



BEFORE THE ARIZONA CORPORATION COMMISSION

2006 OCT 16 P 1:39

COMMISSIONERS

JEFF HATCH-MILLER - Chairman
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

AZ CORP COMMISSION
DOCUMENT CONTROL

DOCKETED

OCT 16 2006

DOCKETED BY [Signature]

W-01445A-06-0662

IN THE MATTER OF THE APPLICATION
OF ARIZONA WATER COMPANY, AN
ARIZONA CORPORATION, TO EXTEND
ITS EXISTING CERTIFICATE OF
CONVENIENCE AND NECESSITY AT
CASA GRANDE, PINAL COUNTY,
ARIZONA

DOCKET NO. W-01445A-06-

APPLICATION TO EXTEND
EXISTING CERTIFICATE OF
CONVENIENCE AND NECESSITY TO
INCLUDE ADDITIONAL TERRITORY

ARIZONA WATER COMPANY, an Arizona corporation, ("AWC") through its undersigned counsel, presents the following Application to extend its existing Certificate of Convenience and Necessity ("CC&N") for its Casa Grande system. This Application is based on the following:

1. AWC presently holds CC&Ns issued by the Arizona Corporation Commission (the "Commission") in various decisions beginning in 1955 for the purpose of providing water service in the City of Casa Grande and the surrounding area in Pinal County, Arizona.

2. The areas that AWC seeks to add to its CC&N are described in Exhibit 1 and shown in Exhibit 2 hereto. MC Homes, LLC and property owners Michael and

1 Cheryl George have requested AWC to provide water service to their property, known
2 as Ghost Hollow Estates, which is the area to be added to AWC's CC&N described in
3 Exhibit 1, and they requested AWC to apply to the Commission for authority to include
4 ttheir property within AWC's CC&N. A copy of the letter from MC Homes, LLC is
5 attached as Exhibit 3.

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8 3. AWC presently owns and operates water system facilities in the vicinity of
9 the areas described in Exhibit 1 that are used to serve existing customers, and will be
10 used to provide service to future customers.

11
12 4. AWC estimates the total number of customers to be served in the areas
13 described in Exhibit 1 will be approximately 260 within five years following the date of
14 the filing of this Application.

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17 5. The name and address of the owner of the property described in Exhibit 1
18 is shown in Exhibit 4 hereto. The property owner will be mailed the public notice
19 attached as Exhibit 5 hereto.

20
21 6. AWC is financially able to construct, operate, and maintain the facilities
22 necessary to provide service to the area described in Exhibit 1. AWC's latest financial
23 statement is attached as Exhibit 6 hereto.

1 demonstrating sufficient water supplies to serve the area described in Exhibit 1, is
2 attached as Exhibit 12 hereto.

3
4 14. The City of Casa Grande will provide wastewater treatment service to the
5 Ghost Hollow Estates development. AWC is aware of no existing or planned high water
6 use amenities such as golf courses or other turf areas, for the area described in Exhibit
7 1.

8
9
10 15. Public convenience and necessity will be served by having AWC extend
11 its CC&N to include the area described in Exhibit 1.

12
13 16. AWC proposes to utilize its currently authorized Casa Grande system
14 rates and charges for service to the area described in Exhibit 1. AWC will continue to
15 charge these rates until the Commission changes the rates.

16
17
18 17. MC Homes, LLC has already applied for a Certificate of Assured Water
19 Supply from the Arizona Department of Water Resources using AWC's PAD as its proof
20 of assured water supply availability.

21
22 WHEREFORE, AWC respectfully requests that the Commission hold a hearing
23 on this Application, and enter an order, or, in the alternative, that it enter an order
24 without the necessity of a hearing, which order shall provide for the following:
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- A. Issuing to AWC a Certificate of Convenience and Necessity for the area described in Exhibit 1 hereto.

- B. Granting such other further and general relief as appropriate in the premises.

RESPECTFULLY SUBMITTED this 16th day of October 2006.

ARIZONA WATER COMPANY

By: *Robert W. Geake*
Robert W. Geake
Vice President and General Counsel
ARIZONA WATER COMPANY
Post Office Box 29006
Phoenix, Arizona 85038-9006

1 Original and thirteen (13) copies of the foregoing filed this 16th day of October 2006
with:

2
3 Docket Control Division
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007

7 A copy of the foregoing was mailed this 16th day of October 2006 to:

8 Christopher Kempley, Chief Counsel
9 Legal Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Ernest G. Johnson
14 Director, Utilities Division
15 Arizona Corporation Commission
16 1200 West Washington Street
17 Phoenix, Arizona 85007

