be constructed
13 using the Beardsley Canal and the Sun City West Distribution System to deliver CAP water to
14 Sun City or Sun City West exclusively. SCTA also argues that the SCADA system is
15 unnecessary because the various golf course operators could manually operate the CAP delivery
16 system without a computerized delivery system. The underlying evidence doesn't even remotely
17 support these arguments.

18 ***1. Use of the Sun City West Distribution System.***

19 SCTA's theories hinge on use of the Sun City West distribution for delivery of

20 ⁵ At hearing, SCTA's counsel offered a line of cross examination questions relating to
21 other possible project concepts involving the Agua Fria Division. But SCTA offered no
22 engineering testimony supporting such concepts. Instead, Mr. Buras' testimony rejected those
concepts and established that the Design Team evaluated the concepts for a joint project with the
Agua Fria Division that were most technically feasible and cost effective. See Buras Test.,
1/10/02 Tr., p. 350.

1 CAP water as part of the GSP. SCTA argues that Az-Am could use the existing distribution
2 system rather than construct a new distribution pipeline. Mr. Husted also speculated that the
3 system could be modified to transport CAP water from west to east as a looped system.

4 But these arguments are unsupported on three fronts. First, Mr. Husted didn't
5 perform any modeling, engineering or design work related to the SCW Distribution System. See
6 Husted Test., 1/9/02 Tr., pp. 50-55. Second, the owner of the SCW Distribution System--the
7 Recreation Centers of Sun City West--refused to allow Az-Am to use the system for transport of
8 CAP water from west to east. See May 5, 2000 letter from Recreation Centers of Sun City West
9 to Ray Jones (Appendix C to PER); Jackson Test., 1/9/02 Tr., pp. 224-227. The Recreation
10 Centers' objection undercuts all of SCTA's arguments. Mr. Husted wasn't even aware that the
11 Recreation Centers had objected to use of the system. See Husted Test., 1/9/02 Tr., pp. 76-80.

12 Third, the SCW Distribution System is hydraulically incapable of transporting
13 CAP water from west to east as part of the GSP. Jackson Test., 1/9/02 Tr., pp. 220-227, 293-
14 298; Buras Test., 1/10/02 Tr., pp. 329-334. Mr. Buras and Mr. Jackson modeled potential
15 improvements to the system and those calculations revealed that the SCW system could not be
16 used as part of the GSP (without constructing a new line). Id. By contrast, Mr. Husted
17 performed no hydraulic modeling for the GSP or the SCW System. See Husted Test., 1/9/02
18 Tr., pp. 50-55.

18 2. Use of the Beardsley Canal.

19 Next, Mr. Husted offered testimony related to use of the Beardsley Canal as part
20 of the GSP. He claimed that the wheeling costs associated with use of the Beardsley Canal
21 would be less than reported in the PER. In reality, however, Mr. Husted simply assumed that
22 MWD would be willing to negotiate prices for wheeling CAP water through the Beardsley

1 Canal. Id. at p. 86. He never contacted MWD and he didn't evaluate inflation cost increases or
2 delivery guarantees. Id. at 86-87.

3 On the other hand, four of the five alternatives evaluated in the PER involved use
4 of the Beardsley Canal. See Jackson Test., 1/9/02 Tr., pp. 220-225; Buras Test., 1/10/02 Tr., pp.
5 305-310, 350-354; Jackson Pre-Filed Test., 7/31/01, p. 6. The Design Team rejected the
6 Beardsley Canal option due to operational problems and increased costs. Id. Az-Am and HDR
7 contacted MWD about wheeling rates and relied on MWD's prices in the PER. Id. The PER
8 contains a detailed evaluation of the Beardsley Canal and SCTA offers no valid evidence to the
9 contrary.

10 **3. The SCADA System is necessary element of the GSP.**

11 Last, Mr. Husted objects to the proposed SCADA system for the GSP. But Mr.
12 Husted's objections aren't well-taken for two reasons. First, Mr. Husted didn't perform an
13 engineering analysis of the GSP's proposed SCADA system. See Husted Pre-Filed Test.,
14 7/10/01, pp. 25-26. Second, Mr. Husted didn't evaluate the problems associated with
15 implementing the Central Arizona Project's CAP water delivery policies. Id. Instead, Mr.
16 Husted simply assumes it can be done manually without any engineering analysis.

17 Unlike Mr. Husted, HDR/Az-Am performed extensive engineering work related
18 to the SCADA system. See Jackson Pre-Filed Test., 7/31/01, pp. 3-19; PER, pp. D-60 to D-61.
19 Based on that analysis, the SCADA system is necessary for several reasons. To start, the nature
20 of the CAP allocation requires that "water deliveries must be orchestrated from a central point to
21 maintain proper pressure and flow rate in the system." Id. at p. 16. Further, the Central Arizona
22 Project mandates that a CAP subcontractor can't make more than two adjustments of flow rate
per day. Id. A manual system likely would result in violations of that condition and breach Az-

1 Am's CAP contract. Finally, the GSP involves a piping network extending 4.5 miles east to west
2 and 7 miles north to south with 15 bodies of water. Under those circumstances, the SCADA
3 system is a necessity and the GSP couldn't be operated without it. Id.; Jackson Test., 1/9/02 Tr.,
4 pp. 220-227. Operating the GSP without a SCADA system would be impractical and
5 unreasonable.

6 **G. The Administrative Law Judge Should Ignore SCTA's Red Herrings and Non-Issues.**

7 Based on the underlying record, SCTA and RUCO fail to present any valid
8 engineering criticisms of the proposed GSP or PER. Instead, SCTA concocts a host of red
9 herrings and non-issues. SCTA's arguments are a desperate effort to force reconsideration of the
10 approved GSP concept. The Judge should ignore such testimony for several reasons.

11 First, Mr. Husted has no basis for challenging the PER because he hasn't
12 performed any hydraulic models or engineering calculations related to the GSP. See Husted
13 Test., 1/9/02 Tr., pp. 50-51. Perhaps even more telling is that Mr. Husted didn't perform any
14 cost estimates related to the proposed GSP or any GSP alternatives. Id. at p. 53.

15 Second, Mr. Husted contradicts himself on several fronts. For example, Mr.
16 Husted agreed that it's a worthy goal to promote the use of renewable water sources and he
17 acknowledged the substantial overdrafting of the Sun Cities' aquifer. Id. at p. 52. Mr. Husted
18 even deferred to the CAP Task Force report regarding groundwater decline, subsidence, water
19 quality problems and increased pumping costs in the Sun Cities. Id. Yet all of Mr. Husted's
20 proposed GSP options exclude use of any renewable water sources in Sun City. Id.

21 Third, during cross examination, Mr. Husted agreed that all of the GSP options
22 raised in his testimony relating to recharge and the Sun City West Distribution system had been
presented to the ACC in prior proceedings and rejected by Decision No. 62293. Id. at pp. 70-75.

1 Finally, Az-Am's and Staff's witnesses rebutted all of the issues raised by SCTA. A perfect
2 example is Mr. Husted's testimony that the PER contains errors related to booster station costs
3 and right-of-way costs. See Husted Pre-Filed Test. 7/10/01, p. 21. In his written and oral
4 testimony, Mr. Buras rebutted those criticisms and verified the cost numbers in the PER as
5 accurate. See Buras Pre-Filed Test., 7/31/01, pp. 2-5; Buras Test., 1/10/02 Tr., pp. 311-312.

6 Mr. Husted "misconstrues Decision No. 62293 and the scope of the PER." See
7 Jackson Pre-Filed Test., 7/31/01, p. 4. He ignores that the PER examined the "five (5)
8 alternatives [which] were the candidates most likely to minimize cost and achieve all of the
9 goals of the groundwater savings project." Id. p.6. The preferred alternative is the lowest cost
10 option allowing all of the CAP allocation to be used in Sun City and Sun City West.

11 Likewise, Mr. Larson's testimony rebuts all of those water rights issues raised by
12 Mr. Husted. For example, Mr. Larson rebutted Mr. Husted's testimony that expiration of the
13 Sun City West golf courses' general industrial use permits would jeopardize the GSP. See
14 Larson Test., 1/10/02, pp. 363-364; Larson Pre-Filed Test., 7/31/01, pp. 2-5. And Mr. Larson
15 corrected Mr. Husted's conclusions regarding benefits to the Sun Cities' aquifer:

16 The GSP very simply will result in 6,500 acre feet of water pumpage being shut off. The
17 pumps will be shut off, that pumpage will no longer occur because CAP water will be
18 delivered to the golf courses. It's a very simple matter.

19 Id. at p. 364. Along those same lines, Mr. Larson set the record straight regarding Mr. Husted's
20 ideas about using the Sun City West Water Reclamation facility as part of the GSP. On that
21 issue, Mr. Larson established that the Sun Cities receive greater regulatory benefits through
22 recovery of recharged effluent credits--rather than recharging CAP water. Id. at p. 365.

