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BEFORE THE ARIZONA CORPORATION COMMISSION

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IN THE MATTER OF DIVERSIFIED WATER UTILITIES, INC. TO EXPAND ITS CERTIFICATE OF CONVENIENCE AND NECESSITY TO INCLUDE ALL OF SECTION 13, 14, 15, 23 AND THAT PORTION OF SECTION 16 EAST OF RAILROAD TRACKS ALL IN T3S, R83, PINAL COUNTY, ARIZONA	**DOCKET NO. W-02859A-04-0844**
IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES COMPANY FOR AN EXTENSION OF ITS EXISTING CERTIFICATE OF CONVENIENCE AND NECESSITY FOR WATER SERVICE.	**DOCKET NO. WS-02987A-04-0869**
	NOTICE OF FILING EXPANSION AND AMENDMENT OF THE DIVERSIFIED WATER UTILITIES WATER FRANCHISE

Diversified Water Utilities, Inc., ("Diversified"), hereby gives notice that it files on this day, a copy of the recorded Expansion and Amendment of the Diversified Water Utilities Water Franchise with the Arizona Corporation Commission ("Commission").

DATED this 30th day of June, 2006.

DIVERSIFIED WATER UTILITIES, INC.

Scott W. Gray, President
2850 East Camelback Road, Suite 200
Phoenix, Arizona 85016

PROOF OF AND CERTIFICATE OF MAILING

I hereby certify that on this 30th day of June, 2006, I caused the foregoing document to be served on the Arizona Corporation Commission by delivering the original and fifteen (15) copies of the above to:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Clerk of Board Office
PO Box 827
Florence, Az
85232

(15)

OFFICIAL RECORDS OF
PINAL COUNTY RECORDER
LAURA DEAN-LYTLE

DATE/TIME: 04/03/06 1534
FEE: $0.00
PAGES: 45
FEE NUMBER: 2006-047527

Expansion and Amendment Of The Diversified Water Utilities Water Franchise

WHEREAS, Diversified Water Utilities, Inc., had received a water franchise from Pinal County to establish and maintain domestic water services on October 26, 1995, a copy of which is attached as Exhibit "A" (hereinafter "Original Franchise"); and

WHEREAS, Diversified Water Utilities, Inc., an Arizona corporation, is duly authorized to conduct business in the State of Arizona, has filed and presented to the Board of Supervisors of the County of Pinal, State of Arizona, its application for expansion of the Original Franchise for the purpose of constructing, operating and maintaining domestic water system lines and related appurtenances along, under and across the public streets, alleys and highways, except federal and state highways, within the unincorporated area of Pinal County, Arizona, as described in Exhibit "B" attached hereto (hereinafter "Expansion").

WHEREAS, upon filing of Diversified Water Utilities' application for the Expansion, the Board of Supervisors of Pinal County ordered a public notice of its intent to consider the granting of the Expansion to be published in a newspaper of general circulation, in Pinal County, Arizona, stating the time and place for consideration of the Expansion was set for 9:30 a.m. on March 29, 2006, at the Pinal County Board of Supervisors' Hearing Room, Administration Building A, Florence, Arizona.

WHEREAS, said application for the Expansion and Amendment having come on regularly for hearing at 9:30 a.m. on March 29, 2006; and it appearing from the affidavit of the publisher of the Florence Reminder & Blade-Tribune that due and regular notice of said time and place set for the consideration of such action has been published for at least once a week for three consecutive weeks prior to said hearing date, to-wit: in the issues of the Florence Reminder & Blade-Tribune published on March 9, 2006, March 16, 2006, and March 23, 2006, and the matter being called for hearing at 9:30 a.m. on March 29, 2006, an opportunity having been given to all interested parties to be heard.

WHEREAS, the Board of Supervisors of Pinal County has the power to amend an existing franchise under its general police powers in such matters.

NOW, THEREFORE,

Section 1: DEFINITIONS

The following terms used in this expansion and amendment of the Original Franchise shall have the following meanings:

A. County: Pinal County, Arizona

B. Board: Board of Supervisors of Pinal County, Arizona.

C. Grantor: Pinal County, by and through its Board of Supervisors

D. Grantee: Diversified Water Utilities, Inc., an Arizona corporation, its successors and assigns

E. Grantee's Facilities: domestic water lines and related appurtenances

Section 2: GRANT

A. Grantor, on March 29, 2006, hereby grants to Grantee, for a period of time not to exceed the Original Franchise, this expanded and amended franchise (hereinafter "First Amended Franchise") for the purpose of constructing, operating and maintaining domestic water system lines and related appurtenances along, under and across public streets, alleys and highways, except federal and state highways, under the terms and conditions set forth herein within the unincorporated area of Pinal County, Arizona, as described in the Expansion and the Original Franchise (hereinafter "Franchise Area").

B. Nonexclusive Franchise.

(1) The First Amended Franchise granted hereby shall not be exclusive and shall not restrict in any manner the right of County in the exercise of any regulatory power which it now has or which may hereafter be authorized or permitted by the laws of the State of Arizona. Nothing herein shall be construed to prevent County from granting other like or similar franchises to any other person, firm or corporation. County retains and shall ever be considered as having and retaining the right and power to allow and to grant to any other person, firm, corporation or other companies, franchise rights and privileges to be exercised in and upon its public streets, alleys, highways and public places, and such of the same and parts thereof as County may deem best or choose to allow, permit, give or grant.

(2) Nothing herein shall be construed to prevent County and its proper authorities from constructing and installing sewers, gutters, or improvements to its public highways,

streets and alleys, and for that purpose, to require the Grantee at Grantee's own expense to remove Grantee's facilities to conform thereto and facilitate the same.

C. Reservation of Rights.

(1) County reserves the right to alter and amend the First Amended Franchise at any time and in any manner necessary for the safety or welfare of the public or to protect the public interests, and County reserves the right to impose at any time restrictions and limitations upon the use of the public streets, alleys and highways as County deems best for the public safety or welfare.

(2) County expressly reserves the right, after due notice to grantee, to modify, amend, alter, change or eliminate any of the provisions of the First Amended Franchise which may become obsolete or impractical; and to impose such additional conditions upon the grantee as may be just and reasonable, such conditions to be those deemed necessary for the purpose of insuring adequate service to the public; provided however, County shall not modify, amend, alter, change or eliminate any of said provisions until after a public hearing, if such is legally required or requested by grantee.

Section 3: RENEWAL/SUBSEQUENT APPLICATION/REMOVAL OF SYSTEM

A. The First Amended Franchise herein granted shall expire on the date provided for in the Original Franchise, or upon any prior forfeiture; and upon its termination, Grantee shall cease to exercise under the terms of the First Amended Franchise the privileges herein granted. In the event Grantee desires a renewal of the First Amended Franchise herein granted, or a new franchise for a subsequent period, Grantee shall apply to and open negotiations with County for that purpose at least six (6) months before the expiration of the First Amended Franchise herein granted; but nothing herein shall be construed to bind County to grant such renewal or subsequent franchise.

B. Upon termination of the First Amended Franchise, or any renewal thereof, the grantee shall remove its facilities from the streets, alleys, ways, highways and bridges within the Franchise Area and shall restore the areas to their original condition. If such removal is not completed within six months of such termination, County may deem any property not removed as having been abandoned.

Section 4: REGULATION

Grantee, its successors and assigns shall be subject to reasonable regulations for the maintenance by grantee, its successors and assigns, of such portion of the public streets, alleys and highways used for the purpose of the First Amended Franchise now in force or that may hereafter be enacted and inconsistent herewith.

Section 5: CONSTRUCTION, INSTALLATION AND REPAIRS

A. Prior to the beginning of any construction for installation of water lines and related appurtenances, the Grantee, its successors and assigns will submit a plan of proposed construction to the Pinal County Engineer and will not commence any construction until the plan of construction is approved by the County Engineer or his designate.

B. All work performed by Grantee under the First Amended Franchise shall be done in the manner prescribed by County and subject to the supervision of County, and in strict compliance with all laws, ordinances, rules and regulations of federal, state and local governments.

C. No construction, reconstruction, repair, or relocation under the First Amended Franchise shall be commenced until written permits have been obtained from the proper county officials. In any permit so issued, such officials may impose such conditions and regulations as a condition of the granting of the same as are necessary for the purpose of protecting any structures in the highways or streets and for the proper restoration of such highways, streets and structures, and for the protection of the public and the continuity of pedestrian and vehicular traffic.

D. No construction under the First Amended Franchise by grantee shall impose upon County the duty to maintain any public street, alley or highway unless County accepts said public street, alley or highway into the county maintenance system as provided by law.