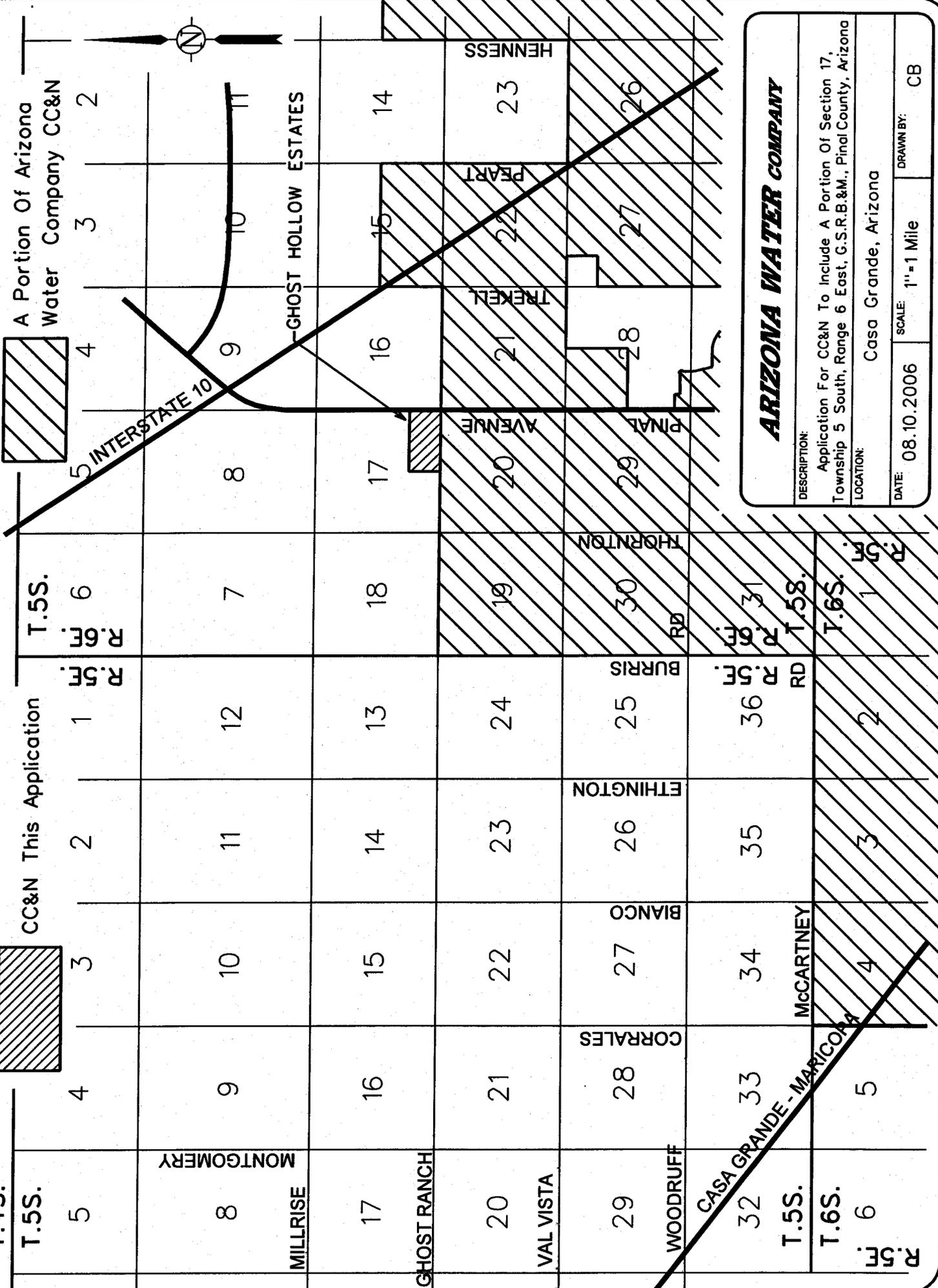
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By: *Robert W. Bedke*

EXHIBIT 1

CC&N Description

The South half of the Southeast quarter of Section 17, Township 5 South, Range 6 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

EXHIBIT 2



ARIZONA WATER COMPANY

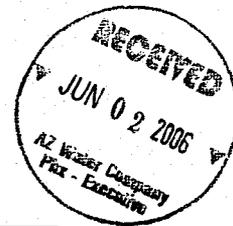
DESCRIPTION:
Application For CC&N To Include A Portion Of Section 17,
Township 5 South, Range 6 East, G.S.R.B.&M., Pinal County, Arizona

LOCATION:
Casa Grande, Arizona

DATE: 08.10.2006 SCALE: 1"=1 Mile DRAWN BY: CB

MC HOMES, LLC

building quality homes since 1965
ROC 178954



P.O. BOX 20926
MESA, AZ 85277-0926
(480) 786-1104
FAX (480) 786-1105

May 30, 2006

TRANSMITTED VIA FAX – HARD COPY MAILED

Mr. William Garfield
President
Arizona Water Company
3805 N. Black Canyon Highway
Phoenix, Arizona 85015

**Re: Request for Utility Service and CC&N Expansion – Casa Grande System
Ghost Hollow Estates, S 1/2 , SE 1/4, Section 17, T5S, R6E**

Dear Mr. Garfield:

Michael and Cheryl George own the above referenced property. MC Homes is developing the property into Ghost Hollow Estates (see attached Preliminary Plat). The property is located immediately west of Pinal Avenue and adjacent to a portion of the Copper Mountain Ranch Master Planned Community.