Mr. Larson also rebutted Mr. Husted's recharge testimony by explaining that the
MWD Recharge Facility is not a viable long term option for use of CAP water because the farm
land used for the water exchange likely will be developed in the near future. Id. at 366-368.

1 Finally, Mr. Larson testified that the Agua Fria Recharge Site likely will be used to full capacity
2 without any CAP water from the Sun Cities. Id.

3 ***H. Binding Commitments from the Participating Golf Courses.***

4 As exhibits A-6 through A-8 at the January hearing, Az-Am introduced the Water
5 Exchange Agreements between Az-Am and the Recreation Centers of Sun City, the Recreation
6 Centers of Sun City West and Briarwood Country Club. Id. at pp. 360-361. Exhibits A-9
7 through A-11 were the operating agreements with the golf courses. Id. at pp. 362-364. Az-Am
8 provided evidence of binding commitments to the GSP from the Recreation Centers of Sun City,
9 the Recreation Centers of Sun City West and Briarwood Country Club as required by Decision
10 No. 62293. SCTA's presented no contrary evidence.

11 Likewise, SCTA presented no evidence that the GSP could not go forward
12 without participation of Hillcrest Country Club. On that issue, Az-Am's Supplemental PER
13 establishes that the GSP is viable without the participation of Hillcrest. See Jackson Test., 1/9/02
14 Tr., pp. 230-233; Buras Test., 1/10/02 Tr., pp. 309-311; Jackson Pre-Filed Test., 7/31/01, pp. 16-
15 18, Buras Pre-Filed Test., 7/31/01, pp. 5-6.

16 At hearing, SCTA produced an unverified ADWR water rights certificate
17 purporting to show that Sunland Memorial Park owned certain water rights and not the
18 Recreation Centers of Sun City West. On redirect, Mr. Larson clarified that the Recreation
19 Centers had a written agreement to use those water rights. See Larson Test., 1/10/02 Tr., pp.
20 437-438. With this brief, Az-Am has attached a copy of the agreement with the Recreation
21 Centers for use of those water rights (exhibit B). The record is undisputed that the Recreation
22 Centers and participating golf courses possess adequate water rights to support the GSP. Id.

1 **I. Commission Staff Fully Supports the GSP and the PER.**

2 Staff Engineer Marlin Scott fully supported the PER and verified the cost
3 estimates contained in the report. See Scott Pre-Filed Test., 7/31/01, pp. 1-3. He concluded that
4 the PER adequately addressed the feasibility of a joint project with the Agua Fria Division and
5 the need for all major elements of the proposed GSP. Id. Finally, Mr. Scott accepted the
6 Supplemental PER and recommended approval of the GSP. Id. He disagreed with Mr. Husted
7 and emphasized that much of his testimony goes beyond the scope Decision No. 62293. Id.

8 **J. SCTA'S and RUCO's Rate Shock Arguments Have No Bearing**
9 **on Approval of the GSP.**

10 As an intervenor, RUCO filed testimony from Marylee Diaz Cortez addressing
11 only two issues. First, Ms. Cortez claimed that the GSP should be rejected because of potential
12 rate shock to Sun City ratepayers. See Cortez Supplemental Test., 7/10/01, pp. 2-3; Cortez Test.,
13 1/9/02 Tr., pp. 144-147. Second, Ms. Cortez opined that the “water exchange agreement with
14 the Maricopa Water District” should continue to be utilized because the cost of the GSP is
15 “simply too high.” Id. On cross examination, Ms. Cortez acknowledged that RUCO didn't raise
16 any engineering objections to the GSP or PER. See Cortez Test., 1/9/02 Tr., pp. 144-148. In her
17 testimony, Ms. Cortez doesn't even attempt to address the feasibility of a joint facility with
18 Citizens' Agua Fria division, the need for all major elements of the GSP or binding commitments
19 from the golf courses. Instead, RUCO attempts to reargue whether the CAP allocation should be
20 retained or relinquished because of rate shock. Id. at 156-157. SCTA offered similar testimony
21 by Mr. Dare

22 Those issues already have been rejected in Decision No. 62293 and the Hearing
Officer should disregard Ms. Cortez's and Mr. Dare's testimony. Ms. Cortez even conceded that
she gave similar testimony on rate shock to the ACC leading up to Decision No. 62293 based on

1 the same project cost figures. Id. at pp. 179-181. What's more, the record indicates that the GSP
2 will not result in rate shock. As noted by Staff witness John Thornton, the GSP "translates to an
3 increase of \$4.95 per connection" in Sun City and "\$2.65 per connection" in Sun City West. See
4 Thornton Pre-Filed Test., 7/31/01, p. 3. As a result, Mr. Thornton testified that "it is Staff's
5 opinion that the required increase to implement the GSP in Sun City is not rate shock." Id. Mr.
6 Thornton holds the same opinion for Sun City West. Id. at p. 4.

7 **III. REQUEST FOR APPROVAL.**

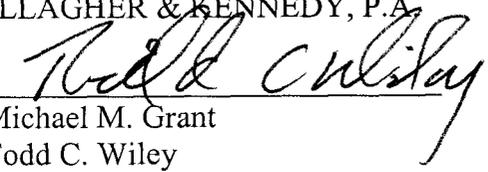
8 For the reasons noted above, Az-Am requests that the Administrative Law Judge
9 issue an opinion and order approving the Preliminary Engineering Report and the Groundwater
10 Savings Project, and authorizing Az-Am to proceed with project construction.

11 At the hearing, Commission Counsel raised the possibility of including a
12 condition in the order indicating that such approval would not be an indication that going
13 forward with the project is a prudent decision. Az-Am opposes such condition for several
14 reasons. First, a Commission decision approving the GSP and authorizing Az-Am to proceed
15 with project construction is tantamount to a finding that the GSP is a prudent and reasonable
16 project. Az-Am agrees that the ultimate cost figures for the GSP would be subject to Staff
17 analysis and review at a future rate hearing. But Az-Am can't agree to allow Staff, RUCO,
18 SCTA or anyone else to contest the prudence of such project in the future. Second, in Decision
19 Nos. 60172 and 62293, the ACC already has determined that Az-Am's decision to retain the
20 CAP allocation was prudent. It stands to reason that Az-Am's decision to use the CAP
21 allocation is prudent and reasonable, as well. Third, the legal doctrines of res judicata and
22 collateral estoppel likely will bar any relitigation about the prudence of going forward with the
GSP. Finally, if such condition is included in the proposed opinion and order, Az-Am may have

1 no choice but to decline going forward with the project. As such, Az-Am requests that the
2 Administrative Law Judge issue an order similar to the March 14, 2001 proposed order.

3 DATED this 11th day of February, 2002.

4 GALLAGHER & KENNEDY, P.A.

5 By 

6 Michael M. Grant

7 Todd C. Wiley

8 2575 East Camelback Road

9 Phoenix, Arizona 85016-9225

10 Attorneys for Arizona-American Water Company

11 **Original** and ten copies filed this
12 11th day of January 2002, with:

13 Docket Control
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, Arizona 85007

17 **Copy** of the foregoing hand-delivered
18 this 11th day of January 2002 to:

19 Dwight Nodes, Administrative Law Judge
20 Hearing Division
21 Arizona Corporation Commission
22 1200 West Washington
Phoenix, Arizona 85007

Copies of the foregoing mailed/faxed this
11th day of January 2002 to:

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8 and Recreation Centers of Sun City West
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2712 North 7th Street
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Attorneys for Sun City Taxpayers Association
- 11

12 By: Beth Odeley

13 15015-0006/993970v1

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- 22

EXHIBIT A

FINAL REPORT

CAP TASK FORCE

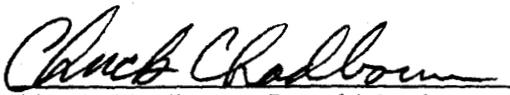
A Cooperative
Planning Process
for
Sun City
Sun City West &
Youngtown

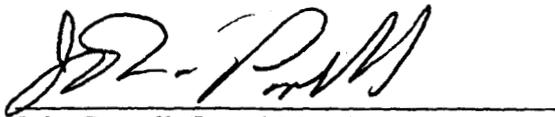
RESOLUTION OF THE CAP TASK FORCE

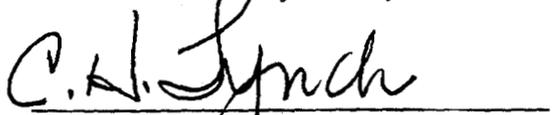
We, the CAP Task Force, respectfully submit the following report which describes a fourteen week education and decision making process that culminated into a recommendation to retain the Central Arizona Project (CAP) allocation intended for use in Sun City, Sun City West and Youngtown and to use the CAP water ultimately in a groundwater savings project with local golf courses.

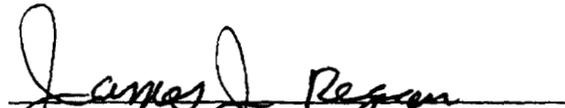
Except for the Town of Youngtown who appointed one individual, the presidents of each community organization appointed two individuals to represent their organizations on the CAP Task Force. Collectively, these organizations represent over 70,000 residents in Sun City, Sun City West and Youngtown.