Section 6: INSPECTION

County shall, if it deems it necessary, have the right to inspect the construction, operation and maintenance of Grantee's facilities to insure the proper performance of the terms of the First Amended Franchise granted herein.

Section 7: SUFFICIENCY, LOCATION AND MAINTENANCE

All of Grantee's Facilities shall be in all respects adequate, efficient, substantial and permanent in design and workmanship, and shall be so located, erected and maintained so as not to interfere with the use and enjoyment of the public streets, alleys and highways. All of Grantee's Facilities erected by Grantee shall be maintained in a safe, suitable, substantial condition and in good order and repair.

Section 8: EXPANSION

Grantee will, from time to time, during the term of the First Amended Franchise make such enlargements and extensions of its water system as are necessary to adequately provide for the requirements of County and the inhabitants of the Franchise Area; provided that nothing herein shall compel Grantee to expand or enlarge its system beyond the economic and operating limits thereof. Such enlargements and extensions shall be made in accordance with company rules and regulations.

Section 9: RELOCATION

A. During the term of the First Amended Franchise whenever County or any qualified authority having jurisdiction in the Franchise Area alters, repairs, improves, or changes the grade of, any public streets, alleys and highways in the Franchise Area during the term of the First Amended Franchise, then and in such event, Grantee, its successors or assigns, at its own expense, shall promptly, upon reasonable notice, make such changes in the location, structure or alignment of its water lines and related appurtenances as the public officials in charge of such work may deem necessary.

B. After thirty (30) days notice to Grantee, of needed changes or corrections and upon the failure of Grantee, to make such changes set forth in Section 9(A) above or to correct any damage to the right-of-way of any public street, alley or highway within the Franchise Area caused directly or indirectly by Grantee, its agents, successors or assigns, County or its successors shall have the right to make such changes or corrections at the expense of said Grantee, its successors or assigns, and such expenses shall be due and payable upon written demand by County or its successors to Grantee, its successors or assigns.

Section 10: LIABILITY

A. If any streets, highways, alleys, ways, bridges, sidewalks, public place, or other public facility should be disturbed, altered, damaged or destroyed by Grantee, its employees, contractors, subcontractors or agents in the construction, installation, operation and maintenance of Grantee's Facilities under the First Amended Franchise, the same shall be promptly repaired, reconstructed, replaced or restored by Grantee, without cost to County, as soon as practicable and in as good condition as before Grantee's entry and to the satisfaction of County. If Grantee fails to make such restoration and repairs within a reasonable time as determined by County, then County may fix a reasonable time for such restoration and repairs and shall notify Grantee in writing of the restoration and repairs required and the time fixed for the performance thereof. Upon failure of Grantee to comply within the time specified, County may cause proper restoration and repairs to be made, and the expense of such work shall be paid by Grantee upon demand by County.

B. Grantee shall be responsible to every owner of property which shall be injured by the work of construction, installation, operation or maintenance of Grantee's Facilities under the First Amended Franchise, all physical damage which shall be done to such injured property through any act or omission of Grantee, its employees, contractors, subcontractors or agents arising out of said construction, installation, operation or maintenance.

C. It is a condition of the First Amended Franchise that County shall not and does not by reason of the First Amended Franchise assume any liability of the Grantee whatsoever for injury to persons or damage to property.

Section 11: INDEMNIFICATION

Grantee by its acceptance of the First Amended Franchise agrees for itself, its successors and assigns that throughout the entire term of this franchise, Grantee, its successors and assigns, at its sole cost and expense, shall indemnify, defend, save and hold harmless Pinal County, its elected officers, employees and agents from any and all lawsuits, judgments and claims for injury, death and damage to persons and property, both real and personal, caused by the construction, design, installation, operation or maintenance of any structure, equipment, water lines or related appurtenances by Grantee within the Franchise Area. Indemnified expenses shall include, but not be limited to, litigation and arbitration expenses, and attorneys' fees.

Section 12: ACCEPTANCE BY GRANTEE / EFFECTIVE DATE FRANCHISE

The First Amended Franchise shall be accepted by Grantee by written instrument in the form attached hereto as Exhibit "C" (hereinafter "Acceptance"), executed and acknowledged by it as a deed is required to be, and filed with the Clerk of the Pinal County Board of Supervisors within thirty days after the date this First Amended Franchise is accepted by County. This First Amended Franchise shall be effective upon delivery of the Acceptance to the Clerk of the Pinal County Board of Supervisors in the form required and within the time specified above.

Section 13: LIMITS ON GRANTEE'S RECOURSE

A. Grantee by its acceptance of the First Amended Franchise acknowledges such acceptance relies upon grantee's own investigation and understanding of the power and authority of the County to grant said franchise. Grantee by its acceptance of the First Amended Franchise accepts the validity of the terms and conditions of the First Amended Franchise in their entirety and agrees it will not, at any time, proceed against County in any claim or proceeding challenging any term or provision of the First Amended Franchise as unreasonable, arbitrary or void, or that County did not have the authority to impose such term or condition.

B. Grantee by accepting the First Amended Franchise acknowledges that it has not been induced to accept the same by any promise, verbal or written, by or on behalf of County or by any third person regarding any term or condition of the First Amended Franchise not expressed therein. Grantee by its acceptance of the First Amended Franchise further pledges that no promise or inducement, oral or written, has been made to any employee or official of County regarding receipt of the First Amended Franchise.

C. Grantee by its acceptance of the First Amended Franchise further acknowledges that it has carefully read the terms and conditions of the First Amended Franchise and accepts without reservation the obligations imposed by the terms and conditions herein.

D. In case of conflict or ambiguity between the First Amended Franchise and the Original Franchise, the provision which provides the greatest benefit to County, as determined solely by County, shall prevail.

E. The Board's decision concerning its selection and awarding of the First Amended Franchise shall be final.

Section 14: FAILURE TO ENFORCE FRANCHISE

Grantee shall not be excused from complying with any of the terms and conditions of the First Amended Franchise by any failure of County, upon any one or more occasions, to insist upon the Grantee's performance or to seek Grantee's compliance with any one or more of such terms or conditions.

Section 15: COMPLIANCE WITH THE LAW

Grantee shall at all times, conduct its business under the First Amended Franchise in accordance with all federal, state and local laws, rules and regulations, as amended, including any future amendments thereto as may, from time to time, be adopted.

Section 16: INTERPRETATION/GOVERNING LAW

The interpretation and performance of the First Amended Franchise and of the general terms and conditions shall be in accordance with and governed by the laws of the State of Arizona.

Section 17: VENUE

Exclusive venue for any legal action to enforce the provisions, terms and conditions of the First Amended Franchise shall be the Superior Court of the State of Arizona in and for the County of Pinal, Florence, Arizona.

Section 18: SEVERABILITY

If any section, provision, term or covenant or any portion of any section, provision, term or covenant of the First Amended Franchise is determined to be illegal, invalid or unconstitutional, by any court of competent jurisdiction or by any state or federal regulatory agency having jurisdiction thereof, such determination shall have no effect on any remaining portion of such section, provision, term or covenant or the remaining sections, provisions, terms or covenants of the First Amended Franchise, all of which will remain in full force and effect for the term of the First Amended Franchise or any renewal or renewals thereof.

Section 19: FORFEITURE

A. If Grantee fails to comply with any of the provisions of this agreement or defaults in any of its obligations hereunder, except for causes beyond the reasonable control of Grantee; and shall fail within thirty (30) days after written notice from County to commence, and within a reasonable time, complete the correction of such default or noncompliance, County shall have the right to revoke this agreement and all rights of Grantee hereunder. In the event Grantee makes a general assignment or general arrangement for the benefit of creditors; or a trustee or receiver is appointed to take possession of substantially all of Grantee's Facilities within the Franchise Area or of Grantee's interest in this First Amended Franchise, where possession is not restored to Grantee within thirty (30) days; or Grantee's Facilities within the Franchise Area are subject to an attachment, execution or other seizure of substantially all of the Grantee's Facilities within the Franchise Area or this First Amended Franchise, where such seizure is not discharged within thirty (30) days, County may declare the First Amended Franchise, along with the Original Franchise, forfeited and terminated.

B. Nothing herein contained shall limit or restrict any other legal rights that County may possess arising from such violations.

Section 20: REVOCATION OF FRANCHISE

The First Amended Franchise, along with the Original Franchise, may, after due notice and hearing, be revoked by County for any of the following reasons:

A. For material false or misleading statements in, or material omissions from the application for and the hearing for the granting of the First Amended Franchise.

B. For any transfer or assignment of the First Amended Franchise or control thereof without County's written consent.

C. For failure to comply with any of the terms and conditions of the First Amended Franchise, except as provided in Section 19 above, and after written notice to

Grantee from County of the default and Grantee's fails to correct such default within the time period and procedures as set forth in Section 19 above.