The subject property was included in the previously filed Application to Extension of the Certificate of Convenience and Necessity (CC&N) that included the entire Copper Mountain Project (ACC Docket no. W-1445-04-743). We understand that this Application has not been acted upon by the Commission due to on-going litigation between the owners of Copper Mountain and the City of Casa Grande. Ghost Hollow Estates is not subject to this litigation. As such, we respectfully request that AWC provide water service to the property and initiate a process with the Arizona Corporation Commission, independent of Copper Mountain Ranch, to expand the CC&N to cover the subject property.

Thank you for your consideration of this request. Please notify me immediately if there are any difficulties in filing the CC&N Expansion in a timely manner.

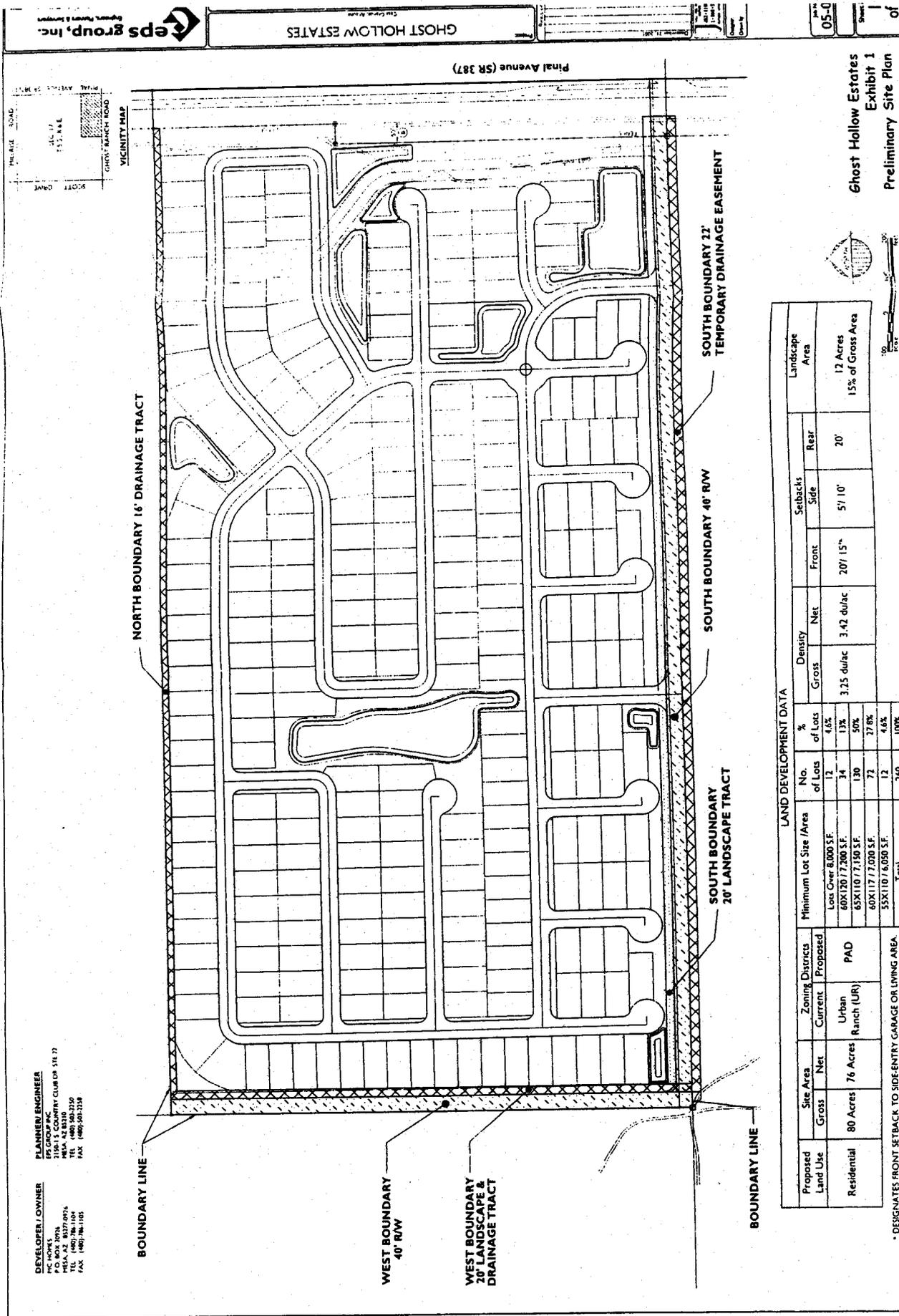
Sincerely,

A handwritten signature in black ink, appearing to read "Michael George".