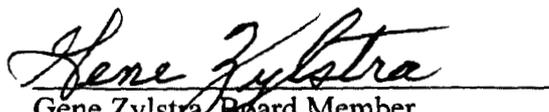
Community Organization Members:


Chuck Chadbourn, Board Member
Recreation Centers of Sun City


John Powell, Board Member
Recreation Centers of Sun City


C. Herb Lynch, President
Sun City Condominium Owners Association


James Regan, Board Member
Sun City Condominium Owners Association


Gene Zylstra, Board Member
Sun City Home Owners Association

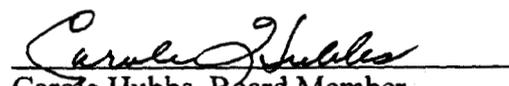

Don Coleman, Member
Sun City Home Owners Association

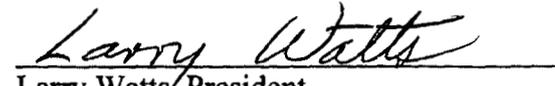
Ray Dare, Board Member
Sun City Taxpayers Association

Mary Elaine Charlesworth, President
Sun City Taxpayers Association


Robert L. Jones, Board Member
Property Owners and Residents Association

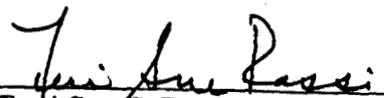

J.P. Wyckoff, Member
Property Owners and Residents Association

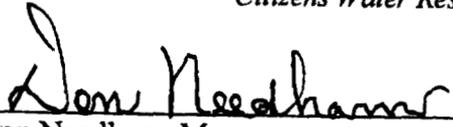

Carole Hubbs, Board Member
Recreation Centers of Sun City West


Larry Watts, President
Recreation Centers of Sun City West

Other Organization Members:


Ray L. Jones, General Manager
Citizens Water Resources


Terri Sue C. Rossi, Water Resource Advisor
Citizens Water Resources


Don Needham, Mayor
Town of Youngtown

At-Large Members:


Dess Chappellear
Retired U.S. Bureau of Reclamation


William G. Beyer
Attorney at Law


Elaine Grossman
League of Women's Voters


Bob Budorick
Northwest Valley Regional Community Council

TABLE OF CONTENTS

EXECUTIVE SUMMARY iii

I. Introduction 1

II. Formation of the CAP Task Force 2

III. Issues of Concern Raised by the Task Force..... 6

 A. Groundwater Decline and its Effects.....6

 B. Concerns Regarding the Use of CAP Water 11

 C. Cost to the Customer 13

 D. Reimbursement to Citizens for Holding the CAP Allocation 14

 E. Consequences of Relinquishing the CAP Allocation..... 17

 F. Reassignment of Sun City Water Company's CAP Allocation20

IV. The Task Force Decision Process..... 21

 A. Criteria Development 22

 B. CAP Water-use Options and Related Costs 23

 C. Computerized Evaluation 26

 1. Prioritization of Selection Criteria..... 26

 2. Evaluation of CAP Water-use Options..... 28

V. Recommendation 31

VI. Community Outreach Program..... 32

 A. Advertising, Bill Inserts and other Communication..... 33

 B. Press Releases and Media Relations..... 34

 C. Public Comment at Task Force Meetings..... 35

 D. Community Open Houses..... 35

VII. Conclusion 36

APPENDICES

Membership Roster for CAP Task Force	Appendix A
Meeting Agendas, Notes and Attendance Records	Appendix B
Listing of Speakers who Addressed the CAP Task Force	Appendix C
West Salt River Valley Water Resources Study	Appendix D
Selected References of Geologic Studies, Reports and Articles	Appendix E
Land Subsidence and Earth Fissures in the West Salt River Valley, Maricopa County, Arizona	Appendix F
Pros and Cons of Relinquishment	Appendix G
Sun City Water Users Association Water Level Report	Appendix H
Resolutions Adopted by Northwest Valley Water Resources Advisory Board	Appendix I
Cost Analysis for CAP Water-Use Options (Brown & Caldwell Report)	Appendix J
Conversion of Estimated Costs to Monthly Costs per Household	Appendix K
Technical Report: CAP Task Force Analysis of Alternative CAP Water-Use Options	Appendix L
Technical Team Definitions of Evaluation Criteria	Appendix M
Questionnaire and Results of Community Open Houses	Appendix N

EXECUTIVE SUMMARY

Bringing Colorado River water into central Arizona has been a dream of several generations of leaders in Arizona's history. In 1922, this dream started to become a reality with the passage of the first in a series of Congressional acts that would ultimately lead to 2.8 million acre-feet of Colorado River water for Arizona. In 1973, the federal government began construction of the Central Arizona Project (CAP), the largest water reclamation project in the State of Arizona. The CAP is a conveyance system made up of canals, siphons and pumping plants that transports surface water from the Colorado River to central Arizona over 336 miles of desert and mountains. The CAP also provides flood control, regulatory storage and recreational facilities. Some 20 years after the federal government began construction, the CAP was declared substantially complete. In 1985, for the first time in history, Colorado River water was delivered to drinking water customers in the Phoenix area as well as to farmers and industrial users. In 1996, the CAP delivered over one million acre-feet of CAP water to central Arizona.

In 1998, several forward-thinking organizations in Sun City, Sun City West and Youngtown joined together in an unprecedented cooperative effort to make a critical decision for the future of their communities. In February of 1998, eight community organizations selected 19 members to serve on a community-based task force, now called the CAP Task Force. The Task Force's job was to determine if the 6,561 acre-foot allocation of Central Arizona Project (CAP) water intended for use in Sun City, Sun City West and Youngtown should be retained, and if so, how the water should be used and paid for. An acre-foot is enough water to serve more than three water-efficient homes, like those in the Sun Cities, for one year.

Over the course of 14 weeks, the CAP Task Force heard from water experts and residents about issues related to groundwater declines, the availability of alternative water resources and the impact of relinquishing the CAP allocation. In addition to soliciting public input at regular Task Force meetings, the Task Force hosted two community open houses and heard from 180 residents before making its decision.

In the Northwest Valley, the groundwater demands of the Sun Cities, Glendale, Peoria and El Mirage currently reach nearly 60,000 acre-feet per year, of which the Sun Cities use over half of that non-renewable groundwater. Natural and artificial recharge in this area is approximately 7,500 acre-feet, leaving a groundwater overdraft of over 50,000 acre-feet. Groundwater levels have dropped approximately 300 feet since the early 1900s. The Arizona Department of Water Resources projects that groundwater levels will drop another 300 feet by 2025 if groundwater pumping is not reduced. Both the cities of Glendale and Peoria have taken the necessary steps to use renewable water supplies like CAP water.

In May of 1998, the CAP Task Force made a recommendation to retain the CAP allocation, joining surrounding communities in better managing the groundwater supply. To retain the CAP allocation, each residential household will be responsible for paying approximately \$.65 per month. Additionally, the Task Force decided to put the CAP allocation to use. To transport the CAP water from the Colorado River to a location along the CAP canal where it can be diverted to the Sun Cities, each residential household will be responsible for paying approximately \$.83 per month. In combination, the holding and delivery charges total approximately \$1.48 per month per residential household.

Since 1985, Citizens Water Resources has paid nearly \$2.7 million in holding charges. Approximately \$2.4 million of those charges have been deferred for future recovery from customers, once the CAP water is being used. Sun City Water Company and Sun City West Utilities Company are responsible for paying approximately \$882,000 of these deferrals, which equates to approximately \$20 per residential household. If collected over a period of three years, this \$20 equates to approximately \$.63 per month per household. Once the \$882,000 has been recovered, this \$.63 per month per household will discontinue.

I. Introduction

After the turn of the century, Arizona and seven other states, located in the Colorado River Basin, negotiated for surface water rights to the Colorado River. In 1922, these states, along with the United States Congress, created the Colorado River Compact. The Compact divided the states into an upper and a lower basin. Arizona fell primarily into the lower basin. Through the Compact, Congress allocated each basin 7.5 million acre-feet of Colorado River water and instructed the states to apportion the water among themselves.

In 1928, the Boulder Canyon Project Act was enacted apportioning water to the lower basin states. The Act apportioned 4.4 million acre-feet to California, 2.8 million acre-feet to Arizona, and 300,000 acre-feet to Nevada. An acre-foot is enough water to serve at least three water efficient homes like those in Sun City and Sun City West for an entire year.

In 1968, forty years later, Congress authorized the funding and construction of the Central Arizona Project (CAP). In 1973, the Bureau of Reclamation began constructing the CAP. The CAP is a water reclamation project designed to bring about 1.5 million acre-feet of Colorado River water per year to Maricopa, Pinal and Pima counties. The CAP carries water from Lake Havasu, located near Parker, to the southern boundary of the San Xavier Indian Reservation southwest of Tucson. It is a 336-mile long system of aqueducts, tunnels, pumping plants and pipelines and is the largest single renewable water supply in the state of Arizona. The CAP, which cost approximately \$5 billion to construct, was declared substantially complete in 1993.