Section 21: ASSIGNMENT/TRANSFER

Grantee shall not assign or transfer any interest in the First Amended Franchise without the prior written consent of County. Said Board shall not unreasonably withhold its consent to a proposed transfer.

Section 22: NOTICE

Notices required under the First Amended Franchise shall be delivered or sent by certified mail, postage prepaid to:

Grantor:

Clerk of the Pinal County Board of Supervisors
P.O. Box 827
31 N. Pinal Street
Florence, Arizona 85232

Grantee:

Diversified Water Utilities, Inc.
2850 E. Camelback Rd., Suite 200
Phoenix, Arizona 85016-4316

The delivery or mailing of such notice shall be equivalent to direct personal notice and shall be deemed to have been given at the time of delivery. Either party may change its address under this section by written notice to the other party.

Section 23: REMEDIES

Rights and remedies reserved to the parties by the First Amended Franchise are cumulative and shall be in addition to and not in derogation of any other rights or remedies which the parties may have with respect to the subject matter of the First Amended Franchise and a waiver thereof at any time shall not affect any other time.

Section 24: RIGHT OF INTERVENTION

County hereby reserves to itself, and Grantee hereby grants to County, the right to intervene in any suit, action or proceeding involving any provision in the First Amended Franchise.

Section 25: BOOKS AND RECORDS

Grantee shall maintain books and records that identify all of Grantee's underground facilities by type and location within the Franchise Area. Grantee will make such books and records available to County upon County's request and without cost to County.

Section 26: AD VALOREM TAXES

Grantee shall pay its ad valorem taxes before they become delinquent.

IN WITNESS WHEREOF, the Board of Supervisors of Pinal County, Arizona, by its Chairman and its Clerk, thereunto duly authorized, has hereunto set its hand and cause its official seal to be affixed on this 29th day of March, 2006.

PINAL COUNTY BOARD OF SUPERVISORS

Sandie Smith, Chairman

ATTEST:

Sheri Cluff, Deputy Clerk of the Board

APPROVED AS TO FORM:

ROBERT CARTER OLSON
PINAL COUNTY ATTORNEY

Rick V. Husk
Deputy County Attorney

Exhibit A

Transfer Of The Quail Hollow Water Distribution System Franchise

WHEREAS, Quail Hollow Water Company had received a water distribution system franchise from Pinal County to establish and maintain water distribution system services on February 23, 1987, a copy of which is attached as Exhibit "A" (hereinafter "Franchise").

WHEREAS, Quail Hollow Water Company, an Arizona corporation, duly authorized to conduct business in the State of Arizona, has duly filed and presented to the Board of Supervisors of the County of Pinal, State of Arizona, its application for transfer of the Franchise to Diversified Water Utilities, Inc., f.k.a. Quail Hollow Water Company, Inc., pursuant to a(n) Bill of Sale and Deed attached hereto as Exhibit B.

WHEREAS, Quail Hollow Water Company, Inc. merged with Diversified Water Utilities, Inc., an Arizona corporation, on August 28, 1995 with Quail Hollow Water Company, Inc. being the surviving corporation.

WHEREAS, Quail Hollow Water Company, Inc. changed its corporate name to Diversified Water Utilities, Inc. as a part of the merger.

WHEREAS, upon filing of Quail Hollow Water Company's application for the transfer of the Franchise, the Board of Supervisors of Pinal County ordered a public notice of its intent to consider the granting of the Transfer to be published in a newspaper of general circulation, in Pinal County, Arizona, stating the time and place for consideration of the transfer was set for 10:00 a.m. on October 26, 1995, at the Pinal County Board of Supervisors' Hearing Room, Administration Building No. 1, Florence, Arizona.

WHEREAS, said application for the transfer of the Franchise having come on regularly for hearing at 10:00 a.m. on October 26, 1995; and it appearing from the affidavit of the publisher of the Independent Newspapers, Inc. that due and regular notice of said time and place set for the consideration of such action has been published for at least once a week for three consecutive weeks prior to said hearing date, to-wit: in the issues of the Apache Junction Independent published on October 4, 1995, October 11, 1995, and October 18, 1995; and the matter being called for hearing at 10:00 a.m., and an opportunity having been given to all interested parties to be heard.

WHEREAS, the Board of Supervisors of Pinal County has the power to transfer an existing franchise under its general police powers in such matters.

NOW, THEREFORE,

Section 1: DEFINITIONS

The following terms used in this transfer of the Franchise shall have the following meanings:

A. County: Pinal County, Arizona

B. Board: Board of Supervisors of Pinal County, Arizona.

C. Grantor: Pinal County, by and through its Board of Supervisors

D. Grantee: Diversified Water Utilities, Inc., f.k.a. Quail Hollow Water Company, Inc., its successors and assigns

E. Grantee's Facilities: Water distribution system lines and related appurtenances

Section 2: GRANT

A. Grantor, on October 26, 1995, hereby grants to Grantee, for a period of time not to exceed the Franchise, this transferred franchise (hereinafter "Transferred Franchise") for the purpose of constructing, operating and maintaining water distribution system lines and related appurtenances along, under and across public streets, alleys and highways, except federal and state highways, under the terms and conditions set forth herein within the unincorporated area of Pinal County, Arizona, as described in the Franchise (hereinafter "Franchise Area").

B. Nonexclusive Franchise.

(1) The Transferred Franchise granted hereby shall not be exclusive and shall not restrict in any manner the right of County in the exercise of any regulatory power which it now has or which may hereafter be authorized or permitted by the laws of the State of Arizona. Nothing herein shall be construed to prevent County from granting other like or similar franchises to any other person, firm or corporation. County retains and shall ever be considered as having and retaining the right and power to allow and to grant to any other person, firm, corporation or other companies, franchise rights and privileges to be exercised in and upon its public streets, alleys, highways and public places, and such of the same and parts thereof as County may deem best or choose to allow, permit, give or grant.

(2) Nothing herein shall be construed to prevent County and its proper authorities from constructing and installing water distribution system lines, gutters, or improvements to its public highways, streets and alleys, and for that purpose, to require the Grantee at Grantee's own expense to remove Grantee's facilities to conform thereto and facilitate the same.

C. Reservation of Rights. County reserves the right to impose at any time restrictions and limitations upon the use of the public streets, alleys and highways as County deems best for the public safety or welfare and does not conflict with regulations of the Arizona Corporation Commission.

Section 3: RENEWAL/SUBSEQUENT APPLICATION/REMOVAL OF SYSTEM

A. The Transferred Franchise herein granted shall expire on the date provided for in the Franchise, or upon any prior forfeiture; and upon its termination, Grantee shall cease to exercise under the terms of the Transferred Franchise the privileges herein granted. In the event Grantee desires a renewal of the Transferred Franchise herein granted, or a new franchise for a subsequent period, Grantee shall apply to and open negotiations with County for that purpose at least six (6) months before the expiration of the Transferred Franchise herein granted; but nothing herein shall be construed to bind County to grant such renewal or subsequent franchise.

B. Upon termination of the Transferred Franchise, or any renewal thereof, the grantee shall remove its facilities from the streets, alleys, ways, highways and bridges within the Franchise Area and shall restore the areas to their original condition. If such removal is not completed within six months of such termination, County may deem any property not removed as having been abandoned.

Section 4: REGULATION

Grantee, its successors and assigns shall be subject to reasonable regulations for the maintenance by grantee, its successors and assigns, of such portion of the public streets, alleys and highways used for the purpose of the Transferred Franchise now in force or that may hereafter be enacted and inconsistent herewith.

Section 5: CONSTRUCTION, INSTALLATION AND REPAIRS

A. Prior to the beginning of any construction for installation of water distribution system lines and related appurtenances, the Grantee, its successors and assigns will submit a plan of proposed construction to the Pinal County Engineer and will not commence any construction until the plan of construction is approved by the County Engineer or his designate.

B. All work performed by Grantee under the Transferred Franchise shall be done in strict compliance with all laws, ordinances, rules and regulations of federal, state and local governments.

C. No construction, reconstruction, repair, or relocation under the Transferred Franchise shall be commenced until written permits have been obtained from the proper county officials. In any permit so issued, such officials may impose such conditions and regulations as a condition of the granting of the same as are necessary for the purpose of protecting any structures in the highways or streets and for the proper restoration of such highways, streets

and structures, and for the protection of the public and the continuity of pedestrian and vehicular traffic.

D. No construction under the Transferred Franchise by grantee shall impose upon County the duty to maintain any public street, alley or highway unless County accepts said public street, alley or highway into the county maintenance system as provided by law.

Section 6: INSPECTION

County shall, if it deems it necessary, have the right to inspect the construction, operation and maintenance of Grantee's facilities to insure the proper performance of the terms of the Transferred Franchise granted herein.

