

ORIGINAL NEW APPLICATION



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4 Phoenix, Arizona 85012
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Arizona Corporation Commission
DOCKETED

NOV 08 2006

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BEFORE THE ARIZONA CORPORATION COMMISSION

7
8 IN THE MATTER OF DESERT HILLS
9 WATER COMPANY'S APPLICATION
10 FOR APPROVAL OF TRANSFER OF
11 ASSETS TO THE TOWN OF CAVE
12 CREEK, PURSUANT TO ARIZONA
13 REVISED STATUTES 40-285

DOCKET NO. W-02124A-06-0717

**APPLICATION FOR APPROVAL OF
TRANSFER OF UTILITY ASSETS TO
TOWN OF CAVE CREEK, PURSUANT
TO A.R.S. 40-285**

12 Desert Hills Water Company ("Desert Hills" or the "Company") hereby submits this
13 Application for Approval of the Transfer of Assets to the Town of Cave Creek (the
14 "Town") pursuant to A.R.S. § 40-285. In connection with the issuance of such approval
15 by the Arizona Corporation Commission ("Commission"), Desert Hills also requests that
16 the Commission cancel the Company's CC&N, because transfer of the assets subject to
17 this application will terminate Desert Hills' public service function.

18 I. Summary of Transaction.

19 On November 7, 2006, the Town and Desert Hills entered into an Asset Transfer
20 Agreement ("Transfer Agreement") for the transfer of the Company's assets to the Town,
21 attached hereto as **Exhibit 1**.¹ The Transfer Agreement includes, among other things,
22 appropriate provisions that: 1) protect rights to customer deposits; 2) continue refund
23 obligations set forth in all outstanding extension agreements; 3) freeze current rates for
24 water service for a period of one year from the date of closing; 4) require the Town to

25
26 ¹ The Transfer Agreement will be ratified by the Town and Desert Hills' Board of Directors at a November 16, 2006
Town Council meeting. Schedule 5 of the Transfer Agreement shall be filed as a supplemental filing.

1 continue efforts to bring the water distribution system into compliance with all
2 government regulations; 5) require the Town to address long-term water supply needs; 6)
3 require the Town to provide a credit of the monthly minimum charge for the period of
4 June through September, 2006, to approximately 189 customers located within a one
5 square-mile area who experienced service interruptions during this time; 7) provide
6 customers access to information concerning water service on the Town's website; and 8)
7 require the Town to honor all current third party contracts and settlement agreements.

8 **II. The Parties.**

9 Desert Hills is a public service corporation providing water service to
10 approximately 1,600 customers in Maricopa County pursuant to a CC&N granted by the
11 Commission in Decision No. 41279 (April 5, 1971). The Town is a municipality duly
12 organized under the laws of Arizona pursuant to A.R.S. §§ 9-101 and 9-231, and
13 incorporated in 1986. At an election held pursuant to A.R.S. § 9-514 on September 10,
14 2002, the citizens of the Town authorized the Town to engage in the water utility business
15 both inside and outside Town limits. At an election held on May 17, 2005, the citizens
16 approved a bond issue to finance water company acquisitions.

17 **III. Standard of Review.**

18 According to A.R.S. § 40-285(A), a public service corporation may not sell or
19 otherwise dispose of the whole or part of its system necessary or useful in the
20 performance of its duties to the public without first having secured from the Commission
21 an order authorizing the transaction. However, whenever such transfers involve the
22 acquisition of utility assets by a municipality, the Commission may not consider the
23 amount and reasonableness of the consideration to be paid by the municipality, or the
24 terms and conditions of any deferred payments, but may conduct a hearing for the purpose
25 of determining that the public service corporation has made appropriate provisions for
26 water service to customers, as well as the proper disposition of obligations under

1 contractual agreements. *See, generally, Arizona Attorney General Opinion No. 62-7.*