Michael George
Managing Partner, MC Homes, LLC

cc: Bob Geake, AWC
Michael Lacey, Fluid Solutions

EXHIBIT 3



DEVELOPER / OWNER
 PFC HOMES
 P.O. BOX 3076
 GLENDALE, CA 91201
 TEL: (626) 261-1104
 FAX: (626) 261-1105

PLANNER / ENGINEER
 EPS GROUP, INC.
 11861 S. COUNTRY CLUB DR. 311-77
 GLENDALE, CA 91201
 TEL: (626) 333-2320
 FAX: (626) 333-2318

160-50

LAND DEVELOPMENT DATA

Proposed Land Use	Site Area		Zoning Districts		Minimum Lot Size / Area	No. of Lots	% of Lots	Density			Setbacks		Landscape Area
	Gross	Net	Current	Proposed				Gross	Net	Front	Side	Rear	
Residential	80 Acres	76 Acres	Urban Ranch (UR)	PAD	Lots Over 8,000 S.F. 60X170 / 7,200 S.F. 65X110 / 7,150 S.F. 60X117 / 7,020 S.F. 55X110 / 6,050 S.F.	12 34 130 72	4.0% 13% 50% 37.8%	3.25 du/ac 3.42 du/ac	207' 15"	5' / 10'	20'	12 Acres 15% of Gross Area	
Total								260	100%	260			

* DESIGNATES FRONT SETBACK TO SIDE-ENTRY GARAGE OR LIVING AREA.

EXHIBIT 4

509-85-003J
MICHAEL V. & CHERYL D. GEORGE
P.O. BOX 20926
MESA, AZ 85277

EXHIBIT 5

[Date]

«PropertyOwner»

«Address1»

«Address2»

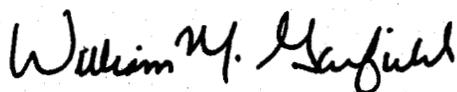
«City» «State» «PostalCode»

PINAL COUNTY ASSESSOR'S PARCEL NO.: «ParcelNumber»

PUBLIC NOTICE OF AN APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND
NECESSITY BY ARIZONA WATER COMPANY

Arizona Water Company has filed with the Arizona Corporation Commission ("Commission") an application for authority to provide water utility service to an area in which records indicate that you are a property owner. If the application is granted, Arizona Water Company would be the provider of water utility service to the proposed area. The Commission will require Arizona Water Company to provide this service under rates and charges and terms and conditions established by the Commission. The application is available for inspection during regular business hours at the offices of the Commission at 1200 West Washington Street, Phoenix, Arizona, and at Arizona Water Company, 220 East 2nd Street, Casa Grande, Arizona.

If you have questions or concerns about this application, have any objection to its approval, or wish to make a statement in support of it, you may contact the Consumer Services Section of the Arizona Corporation Commission at 1200 West Washington St., Phoenix, Arizona 85007 or call 1-800-222-7000.



WILLIAM M. GARFIELD
President

E-MAIL: mail@azwater.com

EXHIBIT 6

ARIZONA WATER COMPANY
Comparative Balance Sheet
at August 31, 2006

ASSETS

	Aug. 31, 2006	Aug. 31, 2005	Increase (Decrease)
UTILITY PLANT			
Gross Utility Plant	\$ 280,682,867	\$ 242,439,503	\$ 38,243,364
Less Accumulated Depreciation	65,142,216	60,050,364	5,091,852
Net Utility Plant	215,540,651	182,389,139	33,151,512
CURRENT ASSETS			
Cash on Hand and in Banks	7,526,636	1,537,020	5,989,616
Investments and Special Deposits	2,703	2,703	0
Accounts Receivable	2,776,280	2,637,879	138,401
Materials and Supplies	318,348	258,675	59,673
Other	418,440	433,764	(15,324)
Total Current Assets	11,042,407	4,870,041	6,172,366
DEFERRED DEBITS	6,154,783	6,862,955	(708,172)
TOTAL	\$ 232,737,841	\$ 194,122,135	\$ 38,615,706