Section 7: SUFFICIENCY, LOCATION AND MAINTENANCE

All of Grantee's Facilities shall be in all respects adequate, efficient and substantial and shall be so located, erected and maintained so as not to interfere with the use and enjoyment of the public streets, alleys and highways. All of Grantee's Facilities erected by Grantee shall be maintained in a safe, suitable, substantial condition and in good order and repair.

Section 8: EXPANSION

Grantee will, from time to time, during the term of the Transferred Franchise make such enlargements and extensions of its water distribution system as are necessary to adequately provide for the requirements of County and the inhabitants of the Franchise Area; provided that nothing herein shall compel Grantee to expand or enlarge its system beyond the economic and operating limits thereof. Such enlargements and extensions shall be made in accordance with company rules and regulations.

Section 9: RELOCATION

A. During the term of the Transferred Franchise whenever County or any qualified authority having jurisdiction in the Franchise Area alters, repairs, improves, or changes the grade of, any public streets, alleys and highways in the Franchise Area during the term of the Transferred Franchise, then and in such event, Grantee, its successors or assigns, at its own expense, shall promptly, upon reasonable notice, make such changes in the location, structure or alignment of its water distribution system lines and related appurtenances as the public officials in charge of such work may deem necessary.

B. After thirty (30) days notice to Grantee, of needed changes or corrections and upon the failure of Grantee, to make such changes set forth in Section 9(A) above or to correct any damage to the right-of-way of any public street, alley or highway within the Franchise Area caused directly or indirectly by Grantee, its agents, successors or assigns, County or its successors shall have the right to make such changes or corrections at the expense of said Grantee, its successors or assigns, and such expenses shall be due and payable upon written demand by County or its successors to Grantee, its successors or assigns.

Section 10: LIABILITY

A. If any streets, highways, alleys, ways, bridges, sidewalks, public place, or other public facility should be disturbed, altered, damaged or destroyed by Grantee, its employees, contractors, subcontractors or agents in the construction, installation, operation and maintenance of Grantee's Facilities under the Transferred Franchise, the same shall be promptly repaired, reconstructed, replaced or restored by Grantee, without cost to County, as soon as practicable and in as good condition as before Grantee's entry and to the satisfaction of County. If Grantee fails to make such restoration and repairs within a reasonable time as determined by County, then County may fix a reasonable time for such restoration and repairs and shall notify Grantee in writing of the restoration and repairs required and the time fixed for the performance thereof. Upon failure of Grantee to comply within the time specified, County may cause proper restoration and repairs to be made, and the expense of such work shall be paid by Grantee upon demand by County.

B. Grantee shall be responsible to every owner of property which shall be injured by the work of construction, installation, operation or maintenance of Grantee's Facilities under the Transferred Franchise, all physical damage which shall be done to such injured property through any act or omission of Grantee, its employees, contractors, subcontractors or agents arising out of said construction, installation, operation or maintenance.

C. It is a condition of the Transferred Franchise that County shall not and does not by reason of the Transferred Franchise assume any liability of the Grantee whatsoever for injury to persons or damage to property.

Section 11: INDEMNIFICATION

Grantee by its acceptance of the Transferred Franchise agrees for itself, its successors and assigns that throughout the entire term of this franchise, Grantee, its successors and assigns, at its sole cost and expense, shall indemnify, defend, save and hold harmless Pinal County, its elected officers, employees and agents from any and all lawsuits, judgments and claims for injury, death and damage to persons and property, both real and personal, caused by the construction, design, installation, operation or maintenance of any structure, equipment, water distribution system lines or related appurtenances by Grantee within the Franchise Area. Indemnified expenses shall include, but not be limited to, litigation and arbitration expenses, and attorneys' fees.

Section 12: ACCEPTANCE BY GRANTEE / EFFECTIVE DATE FRANCHISE

The Transferred Franchise shall be accepted by Grantee by written instrument in the form attached hereto as Exhibit "C" (hereinafter "Acceptance"), executed and acknowledged by it as a deed is required to be, and filed with the Clerk of the Pinal County Board of Supervisors within thirty days after the date this Transferred Franchise is accepted by County. This Transferred Franchise shall be effective upon delivery of the Acceptance to the Clerk of the Pinal County Board of Supervisors in the form required and within the time specified above.

Section 13: LIMITS ON GRANTEE'S RECOURSE

A. Grantee by its acceptance of the Transferred Franchise acknowledges such acceptance relies upon grantee's own investigation and understanding of the power and authority of the County to grant said franchise. Grantee by its acceptance of the Transferred Franchise accepts the validity of the terms and conditions of the Transferred Franchise in their entirety and agrees it will not, at any time, proceed against County in any claim or proceeding challenging any term or provision of the Transferred Franchise as unreasonable, arbitrary or void, or that County did not have the authority to impose such term or condition.

B. Grantee by accepting the Transferred Franchise acknowledges that it has not been induced to accept the same by any promise, verbal or written, by or on behalf of County or by any third person regarding any term or condition of the Transferred Franchise not expressed therein. Grantee by its acceptance of the Transferred Franchise further pledges that no promise or inducement, oral or written, has been made to any employee or official of County regarding receipt of the Transferred Franchise.

C. Grantee by its acceptance of the Transferred Franchise further acknowledges that it has carefully read the terms and conditions of the Transferred Franchise and accepts without reservation the obligations imposed by the terms and conditions herein.

D. In case of conflict or ambiguity between the Transferred Franchise and the Franchise, the provision which provides the greatest benefit to County, as determined solely by County, shall prevail.

E. The Board's decision concerning its selection and awarding of the Transferred Franchise shall be final.

Section 14: FAILURE TO ENFORCE FRANCHISE

Grantee shall not be excused from complying with any of the terms and conditions of the Transferred Franchise by any failure of County, upon any one or more occasions, to insist upon the Grantee's performance or to seek Grantee's compliance with any one or more of such terms or conditions.

Section 15: COMPLIANCE WITH THE LAW

Grantee shall at all times, conduct its business under the Transferred Franchise in accordance with all federal, state and local laws, rules and regulations, as amended, including any future amendments thereto as may, from time to time, be adopted.

Section 16: INTERPRETATION/GOVERNING LAW

The interpretation and performance of the Transferred Franchise and of the general terms and conditions shall be in accordance with and governed by the laws of the State of Arizona.

Section 17: VENUE

Exclusive venue for any legal action to enforce the provisions, terms and conditions of the Transferred Franchise shall be the Superior Court of the State of Arizona in and for the County of Pinal, Florence, Arizona..

Section 18: SEVERABILITY

If any section, provision, term or covenant or any portion of any section, provision, term or covenant of the Transferred Franchise is determined to be illegal, invalid or unconstitutional, by any court of competent jurisdiction or by any state or federal regulatory agency having jurisdiction thereof, such determination shall have no effect on any remaining portion of such section, provision, term or covenant or the remaining sections, provisions, terms or covenants of the Transferred Franchise, all of which will remain in full force and effect for the term of the Transferred Franchise or any renewal or renewals thereof.

Section 19: FORFEITURE

A. If Grantee fails to comply with any of the provisions of this agreement or defaults in any of its obligations hereunder, except for causes beyond the reasonable control of Grantee; and shall fail within thirty (30) days after written notice from County to commence, and within a reasonable time, complete the correction of such default or noncompliance, County shall have the right to revoke this agreement and all rights of Grantee hereunder. In the event Grantee makes a general assignment or general arrangement for the benefit of creditors; or a trustee or receiver is appointed to take possession of substantially all of Grantee's Facilities within the Franchise Area or of Grantee's interest in this Transferred Franchise, where possession is not restored to Grantee within thirty (30) days; or Grantee's Facilities within the Franchise Area are subject to an attachment, execution or other seizure of substantially all of the Grantee's Facilities within the Franchise Area or this Transferred Franchise, where such seizure is not discharged within thirty (30) days, County may declare the Transferred Franchise, along with the Franchise, forfeited and terminated.

B. Nothing herein contained shall limit or restrict any other legal rights that County may possess arising from such violations.

Section 20: REVOCATION OF FRANCHISE

A. The Transferred Franchise, along with the Franchise, may after due written notice specifying any deficiencies and hearing, be revoked by County for any of the following reasons:

1. For material detrimental false or misleading statements in, or material adverse omissions from the application for the Transferred Franchise which are not cured within thirty (30) days of any finding of such hearing.

2. For failure to comply with any of the material terms and conditions of the Transferred Franchise which result in material and adverse consequence to the County that are not cured within thirty (30) days of any finding of such hearing.

B. Nothing herein contained shall limit or restrict any other legal rights that County may possess arising from such violations.