2 **IV. The Transaction is in the Public Interest.**

3 Approving the Transfer Agreement will serve the public interest. Desert Hills is a
4 public service corporation that has recently experienced operational, maintenance and
5 long-term water supply difficulties. With the transfer of assets, water utility service will
6 now be provided to customers by the Town – primarily through its operating agreement
7 with American Water Operations and Maintenance, Inc. Additionally, the Town is
8 making provisions for a long-term water supply to serve present and future customers. It
9 is negotiating a water supply agreement with Arizona-American Water Company and is
10 actively seeking additional long-term water supplies. The Town has the financial
11 capacity, sound management structure and political will to ensure that customers located
12 in the Company’s CC&N will receive water utility service after the assets have been
13 transferred to the Town. As evidence of its commitment, the Town has agreed to assume
14 certain obligations and liabilities of the Company, including:

- 15 1. Customer service accounts, customer deposits and meter deposits;
- 16 2. Assumed contracts, including line extension agreements, vendor agreements
17 and all other contractual agreements required for the provision of water service to
18 customers;
- 19 3. All governmental permits associated with the water distribution system
20 infrastructure;
- 21 4. The obligation to maintain Company’s water service rates at the present
22 levels for at least one year from the date the Transfer Agreement closes;
- 23 5. Credit of monthly minimum payments to approximately 189 water
24 customers for service interruptions experienced between June and September, 2006; and
- 25 6. The extension of service to property being developed by Renaissance
26 Partners, LLC, (“Renaissance”) consistent with the terms of a settlement agreement

1 reached between the parties in Docket No. W-02124A-06-0286, attached hereto as
2 **Exhibit 2.**

3 Arizona law provides several methods by which a municipal corporation may
4 acquire the assets of a public service corporation. A.R.S. § 9-515. One method is clear;
5 condemnation by court action pursuant to A.R.S. § 9-515(C)(3), which would limit the
6 Commission's review only to a determination that there will be no other customers or
7 persons served, and that the public service corporation will be relieved of its duties to
8 serve customers. Alternatively, a municipal corporation may choose to acquire utility
9 assets through an agreement, with the utility applying for a transfer of assets pursuant to
10 A.R.S. § 40-285.

11 In the interest and spirit of cooperation between the Commission and the Town,
12 Desert Hills has made this application pursuant to A.R.S. § 40-285 so that the
13 Commission can: 1) review the Transfer Agreement, and determine that the conditions
14 therein will serve the public interest; and 2) find that Desert Hills' public service function
15 will have ended with the transfer of assets, and order that the Company's CC&N be
16 extinguished.

17 **RELIEF REQUESTED**

18 WHEREFORE, the Company respectfully requests that the Commission provide
19 the following relief:

- 20 A. Issue an Order approving the Transfer Agreement; and
- 21 B. Extinguish the CC&N currently held by Desert Hills.

22 ...
23 ...
24 ...
25 ...
26 ...

1 DATED this 8th day of November, 2006.

2 FENNEMORE CRAIG, P.C.

3
4 By: _____

Jay L. Shapiro

Patrick J. Black

3003 North Central Avenue, Suite 2600

Phoenix, Arizona 85012

Attorneys for Desert Hills Water Company,
Inc.

9 ORIGINAL and thirteen (13) copies of the
10 foregoing were delivered
11 this 8th day of November, 2006, to:

12 Docket Control
13 Arizona Corporation Commission
14 1200 W. Washington St.
15 Phoenix, AZ 85007

16 Copy of the foregoing hand delivered
17 this 8th day of November, to:

18 Chairman Jeff Hatch-Miller
19 Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

20 Commissioner William Mundell
21 Arizona Corporation Commission
1200 W. Washington Street
22 Phoenix, AZ 85007

23 Commissioner Mike Gleason
24 Arizona Corporation Commission
1200 W. Washington Street
25 Phoenix, AZ 85007
26

1 Commissioner Kris Mayes
2 Arizona Corporation Commission
3 1200 W. Washington Street
4 Phoenix, AZ 85007

4 Commissioner Barry Wong
5 Arizona Corporation Commission
6 1200 W. Washington Street
7 Phoenix, AZ 85007

7 Lyn Farmer
8 Chief Administrative Law Judge
9 Arizona Corporation Commission
10 1200 W. Washington Street
11 Phoenix, AZ 85007