LIABILITIES

CAPITALIZATION			
Common Stock	\$ 2,700,000	\$ 2,700,000	\$ 0
Capital Surplus	9,087,347	9,087,347	0
Retained Earnings	57,062,185	55,462,199	1,599,986
Common Stock Equity	68,849,532	67,249,546	1,599,986
Long-Term Debt	46,000,000	21,400,000	24,600,000
Total Capitalization	114,849,532	88,649,546	26,199,986
CURRENT LIABILITIES			
Notes Payable	0	3,750,000	(3,750,000)
Accounts Payable	3,220,947	3,845,182	(624,235)
Accrued Expenses	4,121,970	4,164,210	(42,240)
Other	685,584	567,696	117,888
Total Current Liabilities	8,028,501	12,327,088	(4,298,587)
DEFERRED CREDITS			
Advances for Construction	52,360,742	42,982,457	9,378,285
Contributions in Aid of Construction	26,031,761	23,358,044	2,673,717
Deferred Income Tax	17,971,013	17,848,831	122,182
Other	13,496,292	8,956,169	4,540,123
Total Deferred Credits	109,859,808	93,145,501	16,714,307
TOTAL	\$ 232,737,841	\$ 194,122,135	\$ 38,615,706

AUGUST 2006

ARIZONA WATER COMPANY
Comparative Statement of Income
August 31, 2006

	12 MONTHS TO DATE			AUGUST			8 Months to Date		
	2006	2005	2006	2005	2006	2005	2006	2005	2006
OPERATING REVENUE	\$ 44,978,814	\$ 40,938,375	\$ 3,987,137	\$ 3,888,034	\$ 30,136,807	\$ 27,373,908			
OPERATING EXPENSES									
Operation and Maintenance	21,713,127	19,640,871	1,878,576	1,733,215	14,615,490	13,335,781			
Depreciation	5,696,393	5,202,002	482,375	445,800	3,861,754	3,556,036			
Taxes Other Than Income Taxes	6,484,031	5,795,077	578,890	521,745	4,453,784	3,920,027			
Income Taxes	3,455,074	3,357,546	455,571	445,137	2,925,614	2,342,024			
Total Operating Expenses	37,348,625	33,995,496	3,395,412	3,145,897	25,856,642	23,153,868			
OPERATING INCOME	7,630,189	6,942,879	591,725	742,137	4,280,165	4,220,040			
OTHER (INCOME) AND DEDUCTIONS									
Other (Income) - Net	(160,204)	(3,437,621)	(16,600)	(3,425)	(152,535)	(17,791)			
Interest and Amortization on Long-Term Debt	1,820,393	1,827,620	176,047	149,475	1,222,490	1,217,386			
Other Interest	620,755	(15,739)	74,228	12,409	515,882	17,681			
Other - Net	(352,041)	(364,225)	(20,719)	(34,837)	(196,046)	(288,506)			
Total Other (Income) and Deductions	1,928,903	(1,989,965)	212,956	123,622	1,389,791	928,770			
NET INCOME	5,701,286	8,932,844	378,769	618,515	2,890,374	3,291,270			
Regular Common Dividends	4,101,300	3,890,700							
INCOME RETAINED	\$ 1,599,986	\$ 5,042,144							
Active Services	80,490	76,076							

AUGUST 2006

EXHIBIT 7

RESOLUTION NO. 3614

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE CITY OF CASA GRANDE, PINAL COUNTY, ARIZONA, DECLARING THAT SAID COUNCIL DEEMS THAT GRANTING OF A CERTAIN WATER FRANCHISE BENEFICIAL FOR THE CITY OF CASA GRANDE; ORDERING A SPECIAL ELECTION TO BE HELD ON THE 13TH DAY OF SEPTEMBER, 2005, AT WHICH ELECTION THERE SHALL BE SUBMITTED TO THE VOTERS OF SAID CITY THE QUESTION AS TO WHETHER OR NOT SAID FRANCHISE SHALL BE GRANTED TO ARIZONA WATER COMPANY; DESIGNATING ELECTION TO BE BY MAIL BALLOT PROCESS.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CASA GRANDE, PINAL COUNT, ARIZONA, AS FOLLOWS:

Section 1. That the Mayor and City Council of the City of Casa Grande deem the granting of the Franchise Agreement (identified in City records as C.G. No. 505-13, which is incorporated by this reference herein as if fully set forth herein) is beneficial to the City of Casa Grande.

Section 2. That an election is hereby called and ordered to be held in the City of Casa Grande on the 13th day of September, 2005, for the purpose of submitting to a vote of the qualified electors of the City of Casa Grande, the question as to whether the franchise under the terms and conditions of the above-referenced agreement shall be granted to Arizona Water Company.