Section 21: ASSIGNMENT/TRANSFER/MERGER

A. Transferred Franchise may be assigned or transferred in whole, but not partially, subject to the approval of the County.

B. Grantee shall notify County of any intent to assign or transfer this Transferred Franchise prior to any hearings before the Arizona Corporation Commission.

C. Assignee or transferee is required to file with the Clerk of the Pinal County Board of Supervisors a writing acknowledging their unconditionally acceptance of the Transferred Franchise and any other expansion or amendments, and a covenant to faithfully comply with and perform all the provisions, terms and conditions of said franchise.

D. County shall be notified of any merger by Grantee to enable County to update its records.

Section 22: NOTICE

Notices required under the Transferred Franchise shall be delivered or sent by certified mail, postage prepaid to:

Grantor:

Clerk of the Pinal County Board of Supervisors
P.O. Box 827
31 N. Pinal
Florence, Arizona 85232

Grantee:

Diversified Water Utilities, Inc.
P.O. Box 17357
Phoenix, AZ 85011

The delivery or mailing of such notice shall be equivalent to direct personal notice and shall be deemed to have been given at the time of delivery. Either party may change its address under this section by written notice to the other party.

Section 23: REMEDIES

Rights and remedies reserved to the parties by the Transferred Franchise are cumulative and shall be in addition to and not in derogation of any other rights or remedies which the parties may have with respect to the subject matter of the Transferred Franchise and a waiver thereof at any time shall not affect any other time.

Section 24: RIGHT OF INTERVENTION

County hereby reserves to itself, and Grantee hereby grants to County, the right to intervene in any suit, action or proceeding involving any provision in the Transferred Franchise.

Section 25: BOOKS AND RECORDS

Grantee shall maintain books and records that identify all of Grantee's underground facilities by type and location within the Franchise Area. Grantee will make such books and records available to County upon County's request and without cost to County.

IN WITNESS WHEREOF, the Board of Supervisors of Pinal County, Arizona, by its Chairman and its Clerk, thereunto duly authorized, has hereunto set its hand and cause its official seal to be affixed on October 26, 1995.

PINAL COUNTY BOARD OF SUPERVISORS

Lionel D. Ruiz, Chairman

ATTEST:

Stanley D. Griffis, Ph.D., Clerk of the Board

APPROVED AS TO FORM:

GILBERTO V. FIGUEROA
PINAL COUNTY ATTORNEY

Eric L. Walberg, Deputy County Attorney

Exhibit A

OFFICIAL FILE

LAW OFFICES
MARTINEZ & CURTIS, P.C.
2712 NORTH 7TH STREET
PHOENIX, ARIZONA 85006-1003
TELEPHONE (602) 248-0372

Attorneys for Applicant

COPY

BEFORE THE BOARD OF SUPERVISORS

OF PINAL COUNTY, STATE OF ARIZONA

In the Matter of the Application of Quail Hollow Water Company, an Arizona corporation, for a Franchise.	FRANCHISE Resolution 22387-QHW

BE IT RESOLVED BY THE BOARD OF SUPERVISORS OF PINAL COUNTY, STATE OF ARIZONA, THAT:

WHEREAS, QUAIL HOLLOW WATER COMPANY, hereinafter designed as the Grantee, doing business in Pinal County, Arizona, has filed an Application with the Board of Supervisors of Pinal County, Arizona, bearing date of December 19, 1986, praying for the right, privilege, license and franchise to construct, maintain and operate a domestic water distribution system for a period of twenty-five (25) years for the transmission and delivery of water for domestic use along, upon, under and across public highways, roads, alleys and thoroughfares (excepting State

. . .

. . .

Highways), within that portion of Pinal County, Arizona, known and described as follows, to-wit:

> Sections 27, 34, and 35 in Township 2 South, Range 8 East, and Sections 2, 3, 4, 9, 10, 11, and 12 in Township 3 South, Range 8 East, Gila and Salt River Base and Meridian, Pinal County, Arizona, <u>except for</u> that land known as Sun Valley Farms Unit 6, consisting generally of the South half of Section 34, Township 2 South, Range 8 East, and the North half of Section 3, Township 3 South, Range 8 East, Gila and Salt River Base and Meridian, Pinal County, Arizona; Section 13; Section 14; Section 15; the South half of Section 17; Section 18, except the North half of the North half thereof; the East half and the NE quarter of the NW quarter of Section 19; Section 20; Section 21 except for the railroad right-of-way of approximately 1.84 acres crossing the NE corner thereof; Section 22 except for the railroad right-of-way crossing the Western and Southern halves thereof; Section 23; Section 27, except: (a) the railroad right-of-way crossing the NE quarter thereof consisting of approximately 11.95 acres; (b) tract A consisting of 69.28 acres; and (c) tract B consisting of 9.72 acres; Section 28; Section 29; the East half of Section 30; East half of the NE quarter of the NW quarter and the NE quarter of the NE quarter of Section 32; and a 5.28 acre parcel located in the West half of the West half of the SW quarter of the SW quarter of Section 33. All parcels included herein are located in Township 3 South, Range 8 East of the Gila and Salt River Base and Meridian situated in Pinal County, Arizona.

and not within the confines of any incorporated city or town, and under such restriction and limitations and upon such terms as the Board of Supervisors may provide, not inconsistent with the laws of the State of Arizona, or the orders and rules of the Corporation Commission of the State of Arizona, and that the Board take such proceedings herein as is provided by laws of the State of Arizona; and

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PHOENIX, AZ 85006-1003
(602) 248-0372

WHEREAS, upon filing said Application, the Board of Supervisors on the 7th day of January, 1987, ordered that public notice of the intention of said Board to make such grants be given by publishing a Notice in the Florence Reminder & Blade Tribune, a newspaper of general circulation, published in the County of Pinal, State of Arizona, and that 11:00 A.m. on the 23rd day of February, 1987, at the meeting room of said Board of Supervisors located in the City of Florence, Arizona, be set as the time and place of hearing the said Application; and

WHEREAS, the said Application coming on regularly for hearing on said day, and it appearing by the Affidavit of the duly authorized agent of the said time and place set for the consideration of such Application has been published for at least once a week for the three (3) week period prior to said date set forth herein, to-wit:

In the issues of the said paper on the 5 day of February, the 12th day of February, and the 19 day of February, and it appearing that no sufficient protest has been filed by the qualified electors of the said County petitioning said Board of Supervisors to deny such license and franchise and it further appearing the best interest of Pinal County will be served by the granting of said Application and the franchise referred to therein;

NOW, THEREFORE, the Board of Supervisors of Pinal County, State of Arizona, acting on behalf of said County does

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2712 NORTH 7TH STREET
HOENIX, AZ 85006-1003
(602) 248-0372

hereby grant unto Quail Hollow Water Company, doing business in Pinal County, Arizona, subject to the terms, conditions and limitations hereinafter contained, the right, privilege, license and franchise to construct, maintain and operate a domestic water distribution system, for a period of twenty-five (25) years, unless earlier terminated, for the supplying of this service along, upon, under and across the public highways, roads, alleys and throughfares (excepting State Highways) within that portion of Pinal, Arizona, hereinabove described above and not within the confines of any incorporated city or town, under such restrictions and limitations, and upon such terms as this Board at any time may provide, not inconsistent with the laws of the State of Arizona, or orders and rules of the Corporation Commission of the State of Arizona, specifically providing, however, that

(1) All rights hereunder are granted under the express condition that the Board of Supervisors of said Pinal County shall have the power at any time to impose such restrictions and limitations and to make such regulations on such highways, roads, and thoroughfares as may be deemed best for the public safety, health, welfare and convenience.

(2) All rights hereby granted shall be exercised so as to not interfere or conflict with any easements or rights-of-way heretofore granted by said Board of Supervisors and now in force.

(3) All rights hereby granted shall be exercised so as not to interfere or conflict with any easement, either public or

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private, of whatsoever nature, which has been acquired in or to the proper use of said highway, roads, and thoroughfares, or any portion thereof.

(4) All rights hereby granted shall be exercised so as not to interfere or conflict with or endanger in any way the proper use by the public of said highways, roads, and throughfares, or any portion thereof.

(5) That the said Grantee shall bear all expenses incurred, including damages and compensation for the alteration of the course, direction, surface, grade or alignment of any of the said highways, roads and thoroughfares necessarily made by the said Grantee for the purpose of this Franchise; that said Grantee will maintain his equipment at his own cost and expense and will make all necessary repairs from time to time as the same may be needed, without the necessity of notice from Pinal County. In the event the said Grantee shall fail to make any repairs within ten (10) days from the time same becomes necessary, then Pinal County may cause the same to be made, and said Grantee agrees to pay Pinal County the cost thereof.