11 Janice Alward
12 Legal Division
13 Arizona Corporation Commission
14 1200 W. Washington Street
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15 Maureen Scott
16 Legal Division
17 Arizona Corporation Commission
18 1200 W. Washington Street
19 Phoenix, AZ 85007

18 Steven Olea
19 Assistant Director, Utilities Division
20 Arizona Corporation Commission
21 1200 W. Washington Street
22 Phoenix, AZ 85007

23 By: *Maria San Jose*

24 1848077.1/18332.007

25

26

Exhibit 1

TRANSFER AGREEMENT

BETWEEN

DESERT HILLS WATER COMPANY

AND

TOWN OF CAVE CREEK

NOVEMBER 7, 2006

ASSET TRANSFER AGREEMENT

This Asset Transfer Agreement (this "**Transfer Agreement**") is entered into as of November 7, 2006, (the "**Effective Date**") between Desert Hills Water Company, an Arizona corporation ("**Transferor**"), and the Town of Cave Creek, an Arizona municipal corporation ("**Town**") (individually, a "**Party**" and collectively, the "**Parties**").

BACKGROUND

A. Transferor is a public service corporation authorized to provide water utility service in certain portions of Maricopa County, pursuant to a Certificate of Convenience and Necessity ("CC&N") granted by the Arizona Corporation Commission ("Commission") in Decision No. 41279 (April 5, 1971), as more particularly described in **Exhibit A** attached hereto.

B. Town is a municipal corporation duly organized under the laws of the state of Arizona.

C. Town desires to acquire substantially all of the assets, properties and contractual rights used by Transferor in providing water utility service to persons located within the CC&N, and Transferor desires to transfer such assets, properties and contractual rights and liabilities to Town, all in accordance with the terms and conditions set forth in this Transfer Agreement.

D. Transferor is willing to transfer, and Town is willing to acquire, certain assets used in connection with providing water utility service, including all utility plant, equipment, machinery, fixtures, materials, real property, customer accounts and other items (collectively, the "**Transferred Assets**"), in accordance with the terms of this Transfer Agreement.

TRANSFER AGREEMENT

For valuable consideration, which Transferor acknowledges receipt thereof, the Parties agree as follows:

SECTION 1. THE TRANSFERRED ASSETS.

1.1 Transfer of Assets by Transferor. On the terms and subject to the conditions set forth in this **Transfer Agreement**, at the Closing Transferor shall grant, convey, transfer and assign to Town, and Town shall accept from Transferor, all of Transferor's right, title and interest in and to the following **Transferred Assets** (but excluding the Excluded Asset), for the price of \$10.00:

(a) all utility plant and infrastructure of the water distribution system, including all storage and pump facilities, utilized in providing water utility service to consumers ("Utility Plant") listed in Schedule 1;

(b) all real property held by Transferor, including all structures, improvements, fixtures, easements and other rights and interests relating thereto, and personal property held by Transferor, including motor vehicles and power equipment, including the real and personal property listed on Schedule 2;

(c) all Permits held by Transferor, including the Permits listed on Schedule 3;

(d) all furniture, fixtures and office equipment;

(e) all computer hardware and related basic operating systems used, or held for use, principally in connection with providing water services;

(f) all customer service contracts and deposits, line extension agreements and other contracts (collectively, the "Assumed Contracts"), listed on Schedule 4;

(g) all books and records, including customer lists and vendor lists;

(h) all prepaid expenses and deposits, including any such expenses and deposits with respect to leases, rentals and utilities;

(i) all Accounts Receivable.

1.2 Excluded Asset. The Parties agree that a certain asset of Transferor shall remain the property of Transferor and shall not be transferred to Town at the Closing. The Excluded Asset is the **Transferor's CC&N**.

SECTION 2. REPRESENTATION AND WARRANTIES OF TRANSFEROR.

Transferor represents and warrants to Town that the statements contained in this Section 2 are correct and complete as of the date of this Transfer Agreement.