CAP is managed and operated by the Central Arizona Water Conservation District (CAWCD). In 1971, CAWCD was created by Arizona State law to repay the reimbursable portion of the construction costs back to the federal government. The State statute was later amended to authorize the CAWCD to operate and manage the CAP.

CAWCD is a municipal corporation governed by a 15-member Board of Directors elected by the voters in Maricopa, Pinal, and Pima counties.

CAP has more than 80 customers falling into three user categories: municipal and industrial, agricultural, and Indian. The municipal and industrial customers include public and private water utilities responsible for treating and delivering drinking water to residential homes, commercial buildings, industries, parks and other retail water users.

In 1985, Citizens Water Resources signed two CAP subcontracts with the CAWCD and the United States: one for Sun City Water Company and one for Citizens' Agua Fria Division. A total of 61 subcontracts were entered into with municipal and industrial water providers. Since the mid-80s, per its contract with the CAWCD, Citizens began paying annual holding charges to retain the CAP allocation for its Northwest Valley customers. To date, Citizens has paid approximately \$2.7 million in holding charges.

In 1995, Citizens requested approval from the Arizona Corporation Commission to recover its CAP holding costs. In May of 1997, the Commission denied Citizens' request because the CAP water was not being used. The Commission's Order, and those parties intervening in the rate case, expressed the need for a public participation process to decide if and how CAP water should be used in the Sun Cities.

On December 30, 1997, the Northwest Valley Water Resources Advisory Board, formed by the Governor in April of 1996, initiated a comprehensive and thoughtful regional public planning process to study the matter of how best to use and pay for CAP water in Sun City, Sun City West, and Youngtown. The Board endorsed the formation of a task force of community leaders combined with a broad public outreach program.

II. Formation of the CAP Task Force

In response to the Commission's Order, and under the sponsorship of the Northwest Valley Water Resources Advisory Board, Citizens formed the CAP Task Force in

February 1998. Citizens retained Dr. Martha Rozelle, President of the Rozelle Group, to organize and facilitate an open and fair public planning process. Dr. Rozelle is a leading expert in public participation and currently serves as President of the International Association of Public Participation.

Dr. Rozelle interviewed over a dozen community leaders in Sun City, Sun City West and Youngtown to understand the full range of concerns and to receive guidance on the membership and structure of the Task Force. Interviews were conducted with representatives from the Sun City Homeowners Association, Sun City Taxpayers Association, Property Owners and Residents Association, Recreation Centers of Sun City West, the Town of Youngtown and others.

Because the Sun Cities are not incorporated, those interviewed suggested that the presidents of the major associations, to which most residents belong, appoint members to serve on the Task Force. All of these associations elect their leadership from among their members, and all Sun City and Sun City West residents must belong to the Recreation Center Associations. This approach seemed a fair way to incorporate the views of most of the community while keeping the group to a reasonable size. Toward that end, the presidents of the following organizations were asked to name two representatives to the Task Force.

- Recreation Centers of Sun City
- Sun City Condominium Owners Association
- Sun City Homeowners Association
- Sun City Taxpayers Association
- Property Owners and Residents Association
- Recreation Centers of Sun City West

Specifically, they were asked to make one of their authorized representatives a member of their current board, with a term not to expire before the end of 1998. The second authorized representative should be someone familiar with the water resource issues facing the communities.

- *Identifying issues and concerns in the community, suggesting options, defining criteria for evaluating those options and recommending the best plan*
- *Providing an important link to the Sun City, Sun City West and Youngtown communities by considering the views of the general public throughout the planning process and when making recommendations*
- *Promoting public education*

The Task Force also adopted ground rules for its conduct:

- Meetings are open to the public, and a time for public participation will be noted in the agenda
- Task Force recommendations will be made by consensus
- Respect the views of others
- Keep an open mind
- Share pertinent information with the Task Force

Over the course of fourteen weeks, the CAP Task Force met thirteen times for at least three hours each time starting on February 17, 1998 and ending on May 19, 1998.

Meeting agendas, summaries, and attendance records are included in Appendix B. The Task Force heard from eighteen outside water experts, including hydrogeologists, city and state officials, engineers and lawyers about issues related to groundwater levels, methods of using CAP water, the availability of alternative renewable resources and the impact of relinquishing the allocation. A listing of the speakers and the organizations they represent is located in Appendix C.

Throughout the process, Citizens committed to accept the recommendations made by the Task Force, including relinquishing the allocation. Citizens also agreed to effect those recommendations by preparing the appropriate filings for the Arizona Corporation Commission and other regulatory bodies.

III. Issues of Concern Raised by the Task Force

At the first meeting, Task Force members listed their concerns about the use of CAP water, the decision process and other issues. Additional concerns and questions were raised at subsequent meetings. Any request for outside expertise or detailed information was provided. The primary issues and concerns fell into the following categories:

- Groundwater decline and its effects
- Concerns regarding the use of CAP water
- Cost to the customer
- Reimbursement to Citizens for holding the CAP allocation
- Consequences of relinquishing the CAP allocation
- Reassignment of Sun City Water Company's CAP allocation

A. Groundwater Decline and its Effects

According to the Arizona Department of Water Resources (ADWR), the U.S. Geological Survey (USGS) and other professional hydrologists, the groundwater table in Sun City, Sun City West and Youngtown has dropped approximately 300 feet since the early 1900s. These same experts predict that groundwater levels will drop another 300 feet between now and the year 2025 if groundwater pumping is not reduced. These findings are presented in the West Salt River Valley Water Resources Study, a report prepared by ADWR (see Appendix D). In addition, a number of studies, reports and articles have been published supporting ADWR's findings (see Appendix E).

The Sun Cities rely entirely on groundwater pumped from underground aquifers. Groundwater consumption in the Sun Cities far exceeds natural, incidental and artificial replenishment. In the Northwest Valley, ADWR data indicates that the New River and the Skunk Creek contribute approximately 5,000 acre-feet of natural recharge to the groundwater table each year. Additionally, approximately 2,500 acre-feet of effluent produced in Sun City West is recharged into the aquifer using shallow basins located in

Since the Sun City Water Users Association's analysis was the only study showing groundwater levels increasing in the area, the Task Force decided to rely on the remaining, substantial body of research conducted by ADWR, USGS and other professional hydrologists (see Appendix E). As such, the majority of the Task Force concluded that local groundwater levels are in fact declining -- not rising.

In addition to answering questions at the community open houses held in April, Herb Schumann, formerly with the USGS and a leading expert in land subsidence, spoke to the Task Force about groundwater declines (see Appendix F) and the resulting consequences:

- depletion of groundwater reserves
- increased pumping costs for water produced at lower depths
- land subsidence and earth fissures
- increased water quality concerns
- increased water temperature

Regarding the depletion of groundwater reserves, for every acre-foot of groundwater pumped that is not naturally or artificially replenished into the same aquifer, the amount of groundwater stored in the aquifer decreases. As an example, assume 1,000,000 acre-feet of groundwater is stored in the aquifer today. At the end of this year, assume 60,000 acre-feet will be pumped and 7,500 acre-feet will be naturally and artificially replenished. Next year, there will be 947,500 acre-feet of groundwater in storage. Similarly, at the end of year two, there will be only 895,000 acre-feet of groundwater in storage. Eventually, like a bank account being overdrawn, the total of amount of groundwater stored in the aquifer today will be depleted. Based on information provided by ADWR, the USGS and other professional water managers, the Task Force concluded that groundwater reserves should be used only when surface water supplies, like CAP water, have first been exhausted consistent with sound water management principles.

Another consequence of continued groundwater decline is increased costs for pumping. For every additional foot that groundwater must be lifted from the aquifer, the cost to lift the groundwater to the surface increases. At current pumping levels (approximately 300

to 450 feet), it generally costs around \$90 per acre-foot to lift groundwater to the surface. For every additional foot of lift, the cost per acre-foot is estimated to increase by \$.15. If groundwater levels decline by an additional 300 feet, then the cost to pump an acre-foot of groundwater will be approximately \$135 per acre-foot [$\$90 + (\$.15 \times 300 \text{ feet})$], nearly 50% more than today's pumping cost.

The most devastating impacts, land subsidence and earth fissures, are not well understood by the general public. Land subsidence is a permanent lowering of the land surface as a result of the extraction of groundwater from the rocks and soils beneath the land surface. It permanently reduces the void space which is available for underground water storage, damages infrastructure such as roads, pipelines or buildings, and it leads to the formation of earth fissures.

Earth fissures are deep cracks that form in the earth's crust when large-scale depletion of the aquifer and subsurface geologic formations produce surface tension as a result of uneven land subsidence. Earth fissures are a problem because they permanently destroy property values where fissures erode to form large gullies. Like land subsidence, earth fissures damage infrastructure like roads, pipelines and buildings. Finally, earth fissures can create a direct conduit to the water table, making the drinking water supply vulnerable to contamination.