(6) That all property of the Franchise be installed and operated by the said Grantee and shall be placed, removed or relocated, initially and throughout the term of this Franchise, along, in, over, under and across the said highways, roads and thoroughfares, in such a manner and location as the Board of Supervisors or its duly authorized agents may designate. Such

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placement, removal or relocation shall be done at the sole expense of the Grantee upon a determination by the Board of Supervisors of Pinal County that such placement, removal or relocation is necessary.

If Grantee fails or refuses to so remove or relocate, Pinal County may so remove or relocate, at the sole expense of Grantee, such expense to include any and all damages and compensation of whatsoever nature arising therefrom.

In this section the term "property" includes conduits, pipe, wires, poles, or other structures and appliances used to supply or deal in gas, electricity, lights, water, heat, refrigeration, power, telephones, telegraph, television and other public utilities.

Any finding or determination made by the Board of Supervisors pursuant hereto shall be final and binding upon the Grantee whether or not such findings or determinations relates to the requirements of public safety or welfare, the use of public roads or the need for proposed improvements, and whether or not the function to be served by such removal or relocation is of a governmental or proprietary nature.

(7) That said Grantee shall indemnify and save harmless, the said County of Pinal from all costs, expenses and liabilities in connection with the granting of this Franchise and exercise of the same by them.

(8) That the rights of any person claiming to be

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2712 NORTH 7TH STREET
PHOENIX, AZ 85006-1003
(602) 248-0372

injured in any manner by the maintenance of said projects and equipment shall not be affected hereby.

(9) That the terms and conditions of this Franchise shall inure to the benefit of, and be binding upon, all the heirs and assigns of the said Grantee.

(10) That the Franchise and privilege herein granted shall not be deemed to be exclusive and the said Board of Supervisors hereby expressly reserves the right and power to grant from time to time similar franchises and privileges over the same territory and highways, roads and thoroughfares.

(11) This Franchise is granted upon the express condition that the Certificate of Convenience and Necessity be procured from the Corporation Commission of the State of Arizona within six (6) months from the date of granting of this Franchise; and if such Certificate is not granted within six months from said date, then this Franchise to be void, otherwise to be in full force and effect for the time herein specified.

(12) All materials and construction methods used within the public right-of-way shall conform to the applicable standards, specifications and special provisions currently in effect in Pinal County.

(13) The Franchise holder shall obtain a construction permit from the office of the County Engineer prior to construction of any facilities in the public right-of-way.

. . .

. . .

LAW OFFICES
RTINEZ & CURTIS, P.C.
712 NORTH 7TH STREET
OENIX, AZ 85006-1003
(602) 248-0372

DATED this 23rd day of February, 1987.

Chairman, Board of Supervisors
Pinal County, Arizona

ATTEST:

Clerk, Board of Supervisors
Pinal County, Arizona

COPY

LAW OFFICES
MARTINEZ & CURTIS, P.C.
2712 NORTH 7TH STREET
PHOENIX, AZ 85006-1003
(602) 248-0372

Exhibit B

When recorded, return to:

Scott W. Gray, Esq.
Jones, Skelton & Hochuli
2901 North Central Avenue, Suite 800
Phoenix, Arizona 85012

OFFICIAL RECORDS OF
PINAL COUNTY RECORDER
KATHLEEN S. FELIX

DATE: 08/24/95 TIME: 1047
FEE : 13.00
PAGES: 6
FEE NO: 1995-026273

QUIT CLAIM DEED

KNOW ALL MEN BY THESE PRESENTS THAT:

QUAIL HOLLOW WATER COMPANY, an Arizona corporation (the "Grantor"), for and in good, valuable and received consideration to the Grantor, by these presents does hereby remise, release and forever quit claim unto QUAIL HOLLOW WATER COMPANY, INC., an Arizona corporation ("Grantee"), the real property (the "Property") located in Pinal County, Arizona, and being more particularly described in Exhibit "I" attached hereto and incorporated herein, together with all improvements located thereon and all rights, privileges, easements, tenements, hereditaments and appurtenances pertaining thereto, including all right, title and interest of the Grantor in and to all adjacent streets, roads, alleys and rights-of-way of the subdivision known as Quail Hollow Amended attached as Exhibit "II."

DATED this 31st day of March, 1995.

QUAIL HOLLOW WATER COMPANY,
an Arizona corporation

By: _____

Its: President

The shareholders of Grantor approve this Deed, and transfer all of their interest in the Property to Grantee.

_____
Robert B. Medland, a married man dealing with his sole and separate property

995-026273

Ronald G. Todd, a single man

Denise I. O'Connor

FORMERLY Denise Ricketts, a single woman
PRESENTLY DENISE I. O'CONNOR, a married woman

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 18th day of ~~March~~ April, 1995, by Robert B. Medland, President of QUAIL HOLLOW WATER COMPANY, an Arizona corporation, on behalf of the corporation.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Mary Lee Groce
Notary Public

My commission expires:

OFFICIAL SEAL
MARY LEE GROCE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Feb. 28, 1999

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 18 day of ~~March~~ April, 1995, by Robert B. Medland.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Mary Lee Groce
Notary Public

My commission expires:

OFFICIAL SEAL
MARY LEE GROCE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Feb. 28, 1999

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 18 day of ~~March~~ April, 1995, by Ronald G. Todd.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Mary Lee Groce
Notary Public

My commission expires:

OFFICIAL SEAL
MARY LEE GROCE
Notary Public - State of Arizona
MARICOPA COUNTY
My Comm. Expires Feb. 28, 1999

1995-026273

Commonwealth of
~~STATE~~ OF Massachusetts
) ss.
County of Middlesex)

The foregoing instrument was acknowledged before me this 31 day of March, 1995, by Denise Ricketts.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Kristin L. Antall
Notary Public
Kristin L. Antall

My commission expires:

8/24/01

EXHIBIT "I"

Legal Description

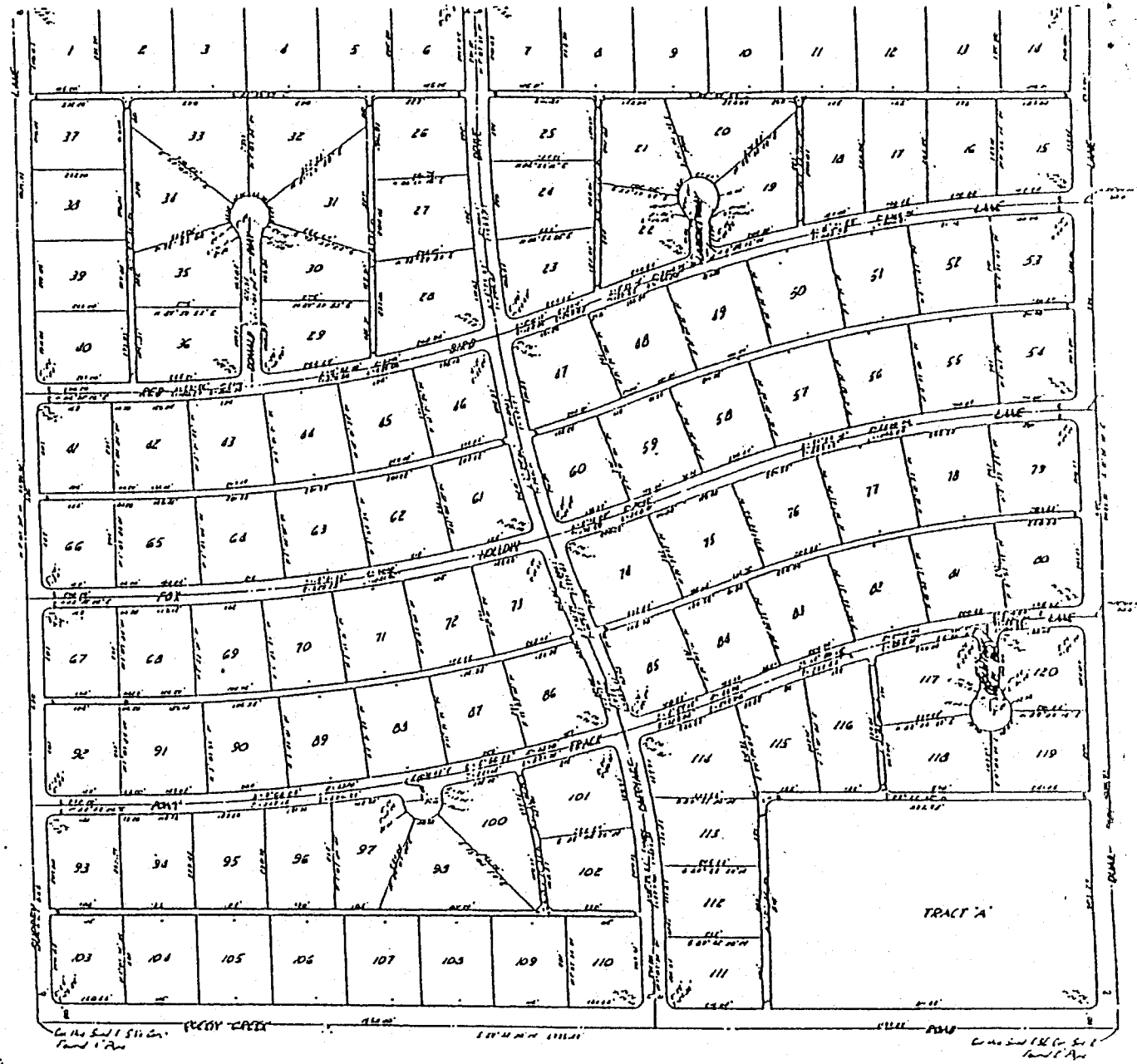
Lot 119, of QUAIL HOLLOW AMENDED, according to the plat of record in the office of the County Recorder of Pinal County, Arizona, in Book 10 of Maps, page 12.