2.1 Utility Plant. At the Closing, Transferor shall have good and marketable title to the Utility Plant.

2.2 Permits. Transferor has all material Permits necessary to enable it to own and operate the Utility Plant, which Permits are listed in Schedule 3.

2.3 Assumed Contracts. Listed in Schedule 4 is a complete and accurate list of: (a) all customer service accounts and deposits; (b) all active line extension agreements; and (c) all other contracts, including vendor contracts, related to the provision of water utility service to customers.

2.4 Regulatory Compliance. Transferor is currently a party to a Commission Order to Show Cause proceeding, Docket No. W-02124A-06-0379. A recommended order and opinion has been issued, but has not yet been acted upon by the Commission.

SECTION 3. REPRESENTATION AND WARRANTIES OF TOWN.

Town represents and warrants to Transferor that the statements contained in this Section 3 are correct and complete as of the date of this Transfer Agreement.

3.1 Organization. Town is a municipal corporation duly organized, validly existing and in good standing under the laws of the state of Arizona and is duly authorized and qualified to provide water utility services in the places and in the manner to which Transferor provides such services.

3.2 Authority. Town has all necessary power and authority to enter into this Transfer Agreement and to consummate the Closing and perform its obligations under this Transfer Agreement.

3.3 Binding Effect. The execution, delivery and performance of this Transfer Agreement by Town are within its powers and will have been approved by all requisite action of Town prior to Closing, and no other proceedings on the part of Town are necessary to authorize the execution and delivery of this Transfer Agreement, the consummation by Town of the performance of the Parties' respective obligations under this Transfer Agreement. This Transfer Agreement has been duly executed and delivered by Town and, assuming the due authorization, execution and delivery by Transferor in accordance with Section 4 and Section 5 herein, constitutes the valid and legally binding agreement of Town enforceable against Town in accordance with its terms.

3.4 Independent Investigation. Town has conducted an independent investigation of the Transferred Assets. Town acknowledges that, **EXCEPT AS EXPRESSLY SET FORTH IN THIS TRANSFER AGREEMENT, (i) THE TRANSFERRED ASSETS ARE CONVEYED "AS IS, WHERE IS" AND "WITH ALL FAULTS," AND (ii) TRANSFEROR HAS NOT MADE, AND TRANSFEROR HEREBY EXPRESSLY DISCLAIMS AND NEGATE, ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND OR NATURE WHATSOEVER RELATING TO THE TRANSFERRED ASSETS (INCLUDING ANY IMPLIED OR EXPRESSED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE).** As of the date of this Transfer Agreement, Town is not aware of any breach of the representations or warranties made by Transferor in Section 2.

3.5 Assumption of Obligations. Subject to the terms and conditions set forth in this Transfer Agreement, Town agrees that at the Closing Town shall: be obligated to:

(a) assume all Transferor's obligations under the Permits and the Assumed Contracts to the extent such obligations are related to periods subsequent to the Closing;

(b) provide 189 customers, who are more accurately described and listed in Schedule 5, credit for monthly minimum charges for water services paid from the period of June through September, 2006, due to service interruptions during that time;

(c) charge the same rates and charges as set forth in Transferor's tariff for a period one year from the date of Closing;

(d) continue efforts to bring the water distribution system into compliance with the Maricopa County Environmental Services Department and Arizona Department of Environmental Quality rules and regulations;

(e) continue efforts to address long-term water supply needs for customers previously served by Transferor;

(f) ensure that Town's website will give water customers access to important information in the provision of water service; and

SECTION 4. REGULATORY APPROVAL.

4.1 Commission. The Parties agree to undertake reasonable steps to obtain the approval of the Commission for this Transfer Agreement. The Closing of this Transfer Agreement, as set forth in Section 5 herein, will occur after the Commission has given regulatory approval.

4.2 Application. Within 30 days after the execution of this Transfer Agreement, Transferor shall file with the Commission an application seeking: 1) approval of the Transfer Agreement; and 2) the extinguishment of Transferor's CC&N.

SECTION 5. CLOSING.

The closing ("**Closing**") of this transaction will take place at the offices of Town at a time agreed upon by Town and Transferor on the Closing Date (as defined below).