Finally, deteriorated water quality and high water temperatures are consequences of continued groundwater declines. When groundwater is pumped from deeper levels, certain concentrations of contaminants naturally occur in the geology. If these levels exceed safe drinking water standards, then high concentration levels must be mitigated either through blending or through expensive treatment methods. In addition, at lower pumping levels, water temperature typically increases. While higher water temperatures do not create a public health hazard, higher temperatures create an inconvenience for customers.

interest rate earned by the Central Arizona Water Conservation District (CAWCD) since the first capital payment was made, less one percent. Assuming a four per cent interest rate, Citizens will recover approximately \$113,000 in interest. In total, if Citizens relinquishes its allocation, Citizens will recover approximately \$2.9 million.

E. Consequences of Relinquishing the CAP Allocation

Relinquishing the CAP allocation has positive and negative consequences which are summarized in the Appendix G. This table was also displayed at the community open houses. The Task Force attempted to identify all the pros and cons of relinquishing the CAP allocation before evaluating if it should be retained. A number of speakers addressed the issue of relinquishment. Mark Frank, with ADWR, discussed this issue early on in the Task Force process (see meeting notes 3/10/98). Mr. Frank discouraged the Task Force from making a decision to relinquish the CAP allocation, because relinquishment will result in continued groundwater declines and all the related consequences. Mr. Frank also indicated that ADWR has two ways to reach its legislative goal of safe yield: using renewable supplies or managing demand. If there is no renewable supply to replace groundwater demands, then stricter conservation requirements are inevitable.

The representatives of one organization on the Task Force concluded early on that the allocation should be relinquished. To honor their concerns, the Task Force agreed to devote an entire meeting to relinquishment (see 4/28/98 meeting notes) in addition to the numerous discussions that occurred at other Task Force meetings.

In short, the proponents of relinquishment believed the groundwater table is rising, not declining, based on the results of the single water-level study prepared by the Sun City Water Users Association (see Appendix H). Simultaneously, the proponents of relinquishment argued that if the groundwater table is declining, Sun Citians should not be required to pay the costs of stopping those declines, because the allocation will be relinquished to another entity in the same geographic location forcing the customers in

adjacent utilities to assume the responsibility of paying for and using CAP water in order to stop regional groundwater declines.

The Arizona Department of Water Resources, the United States Geological Survey and other professional groundwater hydrologists have conducted numerous studies indicating that groundwater levels are declining (see Appendix E). While these studies may vary as to how quickly the water table is dropping, they all acknowledge that groundwater levels are in fact declining. Moreover, the amount of natural, incidental and artificial recharge entering the aquifer is a fraction of the amount of water being pumped by Sun City Water Company, Sun City West Utilities Company and local golf courses. Since the majority of the evidence supports the view that groundwater levels are declining in the Sun Cities, the majority of the Task Force accepted that groundwater levels are declining in the Sun Cities.

The Task Force acknowledged that, if relinquished, the CAP allocation might remain in the Northwest Valley consistent with the existing State transfer and relinquishment policy. As such, the relinquished CAP water might be used to meet the demands of new development and users and will not stop groundwater declines caused by existing users like Sun City Water Company and Sun City West Utilities Company.

As currently written, State law does not require existing groundwater users to acquire and use renewable water supplies, thereby protecting existing users from that obligation. The State realizes, however, that without existing users using surface water, groundwater tables will continue to decline. Mark Frank repeatedly made this point in his discussions with the Task Force indicating that the State is currently developing incentives, both negative and positive, through its draft Third Management Plan (TMP) to encourage existing groundwater users to reduce their groundwater demands. These incentives have primarily focused on replenishment taxes and more stringent water conservation requirements.

As currently envisioned, the TMP designates the Northwest Valley, which includes the Sun Cities, as one of several critical groundwater decline areas. ADWR plans to restrict groundwater pumping in these areas through future Management Plans. While the proponents of relinquishment acknowledged the future possibility of a replenishment tax and more stringent conservation requirements, they described those risks as unknown and speculative.

The proponents of relinquishment argued that the costs to put CAP water to use exceed the benefits to the customer. To simply hold the existing allocation and not use it will cost \$.65 per month per household. If the allocation is relinquished today, Citizens will be unable to re-acquire a similar (i.e. municipal and industrial) subcontract. In ten years, if Sun City Water Company and Sun City West Utilities Company ultimately need a renewable water supply, the cost to reacquire this new supply is estimated at \$2.30 per month per household, based on today's cost to acquire an Indian lease. Since the proponents of relinquishment argued that renewable water supplies would never be needed, they discounted any projected costs for acquiring a separate resource in the future.

Given all the information presented, the majority of the Task Force found that the benefits of just holding the allocation, let alone using it, exceed the costs associated with the CAP allocation. In fact, one of the options considered by the Task Force was simply to retain the allocation but not use it. The Task Force realized that the allocation is a public resource designed to allow water utilities to reduce groundwater demand consistent with the State's Groundwater Management Act. The Task Force feared that, without CAP water, Sun City Water Company and Sun City West Utilities Company customers would be subject to future replenishment taxes and additional conservation requirements that are even more stringent than existing, already unattainable, requirements.

reassigned to the Agua Fria Division, increasing its subcontract to 11,093 acre-feet. In early 1998, the Arizona Department of Water Resources (ADWR) and the Central Arizona Water Conservation District (CAWCD) approved the partial reassignment of Sun City Water Company's CAP allocation to the Agua Fria Division.

In addition to the 6,181 acre-feet in the original Sun City Water Company subcontract, Citizens also purchased a 380 acre-foot subcontract from the Town of Youngtown when Citizens acquired Youngtown's water system. Added to the Sun City Water Company subcontract, a total of 6,561 acre-feet is available for use in Sun City and Sun City West. Based on projected population, a total of 4,189 acre-feet is intended for use in Sun City Water Company and 2,372 acre-feet is intended for use in Sun City West Utilities Company.

Clearly, there is not enough CAP water to serve the existing demands of Sun City Water Company, Sun City West Utilities Company, the Agua Fria Division and all the local golf courses and lake developments. However, ADWR never intended for CAP water to cover one-hundred percent of the potable demands of subcontractors, like Sun City Water Company, let alone the irrigation demands of golf courses and other water users not served by water utilities. Moreover, water utilities like Citizens have a responsibility to equitably distribute CAP water among all of their customers, not just those served in a particular area.

IV. The Task Force Decision Process

In establishing the Task Force, Citizens committed to support the recommendation of the Task Force, including relinquishment. Based on the decision reached, Citizens committed to effect any filings with the appropriate regulatory bodies. Ultimately, the Arizona Corporation Commission is the entity that will approve the CAP water use plan, because a groundwater savings fee will be required. In making its decision, the Task Force followed a systematic four-step planning process:

1. Become educated and informed on all relevant issues
2. Develop criteria that will be used to generate and evaluate CAP water-use options
3. Develop options and understand related costs
4. Evaluate options and recommend a preferred plan

After an extensive education process, the Task Force developed and defined the criteria for evaluating water-use options and relinquishment.

A. Criteria Development

The process to select the best option for CAP water was designed to focus on its attributes, rather than a specific option. These attributes became criteria which were eventually used to compare and evaluate each option. The Task Force attempted to develop evaluation criteria that could be clearly defined and measured allowing the Task Force to distinguish one option from another. The Task Force identified all possible criteria at the March 31, 1998 meeting. The final list and definitions were agreed upon at the April 14, 1998 meeting (see applicable meeting notes). The criteria identified, as defined by the Task Force, are listed below:

Direct Benefits - extent to which existing and future customers of Sun City Water Company and Sun City West Utilities Company will realize the benefits of using CAP water. This includes the extent to which the groundwater depletion of the aquifer is mitigated and the property values are likely to remain constant or improve.

Used and Useful - extent to which the Arizona Corporation Commission is likely to determine that a CAP water-use option is used and useful.

Timeliness - the speed with which the CAP water-use option can be implemented--preferably not later than December 31, 2000.

Regulatory Compliance - be as prepared as possible to mitigate the impact and effect of existing and future regulations intended to help the State achieve its water management goals. For example, the ADWR guidelines for safe yield must be met; the possibility of future replenishment tax liabilities should be mitigated; and to the extent possible more restrictive water conservation requirements should be minimized.

Public Acceptability - likelihood of acceptance of the preferred plan by the customer, the Arizona Department of Water Resources, and the Arizona Corporation Commission.

Water Quality - the extent to which the aesthetic qualities, such as taste and odor, of the drinking water delivered to homes in Sun City, Sun City West and Youngtown are equal to or better than the current quality.

Subsidence - extent to which the potential for subsidence can be mitigated.

Cost - estimated cost to the customer.

These criteria were advertised in the local newspaper and presented to the public at two community open houses held in April. People who attended the community open houses were asked for their opinion regarding which criteria they considered most important in the decision process. The most important criteria, according to those who attended the open houses, were *direct benefits, water quality, timeliness* and *cost*. Surprisingly, *cost* was viewed as less important than the other three criteria. *Direct benefit* and *water quality* appeared to be equally important to those attending the open houses.