Section 3. That the notice of said election shall be given by the City of Casa Grande by causing a copy of the resolution to be published in full according to law in the proper publication, namely, the Casa Grande Dispatch, a daily newspaper of general circulation printed and published in the City of Casa Grande, Pinal County, State of Arizona, affording not less than thirty (30) days notice prior to the date of the election. The publication shall be in English and Spanish.

Section 4. The City shall utilize the mail ballot election process. Casa Grande City Hall, 510 E. Florence Boulevard, Casa Grande, shall be designated as a re-issue center and drop-off site.

Section 5. That the ballots to be used at said election shall be substantially in the form set forth in Exhibit A, attached hereto and incorporated herein by this reference.

Further, the voter shall indicate his or her vote "For the franchise" or "Against the franchise" by inserting an "X" or other proper indication of their vote in the square opposite the phrase.

PASSED, ADOPTED AND APPROVED by the Mayor and Council of the City of Casa Grande, Arizona, by a majority of the members present and voting this 16th day of May 2005.



Mayor, City of Casa Grande

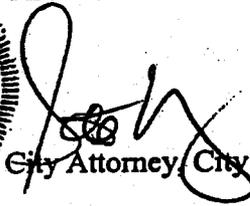
ATTEST:



City Clerk, City of Casa Grande



APPROVED AS TO FORM:



City Attorney, City of Casa Grande

STATE OF ARIZONA



Office of the
CORPORATION COMMISSION

CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, Brian C. McNeil, Executive Director of the Arizona Corporation Commission, do hereby certify that

*****ARIZONA WATER COMPANY*****

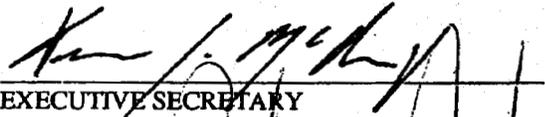
a domestic corporation organized under the laws of the State of Arizona, did incorporate on December 15, 1954.

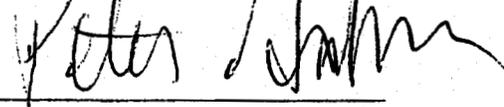
I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said corporation is not administratively dissolved for failure to comply with the provisions of the Arizona Business Corporation Act; and that its most recent Annual Report, subject to the provisions of A.R.S. sections 10-122, 10-123, 10-125 & 10-1622, has been delivered to the Arizona Corporation Commission for filing; and that the said corporation has not filed Articles of Dissolution as of the date of this certificate.

This certificate relates only to the legal existence of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 7th Day of November, 2005, A. D.




EXECUTIVE SECRETARY

BY: 

WATER USE DATA SHEET

Exhibit 9

NAME OF COMPANY	ARIZONA WATER COMPANY - Casa Grande
ADEQ Public Water System No.	11-009

MONTH/YEAR (LAST 13 MONTHS)	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED	GALLONS PURCHASED
August-06	20,844	386,558	419,403	0
July-06	20,728	462,815	485,525	0
June-06	20,396	433,590	487,459	0
May-06	20,294	315,496	455,678	0
April-06	20,066	282,544	320,179	0
March-06	19,773	267,679	306,065	0
February-06	19,421	261,330	283,961	0
January-06	19,213	269,149	305,254	0
December-05	19,089	285,407	280,927	0
November-05	18,895	327,561	330,540	0
October-05	18,670	375,638	383,468	0
September-05	18,314	398,883	412,325	0
August-05	18,181	366,708	384,751	0

STORAGE TANK CAPACITY (Gallons)	NUMBER OF EACH	ARIZONA DEPT. OF WATER RESOURCES WELL I.D. NUMBER	WELL PRODUCTION (Gallons per Minute)
Burgess Peak 2,000,000	1	D(6-6)9bbd - Casa Grande #9	1,000
Casa Grande Mtn 5,000,000	1	D(6-6)21bbc - Casa Grande #10	1,040
Cottonwood 1,000,000	1	D(6-6)23cbb - Casa Grande #19	1,560
Golf Course 115,000	1	D(6-6)22ddd - Singh/Quaid #22	1,000
Indian Hills 100,000	1	D(6-6)22bda - Casa Grande #25	1,320
North Park 650,000	1	D(6-6)21bbb - Cottonwood Lane #14	250
North Park 35,000	1	D(6-6)22bad - Casa Grande #20	1,110
Scott Drive 110,000	1	D(6-6)22baa - Casa Grande #23	1,550
Scott Drive 5,000,000	1	D(6-6)15cdd - Casa Grande #26	1,400
Tierra Grande #1 10,000	1	D(7-6)35ddd - AZ City/Battaglia #28	1,620
Tierra Grande #1 250,000	1	D(6-6)15ccb - Casa Grande #17	850
		D(6-6)22cdc - Casa Grande #21	740
		D(6-6)22cdd - Casa Grande #24	950
		D(6-7)5baa - Lake-in-the-Desert #27	550
		D(6-6)25dcd - Casa Grande #29	1,380
		D(6-6)22ddd Casa Grande #30	1,000
		D(6-6)15cad - Casa Grande #31	1,500
		D(8-6)1ddb - Del Rio #34	1,500