5.1 Closing Date. The "**Closing Date**" will be a date within thirty (30) days after the Commission issues an order approving this Transfer Agreement. The Closing Date will be a date no later than April 15, 2007. If this Transfer Agreement does not close on or before the Closing Date, it shall be terminated.

5.2 Deliveries by Transferor. On the Closing Date, Transferor will deliver to Town, a duly executed bill of sale, assignment or assumption agreement conveying the Transferred Assets.

SECTION 6. GENERAL PROVISIONS.

6.1 Governing Law. This Transfer Agreement will be governed by and construed in accordance with the laws of the state of Arizona, without regard to any conflict of laws principles.

6.2 Notices. Except as otherwise required by law, any notice required or permitted under this Transfer Agreement must be in writing and must be given either: (i) by personal delivery; (ii) by United States certified mail, return-receipt requested, postage prepaid, and properly addressed; (iii) by any private overnight, "same day", or "next-day" delivery service, delivery charges prepaid with proof of receipt; or (iv) by facsimile machine or telecopy. Notice sent in any of the manners set forth above must be addressed or sent to the Transferor or Town at the addresses or telecopy phone numbers on record for the Transferor or Town. Any Party may change its address or telecopy number for the purposes of delivery and receipt of notices by advising all other parties in writing of the change. Notice delivered in one of the foregoing manners will be deemed to be received: (I) on the date of delivery, if personally delivered; (II) on the date which is two days after deposit in the United States mail, if given by certified mail; (III) on the day after deposit with an express delivery service, if given by overnight, "same day", or "next-day" delivery service; or (IV) on the date of transmittal, if given by facsimile machine or telecopy. No notice will be deemed effective unless sent in one of the manners described above.

6.3 Entire Transfer Agreement. This Transfer Agreement, together with the Bill of Sale, represents the entire agreement between Transferor and Town regarding its subject matter. This Transfer Agreement may not be modified or amended, except by a written instrument signed by each of the parties.

6.4 Severability. Each provision of this Transfer Agreement is independent and severable from the others, and no provision will be rendered unenforceable because another provision is determined to be unenforceable in whole or in part. If any provision of this Transfer Agreement is determined to be unenforceable in any court proceeding, the court may appropriately limit or modify the provision, and the provision will be given effect to the maximum extent permitted by law.

6.5 No Waiver. Any failure by either party to exercise any of its rights under this Transfer Agreement will not be construed as a waiver of those rights, nor will any failure preclude exercise of those rights at any later time.

6.6 Headings. The headings in this Transfer Agreement are for convenience only and do not affect its interpretation.

6.7 Counterparts. This Transfer Agreement and any amendments may be executed in any number of original or teletype counterparts, each of which will be effective on delivery and all of which together will constitute one binding agreement of the parties. Any signature page of the Transfer Agreement may be detached from any executed counterpart of the Transfer Agreement without impairing the legal effect of any signatures and may be attached to another counterpart of the Transfer Agreement that is identical in form to the document signed (but that has attached to it one or more additional signature pages).

6.8 Construction. Each party was represented by legal counsel (or had the opportunity to be represented by legal counsel) in connection with this Transfer Agreement and each of them and its counsel have reviewed and revised this Transfer Agreement, or have had an opportunity to do so. Any rule of construction resolving ambiguities against the drafting party will not apply to the interpretation of this Transfer Agreement or any amendments or appendices to this Transfer Agreement.

6.9 Termination. The Town reserve the right to terminate this Transfer Agreement, upon twenty-four (24) hour written notice pursuant to Section 6.2, in the event that the Town, in its discretion, determines that unacceptable conditions might be or have been imposed on the transfer by any regulatory agency.

6.10 Default and Remedy. Except as provided herein, if either Party defaults under this Transfer Agreement and remains in default after three days written notice from the non defaulting party, the non-defaulting Party will be entitled to exercise all remedies available under law or in equity including injunctive relief.

This Transfer Agreement is effective as of the Effective Date.