B. CAP Water-use Options and Related Costs

The Task Force identified several options for taking and using CAP water (see 3/24/98 meeting notes). Brown & Caldwell engineers developed and presented a cost analysis to the Task Force (see 4/7/98 meeting notes and Appendix J). Five options were associated with groundwater recharge and two for direct use:

Lease Capacity at CAWCD's Agua Fria Recharge Project – Citizens would lease recharge capacity in the CAWCD's Agua Fria Recharge Project. Water would be conveyed from the CAP canal to the recharge facility by gravity via the channel of the Agua Fria River. Recharged water would be legally recovered through existing wells in Sun City and Sun City West.

Lease McMicken Dam Recharge Capacity – Citizens would lease recharge capacity in the City of Surprise's recharge project located behind McMicken Dam. Water would be

conveyed from the CAP canal to the recharge facility by gravity. Recharged water would be legally recovered through existing wells in Sun City and Sun City West. This option was eliminated by the Task Force prior to evaluating the remaining options, because the Task Force members representing Sun City West did not feel this option met their needs.

Citizens Recharge Facility – Citizens would construct and operate an independent recharge facility located near the existing wastewater treatment plant. Water would be conveyed to the recharge basins by gravity through a dedicated pipeline. Recharged water would be legally recovered through existing wells in Sun City and Sun City West.

Groundwater Savings Project/Exchange with Maricopa Water District (MWD) – CAP water would be delivered through an existing distribution system to farms located in MWD's service area that have historically used groundwater pumped by MWD. By doing this, every gallon of groundwater not pumped by MWD would be preserved for drinking water customers in the Sun Cities. CAP water recharged or exchanged with MWD would be legally recovered through existing wells in Sun City and Sun City West.

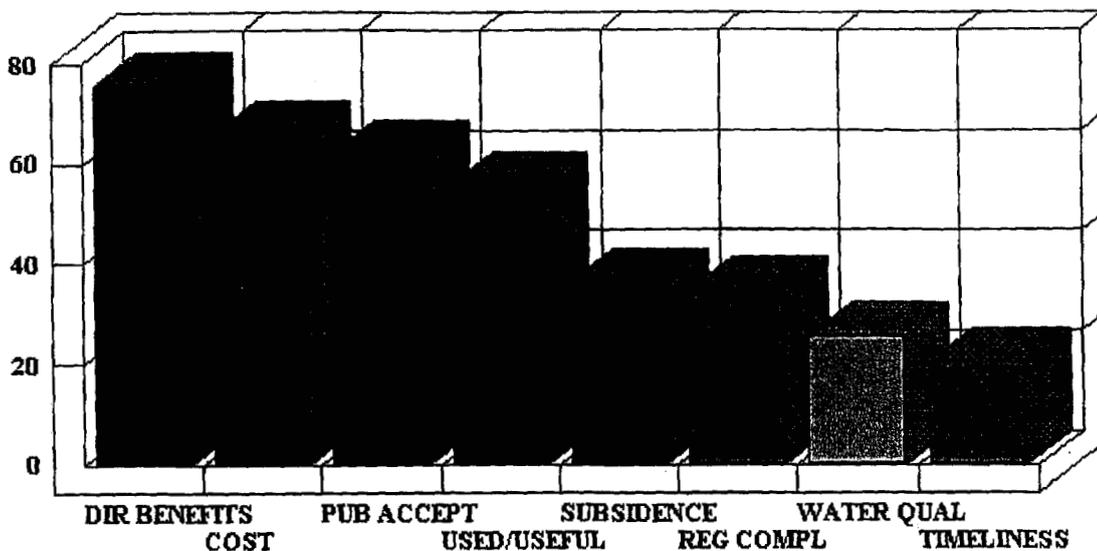
Groundwater Savings Project/Exchange with Local Golf Courses – Citizens would construct and operate a non-potable pipeline to deliver raw CAP water to local golf courses that have historically pumped groundwater. By doing this, every gallon of groundwater not pumped by the golf courses would be preserved for drinking water customers in the Sun Cities. CAP water recharged or exchanged with local golf courses would be legally and physically recovered through existing wells in Sun City and Sun City West.

Citizens Water Treatment Plant – Citizens would construct and operate its own water treatment plant for Sun City, Sun City West and Youngtown. Peak water demands would be met through existing production wells.

Lease Capacity in the Pyramid Peak Water Treatment Plant - Citizens would purchase capacity in the City of Glendale's water treatment plant to cover the average daily

important and by how much?" Using the CoNexus technology, each criterion was compared against every other criterion using a dual-paired comparison technique. For every pair of criteria, each participant simultaneously selected which of the two was most important and by how much. Every possible combination was compared, and the relative ranking of the criteria was calculated based on the responses of the participants. This information was presented instantly to the Task Force using the CoNexus technology. The result of this ranking is shown in the following chart.

Relative Importance of Criteria - Task Force Members



The results showed *direct benefits* to be the most important to the Task Force members followed by *cost* and *public acceptability*. The least important were *water quality* and *timeliness*. The public's preferences were similar, except they gave more weight and to *water quality* and *timeliness*. Several Task Force members noted that the responses by the public attending the open houses showed *water quality* and *direct benefits* as being most important followed by *timeliness* and *cost*. This difference was discussed, and the Task Force concluded that the difference of opinion resulted from the extensive briefings that the Task Force members received. The briefings provided the Task Force with

substantially more information than was generally available to the public about water quality in relationship to how the water is used.

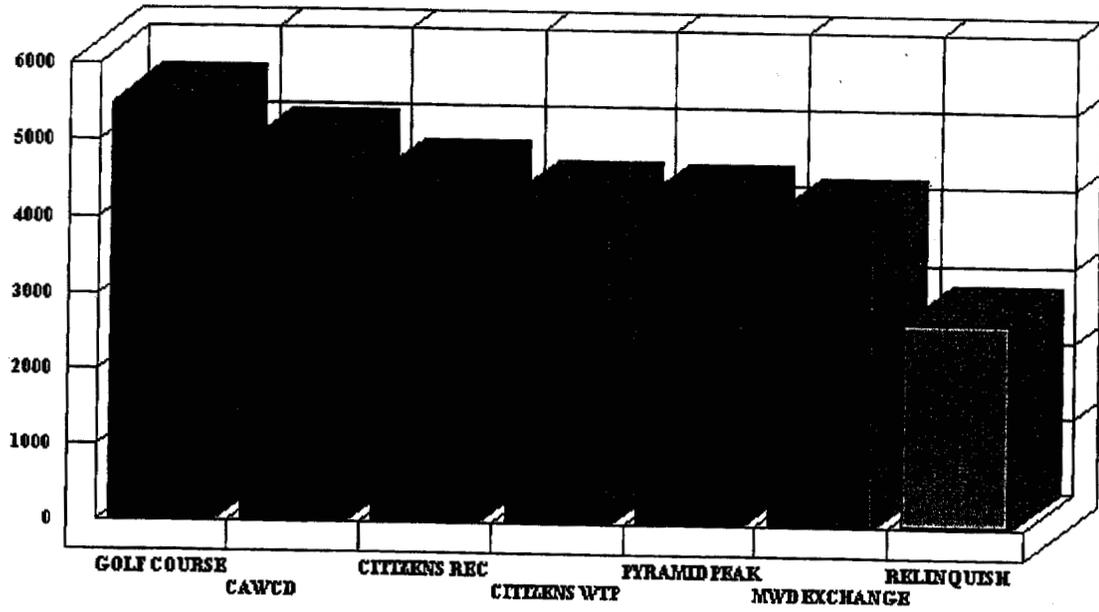
The Task Force discussed how the Sun City and Youngtown representatives might view the criteria differently than the Sun City West representatives. A comparison of the views of the Sun City and Youngtown representatives and the Sun City West representatives is shown in Appendix L. Sun City and Youngtown representatives put a slightly greater emphasis on *used and useful* and *water quality*, while Sun City West representatives emphasized *direct benefits, timeliness, and public acceptance*. After discussing the different perspectives, the Task Force agreed to proceed using the combined priorities of the full Task Force to rank the water-use options instead of ranking the water-use options twice, first with the priorities for the Sun City and Youngtown representatives and second with the priorities of the Sun City West representatives.