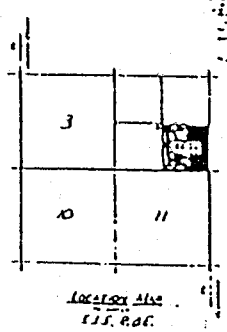
QUAIL HOLLOW
AMENDED

A SUBDIVISION OF SE¼ SECTION 2, T.3S., R.6E.
G&SRB&M, PIMA COUNTY, ARIZONA

AMERICAN ENGINEERING CO.

EXHIBIT II





LOCATION MAP
T.3S. R.6E.

BILL OF SALE

KNOW ALL MEN BY THESE PRESENTS:

That QUAIL HOLLOW WATER COMPANY, an Arizona corporation ("Transferor") for and in the consideration of the transfer to Robert B. Medland, Ronald G. Todd and Denise Ricketts of the total sum of 1,000 shares of voting common stock from Quail Hollow Water Company, Inc., an Arizona corporation ("Transferee"), the receipt, adequacy and sufficiency of which are hereby acknowledged and confessed has assigned, transferred and set over and does hereby grant, bargain, transfer, set over and deliver unto Transferee, its successors, transferees and assigns, the assets ("Assets") free and clear of any liens or encumbrances, as follows:.

A. All franchise rights and service area rights including, but not limited to, the Certificate of Convenience and Necessity issued to Seller by the Arizona Corporation Commission and the Franchise granted by Pinal County, Arizona for the territory specified on as Exhibit A attached hereto.

B. All water rights and wells, including any water rights with the Arizona Department of Water Resources.

C. The water system, including any transmission, distribution and service lines, hydrants, meters, water storage facilities, water pressure tanks, well pump motors, and any and all personal property utilized for the water distribution system.

D. All real property owned by Seller utilized for the water system, including present or future use and any easements or rights of way within the franchised area.

E. Any and all other property utilized by Seller in its water utility operations, including books and records, engineering drawings, customer accounts, and reports filed by Seller in connection with its utility operations.

Transferor hereby binds itself and its successors to warrant and defend the title to such Assets as against the acts of all parties.

IN WITNESS WHEREOF, Transferor has executed, conveyed and delivered this bill of sale on 31st day of March, 1995.

QUAIL HOLLOW WATER COMPANY, an Arizona corporation

By: _____

Its: _____

The shareholders set forth below warrant to Transferee that they are the only shareholders of Transferor, approve this Bill of Sale, and transfer all of their interest in the Assets to Transferee.

_____
Robert B. Medland

_____
Ronald G. Todd

_____
Denise Ricketts

FORMERLY → DENISE I. O'CONNOR

DWU\DOCS\BILLSALE

Exhibit C

Acceptance of Transferred Quail Hollow Water Distribution System Franchise

To: Board of Supervisors Pinal County, Arizona

Grantee, Diversified Water Utilities, Inc., f.k.a. Quail Hollow Water Company, Inc., an Arizona corporation, does hereby accept the grant of a Transferred Quail Hollow Water Distribution System Franchise from Pinal County, Arizona, to construct, operate, and maintain water distribution system lines and related fixtures along, under and across present and future public streets, alleys and highways, except state highways, within the unincorporated area of Pinal County, Arizona, pursuant to the **Transfer of The Quail Hollow Water Distribution System Franchise** approved by the Pinal County Board of Supervisors on October 26, 1995, which is hereby incorporated herein by reference.

Grantee unconditionally accepts the franchise and covenants to faithfully comply with, abide by, to observe and perform all the provisions, terms and conditions of the Transferred Quail Hollow Water Distribution System Franchise. Grantee accepts such provisions, terms and conditions and expressly waives any and all objections to the reasonableness or legality of any provisions of the same or any part thereof, or as to the legal right or authority of the County of Pinal to impose the same.

Grantee declares that the statements and recitals in said Transferred Quail Hollow Water Distribution System Franchise are correct, and Grantee declares it has made and does make the agreement, statements and admissions in said Transferred Quail Hollow Water Distribution System Franchise recited to have been or to be made by Grantee.

Dated this _____ day of _____, 19___.

Diversified Water Utilities, Inc., f.k.a. Quail Hollow Water Company, Inc.

By:_____

Title:_____

STATE OF ARIZONA)
) ss.
County of)

The foregoing instrument was acknowledged before me this _____ day of _____, 19____, by _____, _____ of Diversified Water Utilities, Inc., f.k.a. Quail Hollow Water Company, Inc., an Arizona corporation, and being authorized to do so, executed the foregoing instrument on behalf of the corporation for the purposes therein stated.

My Commission Expires:

_____

Notary Public _____

g:\...\spec-tax\fran-238.fin

Corporate Office
(602) 840-9400
fax (602) 840-6030
2850 E. Camelback Rd., Suite 200
Phoenix, AZ 85016-4316

Customer Service Office
(480) 677-6080
fax (480) 677-6082
3880 S. De Niza
Apache Junction, AZ 85219-7357

Diversified Water Utilities, Inc.

Quality Water
Quality Service

Member, AWWA
AWPCA
WUAA
EVWF

March 25, 2005

RECEIVED
MAR 30 2005
SPECIAL SERVICES

VIA CERTIFIED MAIL – 7004 0750 0000 8115 2950

Gary Medina
Special Services
Pinal County Government
P.O. Box 827
Florence, AZ 85232

Re: Amended Request for Expansion of Pinal County Franchise

Dear Mr. Medina:

This letter amends the request from Diversified Water Utilities, Inc. ("Diversified") for an extension of its franchised area for water service in Pinal County, Arizona. You have correctly informed us that we currently have a portion of the requested area within the existing Franchise Agreement with Pinal County, dated February 23, 1987, as amended by the Transfer of the Quail Hollow Water Distribution System Franchise dated October 26, 1995 ("Agreement"). Accordingly, we are revising our prior request and now request that the current franchise from Pinal County be expanded to add Sections 16, 24, 25 and 26 of Range 8 East, Township 3 South in Pinal County ("Expansion Area") to the existing areas covered by our Agreement. A Pinal County franchise for Sections 13, 14, 15 and 22 of Range 8 East, Township 3 South in Pinal County requested in our prior letter are already within our existing Agreement.

To further assist in this request, we are enclosing for the franchise amendment Arizona Corporation Commission ("ACC") Map No. 11 showing (i) the relevant portion of the current ACC certificated area for Diversified, (ii) the existing Pinal County franchise locations within Range 8 East Township 3 South and (iii) the Expansion Area.

Please prepare a proposed amendment for the revised Expansion Area to accomplish the requested franchise extension for our review and provide it to me at the above address.

Thank you for bring this matter to our attention. If you require any additional information or materials or if you anticipate any delay, please contact me immediately. Please do not hesitate to contact me with any questions you might have.