"Transferor"

Desert Hills Water Company,
an Arizona corporation

By: Usama Ghareeb
Name: Usama Abuibarah
Title: President

"Town"

Town of Cave Creek,
a Municipal Corporation

By: Usama Ghareeb
Name: Usama Abuibarah
Title: Town Manager

**EXHIBIT A
TO
ASSET TRANSFER AGREEMENT**

Legal Description of Existing Service Area Within CC&N

Legal Description of Desert Hills Water Company's

Certificate of Convenience and Necessity

Sections 4, 5, 8, 9 T5N, R3E

North ½ of Section 6, T5N, R3E

Sections 29, 31, 33, 34, T6N, R3E

East ½ Section 28, T6N, R3E

East ½ Section 21, T6N, R3E

Southwest ½ of the south ½ of the southeast ¼ of Section 20, T6N R3E

All descriptions above are in the Gila, Salt River Base and Meridian, Maricopa County,
Arizona

**SCHEDULE 1
TO
ASSET TRANSFER AGREEMENT**

Utility Plant Facilities

Asset Transfer Agreement
Schedule 1

- Facilities inventory of Company as of 9/12/06:
 - 4" ACP, PVC pipe 6,208 l.f.
 - 6" ACP, PVC, DI pipe 143,941 l.f.
 - 8" ACP, PVC DI pipe 83,325 l.f.
 - 14" DI pipe 140 l.f.

 - 5/8" x 3/4" meters 1,565
 - 3/4" meters 2
 - 1" meters 71
 - 1 1/2" meters 3
 - 2" meters 9
 - Residential standpipe 15
 - Commercial hauled 1 (metered: MCDOT)
 - Hydrant meters {8} (available but not currently connected)
 - Hydrants approx 45

 - Well #2 60hp submersible pump, cased 800', 8" diameter casing, 4" turbo meter, drilled 1972, approx 150-200 gpm, 5,000

 - Well #3 20hp submersible pump, cased 800', 8" diameter casing, 4" turbo meter, drilled 1981, approx 40 gpm, 5,000

 - Well #4 75hp submersible pump, cased 1000', 10" diameter casing, 4" turbo meter, drilled 1997, approx 250-300 gpm

- Booster pumps:
 - 6 15hp
 - 4 25hp

- Storage tanks:
 - 107,000 gal - Central Ave Tank site
 - 103,000 gal - 7th St. Booster Station, w/ 5,000 gal pressure tank
 - 250,000 gal - 10th St. Tank Site, w/ 5,000 gal pressure tank
 - 300,000 gal - Tank #4, w/ 5,000 gal pressure tank

- Other facilities not on line:
 - Cloud Rd. Booster Station: 250,000 gal water tank (completed), 4 - 15hp booster pumps, 5,000 pressure tank, 400 amp service. Construction being completed.

- Other assets:
 - 5,000 pressure tank (new) on site and not in use.
 - 400 amp electric service (new) on site and not in use.

**SCHEDULE 2
TO
ASSET TRANSFER AGREEMENT**

Real Property and Equipment, Motor Vehicles

Asset Transfer Agreement
Schedule 2

- Equipment and Vehicles
 - Misc. power and hand tools,
 - 1996 590SL Case Backhoe,
 - 1996 Dodge 1/2 ton truck,
 - 1997, Chevy 1 ton utility bed truck,
 - flatbed trailer,
 - 2001 Polaris quad,
 - 2003 Polaris quad

- Real Property
 - 211-52-058 H - Part of Office, Well #3, Tank #1 & #2
 - 211-52-058 F - Office, Well #3, Tank #1 & #2
 - 211-23-045 D - Well #4 and Tank #4
 - 211-23-213 A - Desert Hills Estates Tank - 38030 N. 7th St.
 - 211-52-032 T - Cloud Road Booster
 - 211-24-009 G - Tank #3
 - 211-68-030 A - Well #5
 - 211-52-122 - Well #2
 - 211-52-080 - Well #2

**SCHEDULE 3
TO
ASSET TRANSFER AGREEMENT**

Governmental Permits

Asset Transfer Agreement
Schedule 3

1. Maricopa County Department of Transportation Permit for Construction in County Right-of-Way
2. Maricopa County Franchise