2. Evaluation of CAP Water-use Options

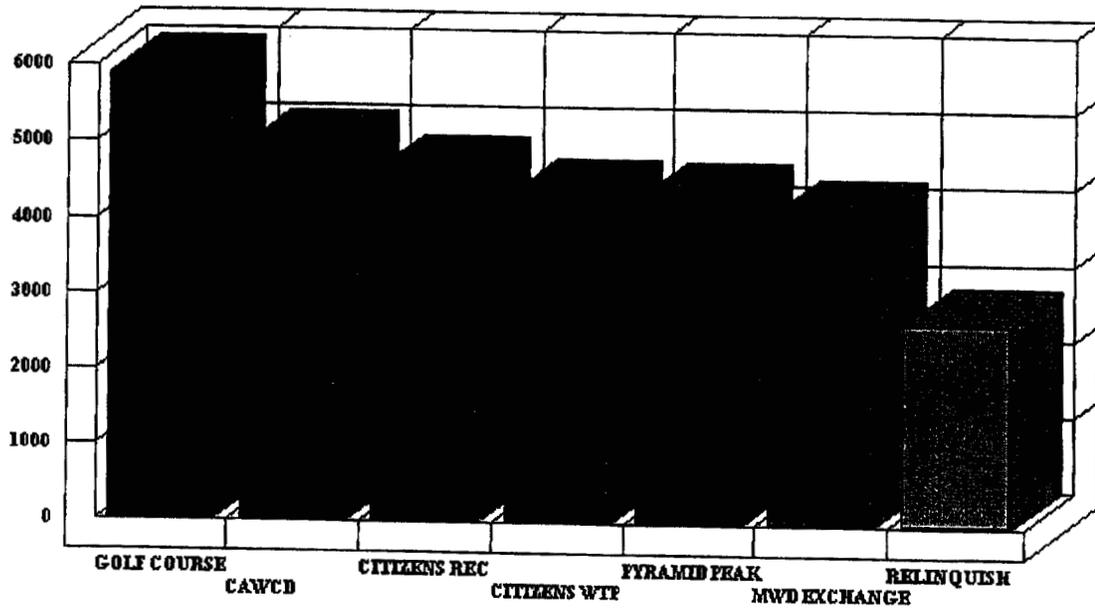
Once the Task Force members were satisfied with the relative importance of the criteria, they rated each CAP water-use option, including relinquishment, on a scale of one to nine against all the criteria with the exception of cost. A rating of "9" indicated the highest level of performance. The rating for cost was based on the actual estimated cost of each water-use option.

Extensive discussion occurred during this portion of the exercise, continuing to clarify the criteria definitions and features of the options. Once this step was completed, the ratings were multiplied against the relative weight of each criterion and totaled to obtain an overall score. This score represents the overall worth of each CAP water-use option. The relative worth of the CAP water-use options for each community are shown in the following charts:

Worth - Sun City/Youngtown



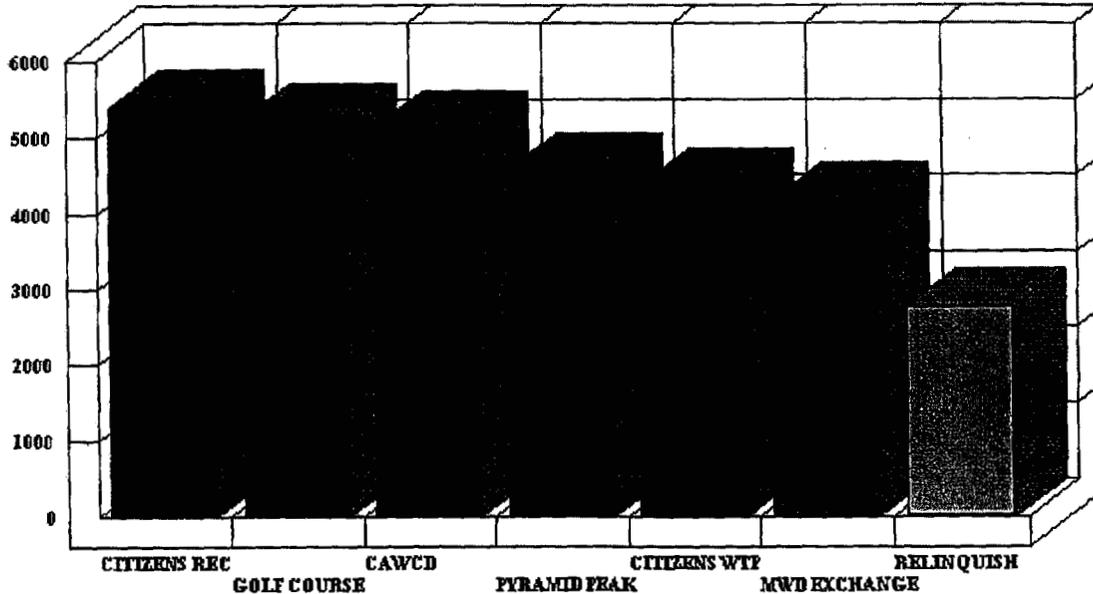
Worth - Sun City West



For both communities, the direct use of CAP water for golf course irrigation was the preferred option followed by the CAWCD Recharge Project and the Citizens Recharge Project. Relinquishment was least preferred.

During the ranking process, concern was expressed by a few Task Force members that some participants were voting for their favorite water-use option, rather than objectively ranking how well each option performed against the criteria. To understand the effect of this perceived situation, a Technical Team, consisting of Kerry Brough and Marvin Glotfelty, both of Brown & Caldwell, and Terri Sue C. Rossi of Citizens, developed detailed definitions for each of the "one to nine" levels for the criteria (see Appendix M). Based on these definitions, the Technical Team consistently rated each of the options against the criteria. The technical ratings were combined with the criteria weights assigned by the Task Force, and the results are shown below.

Worth - Technical Committee



The most significant difference between the Task Force and Technical Team's results was the effect of a higher rating of *direct benefits* for the recharge options by the

technical team. They also rated *used and useful* lower on the CAWCD option than the Task Force did, while rating *regulatory compliance* higher overall.

The results of the Technical Team substantially reaffirmed the selection of the top three options. The Citizens Recharge Facility came out slightly above the Golf Course option followed by the CAWCD Recharge Project. These results also coincided with the feedback from the public at the open houses. People who responded to the open house questionnaire from both Sun City and Sun City West open houses preferred the golf course irrigation option followed by the Citizens Recharge and the CAWCD Recharge options. Only five out of 103 respondents to the open house questionnaire said to relinquish the allocation.

V. Recommendation

At their meeting on May 19, 1998, the Task Force recommended a combination of options that will fulfill the long and short-term needs of the Sun Cities (see 5/19/98 meeting notes). Termed the Sun Cities/Youngtown Groundwater Savings Project, the Task Force recommended that CAP water be delivered to the Sun Cities through a non-potable pipeline. The CAP water would then be used to irrigate golf courses that have historically pumped groundwater. By doing this, every gallon of groundwater not pumped by the golf courses would be preserved for delivery to drinking water customers in the Sun Cities. Assuming the Arizona Corporation Commission approves the Task Force recommendation this year, the project could be completed by 2002.

While the Task Force recommended that Citizens proceed immediately with permitting and designing the groundwater savings project with the local golf courses, the Task Force realized that an interim solution was required to resolve the issue of CAP water being "used and useful". Until the golf course project is completed, the Task Force recommended that Citizens recharge the CAP water at the existing MWD Groundwater Savings Project or, if not available, at the CAWCD Agua Fria Recharge Project, once

that project is operational in 1999. Through these interim measures, the CAP water would be put to use immediately.

This hybrid option allows the costs for using CAP water to be gradually assimilated into rates. Initially, the cost to use CAP water will be around a \$1.50 per household. When the groundwater savings project with the golf courses is completed in 2002, the cost will eventually be \$4.18 per month per household in Sun City West Utilities Company and \$5.80 per month per household in Sun City Water Company.

Regarding the issue of distributing the costs across the customer base, the Task Force recommended that commercial customers be billed based on consumption and that residential customers be billed based on a per household basis. By billing residential customers on a per household basis, the individual condominium customer will pay the same amount for CAP water as an individual single family residential customer.

VI. Community Outreach Program

The Task Force was very committed to soliciting opinions and views from the public. At the second meeting (see 2/24/98 meeting notes) of the Task Force, a framework for a community outreach program was developed. The primary purpose of a community outreach program is to increase awareness and understanding among customers of the issues surrounding the use and cost of CAP water. Other purposes included:

- Publicizing the mission and role of the Task Force
- Advertising Task Force meetings and decisions
- Providing opportunity for customer input

The Task Force agreed as to who needed to be informed and involved in the decision making process:

- Customers of Sun City Water Company and Sun City West Utilities Company
- Condominium owners

EXHIBIT B

REPRINT OF VIEWPOINT LAKE DOCUMENT

AGREEMENT

THIS AGREEMENT made and entered into this 22nd day of September, 1975, by and between ARIZONA TITLE INSURANCE AND TRUST COMPANY, AS TRUSTEE OF TRUST #6325, hereinafter referred to as "Trustee", and RECREATION CENTERS OF SUN CITY, INC., a non-profit corporation, hereinafter referred to as "Centers".