Other Water Sources in Acre Feet (Non-Potable CAP Water)	Acre/Ft	2554
Fire Hydrants on System	YES	NO
Total Water Pumped Last 13 Months (Gallons in Thousands)		4,855,535

EXHIBIT 10

**Arizona Department of Environmental Quality
Water Quality Compliance Assurance Unit
1110 W. Washington Street, 5415B-1
Phoenix, AZ 85007**

Drinking Water Compliance Status Report

Public Water System Name: Arizona Water Co.-Casa Grande

Public Water System ID #: 11-009

Public Water System Type: Community Non-transient Non-community Transient Non-community

Overall Compliance Status: No Major Deficiencies Major Deficiencies

Monitoring and Reporting Status: No Major Deficiencies Major Deficiencies

Comments:

Operation and Maintenance Status: No Major Deficiencies Major Deficiencies

Comments:

Major unresolved/ongoing operation and maintenance deficiencies:

- | | |
|--|--|
| <input type="checkbox"/> <u>unable to maintain 20psi</u> | <input type="checkbox"/> <u>inadequate storage</u> |
| <input type="checkbox"/> <u>cross connection/backflow problems</u> | <input type="checkbox"/> <u>surface water treatment rule</u> |
| <input type="checkbox"/> <u>treatment deficiencies</u> | <input type="checkbox"/> <u>approval of construction</u> |
| <input type="checkbox"/> <u>certified operator</u> | <input type="checkbox"/> <u>other</u> |

Date of last inspection / sanitary survey: 11-23-05

Administrative Orders:

Is an ADEQ administrative order in effect? Yes No

Comments:

System information:

Number of Entry Points to the Distribution System 9 **Number of Sources** 14

Population Served 55451 **Service Connections** 17304 **Initial Monitoring Year** 1993

Evaluation completed by: Jim Puckett

Phone: 602-771-4649 **Date:** 5-22-06

Based upon data submitted by the water system, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. This compliance status report does not guarantee the water quality for this system in the future. This compliance status report does not reflect the status of any other water system owned by this utility company.



ARIZONA WATER COMPANY

EXHIBIT 11 AGREEMENT FOR EXTENSION OF WATER FACILITIES

APPLICANT: MC Homes, LLC
 Name
P.O. Box 20926
 Address
Mesa, Arizona 85277-0926
 City and State, Zip Code

Contract No. _____
 W.A. No. _____

DATE OF AGREEMENT October 4, 2006 WATER SYSTEM: Casa Grande
 CONSTRUCTION START: Approximately 15 days after receiving all material and obtaining all necessary permits and approvals.
 PROJECT COMPLETION: Estimated to be within (180) days from the start date. DATE OF COST ESTIMATE (Attachment "A"): October 4, 2006
 WATER FACILITIES: as per drawing (Attachment "B").

Refundable Advance for Construction: Install 10,532 LF of 8" & 12" DIP and Related Fittings To Serve Ghost Hollow Estates, Phase One - Onsite	\$ 671,769.00
Non-refundable Contribution in Aid of Construction: Install Nine 6" Fire Hydrants - Complete	\$ 9,345.00
Less: Main Extension Deposit Received	\$ -
Total of Required Advance and Contribution (Check #1)	\$ 681,114.00

CENTRAL ARIZONA PROJECT Hook-Up Fee ("CAP Fee") Payable After Agreement Approved by Arizona Corporation Commission (ACC)

Number of Meters	X Casa Grande		Coolidge		White Tank		CAP Fee
	In	Out	In	Out	In	Out	
5/8" x 3/4"	71						\$ 14,768.00
1"	0						\$ -
2"	0						\$ -
3"	0						\$ -
4"	0						\$ -
6" or larger	0						\$ -
							Subtotal \$ 14,768.00
							\$ 1,754.88

Applicable Rate & Tax 0.11883 0 0

Total Non-refundable Hook-Up Fee Due Within 15 Days Upon Approval of this Agreement (Check #2) \$ 16,522.88

The Project Will Not Be Released to Construction Until the CAP Fee Has Been Paid.