**SCHEDULE 4
TO
ASSET TRANSFER AGREEMENT**

Assumed Contracts

Asset Transfer Agreement
Schedule 4

1. Line Extension Agreement between Desert Hills Water Co., Inc., Ken Mayberry, and Aldebaran-MS, L.L.C. dated April 28, 2006
2. Temporary Water Supply Agreement between Desert Hills Water Co., Inc. and Arizona-American Water Company dated June 6, 2006
3. Will Serve Letter to Richard Cannon dated August 15, 2006 regarding Cielo Grande at Desert Hills development
4. Vehicle Lease documents
5. Escrow Documents
Escrow No. 01610754-016-PRS
836 E. Maddox Road
6. Active Line Extension Agreements

**SCHEDULE 5
TO
ASSET TRANSFER AGREEMENT**

List of Customers to Receive Credit

Exhibit 2

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into by Desert Hills Water Company, Inc., an Arizona corporation ("Desert Hills") and Renaissance Partners, LLC, an Arizona limited liability company ("Renaissance").

1. Background.

1.1 Desert Hills is a water utility company authorized by the Arizona Corporation Commission to service an area generally located in Maricopa County.

1.2 Renaissance owns certain real property (the "Property") within Desert Hills' service area that is generally located east of North 22nd Street, just south of Joy Ranch Road in Maricopa County, Arizona. Renaissance is in the process of developing the Property.

1.3 The parties had a dispute relating to Desert Hills' obligation to serve the Property. As a result, Renaissance filed a formal complaint (the "Complaint") with the Arizona Corporation Commission ("ACC").

1.4 The parties hereby resolve all disputes relating to the Complaint under the terms and conditions stated in this Agreement.

Therefore, in consideration of mutual promises and consideration, the Parties agree as follows:

2. Agreement.

2.1 Line Extensions. Desert Hills will construct the main line extension from the Desert Hills water system to the Property. The Parties will execute a water line extension agreement (the "Extension Agreement") concurrently with this Agreement. The Extension Agreement must state that if any term in the Extension Agreement conflicts with this Agreement, this Agreement controls.

2.2 Line Extension Schedule. Within five days of the execution of the Extension Agreement, Desert Hills must complete the engineering plans for the water line extensions to the Property and submit those plans to Maricopa County for expedited review. Within three working days after Desert Hills receives Maricopa County's approval of the engineering plans, Desert Hills will solicit bids on the project requiring commencement of construction within ten days of the execution of the construction contract.

2.3 Operation of Extended Water Lines. The Parties acknowledge that the water lines that Desert Hills will construct under this Agreement will likely not be operated until the resolution of the Order to Show Cause and complaint (collectively the

"OSC") brought by the Staff of the Arizona Corporation Commission against Desert Hills that is currently pending with the Arizona Corporation Commission. However, Desert Hills agrees to commence pressure testing, chlorination, and bacteriological testing within 24 hours of being legally able to do so, whether as a result of the resolution of the OSC or some earlier occurrence that makes water service to the Property legally permissible, and will use its best efforts to provide actual water service to the property within 5 working days of being legally able to serve the property.

2.4 Renaissance Payment for Line Extension. Renaissance will pay no more than \$17,000.00 under the Extension Agreement.

2.5 Dismissal of ACC Complaint. Renaissance will dismiss the Complaint within five days after the water line becomes operational and provides service to the Property.

3. Miscellaneous.

3.1 Each party executing this Agreement hereby warrants that he or she has read this Agreement and is legally empowered to authorize execution of this Agreement on behalf of the party for which he or she acts.

3.2 This Agreement may be signed in counterparts.

3.3 The prevailing party in a dispute relating to this Agreement will be entitled to its attorneys' fees and costs arising out of that dispute.

3.4 Arizona law controls this Agreement.

RENAISSANCE PARTNERS, LLC

DESERT HILLS WATER
COMPANY, INC.

By: _____
Its: _____

Mary B. Rowland
By: MARY BETE ROWLAND
Its: V. President.