WITNESSETH:

WHEREAS, Trustee currently has title to certain property, a description of which is attached as Exhibit "A" and made a part hereof by reference thereto, said property consisting of seven golf courses located in Sun City, Maricopa County, Arizona, and a lake known as Viewpoint Lake, also located in Sun City, Maricopa County, Arizona; and

WHEREAS, pursuant to the provisions of Trust #6325, Centers is the primary beneficiary of said trust; and

WHEREAS, pursuant to the terms of Trust #6325, the primary beneficiary may take title to all the property owned by said trust;

NOW, THEREFORE, in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, receipt of which is hereby acknowledged, Trustee agrees to convey to Centers and Centers hereby agrees to accept from Trustee all right, title and incidents of ownership to all property known as the Riverview, Willowbrook, Willowcreek, Lakes East, Lakes West, South and North golf courses in Sun City, Arizona, and Viewpoint Lake in Sun City, Arizona, consisting of and including but not limited to

the real property described in Exhibit "A" attached hereto and made a part hereof, and all buildings and improvements, including pump stations, located thereon, on the 1st day of June, 1977, subject to the following provisions and conditions:

1. Trustee shall, at Centers' option, provide to the Centers, budgetary and financial advice to assist Centers in the operation of the golf courses and Viewpoint Lake. Centers may, prior to June 1, 1977, form a committee which shall meet with representatives of the Del E. Webb Development Co., who currently manage said courses, to review on a frequent basis, records and reports, including financial records and reports, relating to the operation of the golf courses and Viewpoint Lake so as to enable Centers to become knowledgeable as to the requirements of the operation of the golf courses and Viewpoint Lake. Centers' Committee may make recommendations on a quarterly basis as to the operation and maintenance of the golf courses and Viewpoint Lake. Trustee shall make available after May 31, 1977, the services of Mr. Mike Britt, or an alternative acceptable to Centers, to assist in the orderly transition and operation of the golf courses to Centers. Such assistance from Mr. Britt will be at the expense of Trustee. If Centers so desires, Trustee shall furnish to Centers, at Trustee's expense, assistance in the training of personnel to operate the pro shop facilities.

2. All contracts currently in force relating to the management and leasing of the pro shops and snack bar facilities on the golf courses, including the lease with Sun City Pro Shops, Inc., and any contracts for the operation and maintenance of the golf courses and Viewpoint Lake, shall be terminated effective the close of business on May 31, 1977. If any of said contracts are not so terminated, Trustee agrees to indemnify and hold

Centers harmless against any debts, liabilities, expenses and obligations which are incurred by Centers by reason of said failure to effectively terminate said contracts. In addition, Centers shall not be obligated in any manner to purchase, or assume liability for, any inventory, supplies or consignments on hand as of June 1, 1977. Any expenses incurred prior to June 1, 1977, shall be paid by Trustee.

3. It is the understanding of Centers that Trustee shall have, prior to June 1, 1977, increased total annual golf revenues to that level which, when taking into account only those revenues from members of Centers and their guests, shall be equal to or greater than the total annual expenses incurred in the operation and management of the golf courses after taking into account the savings in labor expense and taxes, if any, resulting from possession of the courses by Centers as set forth below. It is the intent of Trustee that the golf courses will be managed in such a way as to match the income derived with the expenses incurred in the operation of the golf courses, thereby making the entire operation attain a break-even point. It is expected that the subsidy provided in paragraph 11 herein, plus the possible savings in labor expenses and taxes resulting from possession of the courses by Centers, will bring the level of the cost of such golf course operation to a point where there should be no immediately increase in golf course rates after May 31, 1977.

4. Trustee also hereby agrees to convey to Centers and Centers hereby agree to accept from Trustee on June 1, 1977, all right, title and interest to the wells, pumps and water distribution systems as more particularly described in Exhibit "B" attached hereto and incorporated by reference. The well, pump and water distribution system located on the Lakes East and Lakes West golf courses presently supplying Viewpoint and Dawn

Lakes, shall continue to be used to supply Viewpoint and Dawn Lakes. The evaporation and seepage losses from the lakes shall be determined by Centers and the owners of property fronting on Viewpoint Lake shall be charged for actual pumping costs as recorded in paragraphs 5, 6, and 7 of the Declaration of Restrictions, Docket No. 7745, Page 669. Such losses and charges are to be determined on the same basis and using the same formula as has been used by the previous title owners of the lake.

5. Trustee shall convey to Centers a water right supplying, to the extent the existing well located at Sunland Memorial Park has the capacity, the golf courses with the same proportionate share of the water from said well now being supplied to the golf courses served. An accurate measuring device on such well will be provided to determine the percentage of water used on the golf courses and the percentage used for other purposes. Centers agrees to pay, to Webb, on a quarterly basis, its proportionate share of the electrical expense, and, on a yearly basis, its proportionate share of operation and maintenance of said well based upon the percentage of water used for the golf courses.

6. Centers agrees to maintain the golf courses in accordance with the standard which has been in existence for the three years prior to the date of transfer. Centers shall provide adequate water, mowing, fertilizing and other maintenance which may be required on the courses and shall maintain an adequate personnel force to assure the standard noted above is met.

7. The covenants, obligations and representations expressed in this Agreement are continuing and shall not become merged in nor be extinguished by the delivery of the deed conveying the premises and the payment of purchase price by Centers and shall be binding

and inure to the benefit of and shall apply to the respective successors, assigns and legal representatives of Trustee and Centers.

8. Centers shall have the right to a final inspection of all of the property listed in Exhibit "A" not more than ninety (90) days before it is proposed to transfer title to said property to Centers pursuant to the terms of this Agreement, it being understood Trustee shall maintain the courses in accordance with the standard that has existed in the three years prior to the date of this Agreement. Centers agrees to accept the premises existing on June 1, 1977, without any obligation upon the Trustee to take any action to prepare the same for use by Centers. Centers further states that its acceptance of the condition of the premises is based entirely upon its inspection and not upon any representations or warranties expressed or made by the Trustee.

9. Trustee shall pay all legal fees incurred by and at the direction of the Centers that are directly allocable to the transfer encompassed in this Agreement, including, but not limited to, fees for legal opinions regarding union contracts and the tax status of the entity to which Trustee or Centers makes any transfer. Trustee shall pay for the title insurance premiums, escrow and recording fees, and charges incurred as a result of this Agreement, including real estate taxes and insurance pro-rated to the date of the transfer of the courses.

10. Centers agrees the Del E. Webb Development Co., its agents and employees shall have the right to enter into and upon the aforementioned property at all reasonable times for the purpose of exhibiting the same to prospective purchasers of homes in Sun City or Sun City West. Centers agrees the aforesaid prospective purchasers may use the

golf courses and facilities and payment for such use shall be made by Del E. Webb Development Co. to Centers in accordance with a fee schedule to be determined by Centers or a separate social club operating the golf courses and facilities; however, in no event shall the fee charged for a prospective purchaser be greater than the lowest daily greens fee paid by a member of Centers for the course played. Such right to play shall be limited to one play per prospective purchaser.

11. For the first twenty-four (24) months after conveyance of the property from Trustee to Centers, Trustee shall pay to Centers, on a quarterly basis, the difference between the amount of expenses incurred in the operation of the golf courses and facilities thereon, and Viewpoint Lake, including personal property purchases therefor, and the income derived from such courses during said period. Income shall be defined as all monies received from any sources whatsoever due to the operation of the golf courses or the facilities thereon, including but not limited to membership dues, greens fees, operating surplus from prior quarters; any income derived from the operation of the snack bar and pro shop facilities on the property; and all fees received from Viewpoint Lake owners. Expenses shall mean all normal operating expense categories as shown on the book of Trustee as of January 1, 1975, and shall include, but not be limited to, all salaries, wages, repairs, utilities, maintenance, office and operating supplies, insurance, taxes and other expenses directly chargeable and properly applicable to the operation of the golf courses and facilities thereon and Viewpoint Lake. Prior to the payment of the subsidy herein provided, Trustee shall review all income and expenses paid by Centers and shall have the right, after consultation with Centers, to reject as an expense allocable to the subsidy, any

expense which is not directly related to the operation of the golf courses, facilities, and Viewpoint Lake. Inasmuch as the golf courses are a major contributor to the maintenance of Viewpoint Lake, Centers agrees that as owner of the golf courses, it shall pay fifty percent (50%) of all maintenance costs of the lake. Such costs shall become part of the total expense for the operation of the golf courses.

12. The use of the golf courses and Viewpoint Lake described in Exhibit "A" is intended primarily for the use of the Centers' members and their guests or any separate social club operating the golf courses and facilities.

13. The management of Viewpoint Lake shall be accomplished by a three-man board consisting of the same representatives on the present management board pursuant to the applicable deed restrictions.

IN WITNESS WHEREOF the parties have executed this Agreement by the proper persons duly authorized to do so on the day and year first hereinabove written.

RECREATION CENTERS OF SUN CITY, INC.
(formerly Sun City Community Association, an
Arizona non-profit corporation.

BY: "Myron W. Waggoner"
President and Director

ARIZONA TITLE INSURANCE AND TRUST
COMPANY, AS TRUSTEE FOR TRUST #6325

BY: "Stanley Mathisen"

Approved this 22nd day of September, 1975, by the Board of Directors of
RECREATION CENTERS OF SUN CITY, INC.

"Signed by eight directors, original signatures on file."

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