Very truly yours,

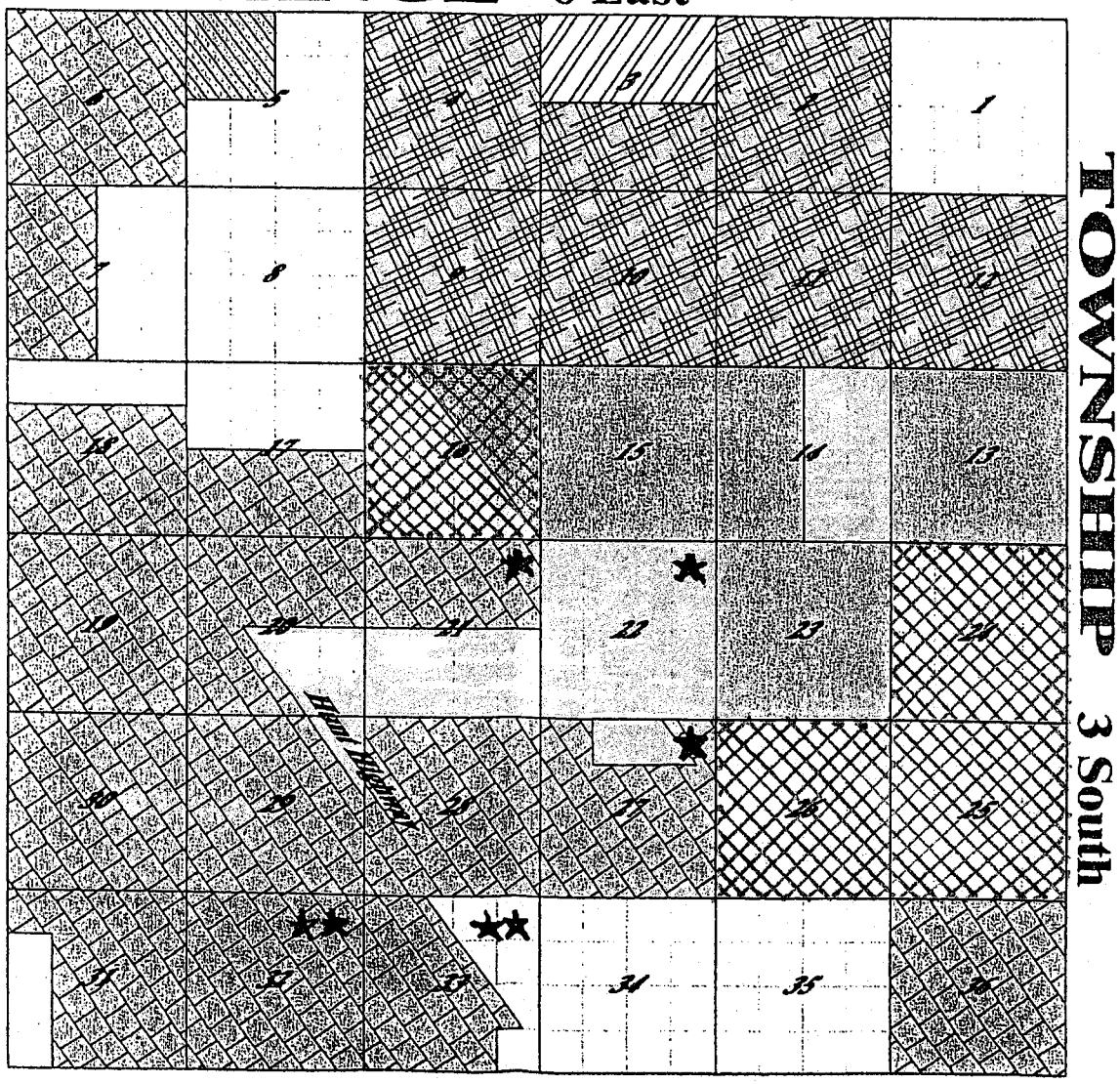
Scott W. Gray
President

SWG:tld
Enclosures
cc: William Sullivan, Esq. (with enclosures)

Map No. 11

COUNTY: *Pinal*

RANGE 8 East



W-2859 (3)
Diversified Water Utilities, Inc. (Current Franchise Area)

W-2234 (2)
H_2O, Inc.

WS-2987 (6) Sewer
Johnson Utilities Company

W-2425 (2)
Sun Valley Farms Unit VI Water Company

Requested Pinal County Franchise Extension Area

* Railroad right-of-way location within this Section excluded from Franchise by Pinal County Franchise Resolution 22387-QHW, dated February 23, 1987 (page 2 of Resolution attached hereto).

** Diversified has received a franchise from Pinal County for a portion of this Section as set forth in Pinal County Franchise Resolution 22387-QHW, dated February 23, 1987 (page 2 of Resolution attached hereto).

TR3S8E 22 APR 2003

Exhibit B

ACCEPTANCE OF EXPANDED AND AMENDED FRANCHISE

To: Board of Supervisors Pinal County, Arizona

Grantee, Diversified Water Utilities, Inc., a(n) Arizona corporation, does hereby accept the March 29, 2006 grant of a First Amended Franchise from Pinal County, Arizona, to construct, operate, and maintain domestic water system, lines and related fixtures along, under and across present and future public streets, alleys and highways, except state highways, within the unincorporated area of Pinal County, Arizona, as described in the Application, which is made a part hereof.

Grantee unconditionally accepts the franchise and covenants to faithfully comply with, abide by, to observe and perform all the provisions, terms and conditions of the First Amended Franchise. Grantee accepts such provisions, terms and conditions and expressly waives any and all objections to the reasonableness or legality of any provisions of the same or any part thereof, or as to the legal right or authority of the County of Pinal to impose the same.

Grantee declares that the statements and recitals in said First Amended Franchise are correct, and Grantee declares it has made and does make the agreement, statements and admissions in said First Amended Franchise recited to have been or to be made by Grantee.

Dated this ____ day of _____, 2006.

Diversified Water Utilities, Inc.

By:_____

Title:_____

STATE OF ARIZONA)
) ss.
County of)

The foregoing instrument was acknowledged before me this ___ day of ____, 2006, by _____, _____ of _____, a(n) Arizona corporation, and being authorized to do so, executed the foregoing instrument on behalf of the corporation for the purposes therein stated.

Notary Public

My Commission Expires: _____

_____

Exhibit C

SAMPLE ACCEPTANCE OF EXPANDED AND AMENDED FRANCHISE

To: Board of Supervisors Pinal County, Arizona

Grantee, Diversified Water Utilities, Inc., a(n) Arizona corporation, does hereby accept the March 29, 2006 grant of a First Amended Franchise from Pinal County, Arizona, to construct, operate, and maintain water lines and related fixtures along, under and across present and future public streets, alleys and highways, except state highways, within the unincorporated area of Pinal County, Arizona, as described in the Application, which is made a part hereof.

Grantee unconditionally accepts the franchise and covenants to faithfully comply with, abide by, to observe and perform all the provisions, terms and conditions of the First Amended Franchise. Grantee accepts such provisions, terms and conditions and expressly waives any and all objections to the reasonableness or legality of any provisions of the same or any part thereof, or as to the legal right or authority of the County of Pinal to impose the same.

Grantee declares that the statements and recitals in said First Amended Franchise are correct, and Grantee declares it has made and does make the agreement, statements and admissions in said First Amended Franchise recited to have been or to be made by Grantee.

OFFICIAL RECORDS OF
PINAL COUNTY RECORDER
LAURA DEAN-LYTLE

When recorded mail to:

Clerk of the Board Office
P.O. Box 827
Florence, Arizona 85232

DATE/TIME: 04/03/06 1534
FEE: $0.00
PAGES: 2
FEE NUMBER: 2006-047528

(The above space reserved for recording information)

CAPTION HEADING

Acceptance by Diversified Water Utilities of their expanded and amended franchise.

ACCEPTANCE OF EXPANDED AND AMENDED FRANCHISE

To: Board of Supervisors Pinal County, Arizona

Grantee, Diversified Water Utilities, Inc., a(n) Arizona corporation, does hereby accept the March 29, 2006 grant of a First Amended Franchise from Pinal County, Arizona, to construct, operate, and maintain domestic water system, lines and related fixtures along, under and across present and future public streets, alleys and highways, except state highways, within the unincorporated area of Pinal County, Arizona, as described in the Application, which is made a part hereof.

Grantee unconditionally accepts the franchise and covenants to faithfully comply with, abide by, to observe and perform all the provisions, terms and conditions of the First Amended Franchise. Grantee accepts such provisions, terms and conditions and expressly waives any and all objections to the reasonableness or legality of any provisions of the same or any part thereof, or as to the legal right or authority of the County of Pinal to impose the same.

Grantee declares that the statements and recitals in said First Amended Franchise are correct, and Grantee declares it has made and does make the agreement, statements and admissions in said First Amended Franchise recited to have been or to be made by Grantee.

Dated this 29th day of March, 2006.

Diversified Water Utilities, Inc.

By: [signature]

Title: President

STATE OF ARIZONA)
) ss.
County of)

The foregoing instrument was acknowledged before me this 29 day of March 2006, by Scott Wingfield Gray of Diversified Water Utilities a(n) Arizona corporation, and being authorized to do so, executed the foregoing instrument on behalf of the corporation for the purposes therein stated.

Notary Public [signature]

My Commission Expires:

OFFICIAL SEAL
KARON L. SIMMONS
NOTARY PUBLIC-STATE OF ARIZONA
PINAL COUNTY
My Comm. Expires 4-21-06