Total (of Two Checks Payable by Applicant) \$ 697,636.88

THIS AGREEMENT is made and entered into by and between ARIZONA WATER COMPANY, an Arizona corporation, (hereinafter called the "Company"), and the Applicant named above. In consideration of the services to be performed by the Company and the sums of money to be paid by the Applicant, in accordance with the related Cost Estimate, it is agreed as follows:

- The Company will construct, or will arrange for the construction of the Water Facilities as described above.
- The Applicant will pay to the Company upon signing this Agreement the Total shown above, receipt of which is hereby acknowledged by the Company. The Total shown above to be paid by the Applicant to the Company is the Company's estimated cost of construction of the Water Facilities. The Company will determine and inform the Applicant of the actual cost of construction within sixty (60) days after the completion of construction or the Company's receipt of all invoices and charges related to the construction. If the actual cost of construction is less than the Total amount paid, the Company will refund the difference to the Applicant; conversely, if the actual cost of construction is more than the Total amount paid, the Applicant shall pay the difference to the Company within sixty (60) days of receipt of an invoice from the Company. However, if the actual cost is more than five percent (5%) greater than the Total amount paid, the Applicant will only be required to pay five percent (5%) more than the Total amount paid, unless the Company can demonstrate that the increased costs were beyond its control and could not be foreseen at the time the estimate for the Total amount paid was made. The Company and the Applicant further agree that the amount subject to refund pursuant to paragraph 3 of this Agreement shall be the refundable portion of the Company's actual cost of construction. Information about the actual cost of construction will be attached to this Agreement and forwarded to the Applicant.
- Refunds of any Advance For Construction shall be made as follows: each year for a period of 10 years the Company shall pay to the Applicant or the Applicant's assignee or successor in interest, provided the Company has first received written notice and evidence of such assignment or succession and approved of same, an amount equal to 10 percent of the total gross annual revenue received by the Company from water sales to each bona fide Applicant whose service line is directly connected to pipelines installed pursuant to this Agreement. Refunds shall be made by the Company on or before August 31 of each year, covering any water revenues received during the preceding July 1 to June 30 period. Any balance remaining subject to refund at the end of the 10-year period shall become non-refundable. Aggregate refunds shall in no event exceed the total of the refundable Advance For Construction received from the Applicant. No interest shall be paid by the Company on any amounts paid hereunder.
- All Water Facilities installed under this Agreement shall be the sole property of the Company, and the Applicant shall have no right, title or interest in or to any such facilities.
- The size, design, type and quality of materials and of the system, location and manner of installation, shall be specified by the Company and shall comply with requirements of the Arizona Corporation Commission or other public agencies having authority therein.
- The Applicant agrees to furnish to the Company adequate and recordable easements and required surveying necessary to serve each parcel or lot within the Applicant's subdivision, tract, development, or project.
- The Applicant agrees that all easements and rights-of-way shall be free of obstacles which may interfere with the construction of the Company's Water Facilities. If the Applicant's subdivision, tract, development, or project involves road construction, all roads and drainage ways will be brought to grade by the Applicant prior to the commencement of the installation of the Company's Water Facilities. No pavement or curbs shall be installed prior to completion of all Water Facilities. If any street, road, alley or drainage way is installed at a different grade or location after the beginning of the installation of Water Facilities, the Applicant shall bear all costs incurred by the Company to relocate the Water Facilities as a result of said facilities having improper cover or location. Such costs shall be non-refundable.
- The Applicant agrees to pay to the Company any additional costs incurred as a result of design changes made or caused by the Applicant or its employees, agents, servants, contractors or subcontractors, the Arizona Department of Environmental Quality, the Arizona Corporation Commission, any county health department or other public agency under whose jurisdiction the subject construction may fall, or anticipated or un-anticipated changes in existing Company facilities, due to any work associated with this subdivision, tract, development or project which causes said facilities to have improper cover or location.
- This Agreement shall be binding upon and for the benefit of the successors and assigns of the Company and the Applicant. No assignment or transfer of this Agreement by the Applicant shall be binding upon the Company or create any rights in the assignee until such assignment or transfer is approved and accepted in writing by the Company.
- This Agreement, and all rights and obligations hereunder, including those regarding water service to the Applicant, are subject to the Arizona Corporation Commission's "Rules and Regulations" and the Company's tariff schedule TC-243, "Terms and Conditions for the Provision of Water Service."

ARIZONA WATER COMPANY
 Company
 By: [Signature]
 Title: ENGINEERING TECHNICIAN

MC Homes, LLC
 Applicant
 By: [Signature]
 Title: [Signature]

EXHIBIT 12

ARIZONA DEPARTMENT OF WATER RESOURCES

Hydrology Division

500 North Third Street, Phoenix, Arizona 85004

Telephone 602 417-2448

Fax 602 417-2425



April 24, 2002

RECEIVED

APR 26 2002

ARIZONA WATER COMPANY
PHOENIX - EXECUTIVE

JANE DEE HULL
Governor

JOSEPH C. SMITH
Director

Mr. William Garfield
Arizona Water Company
3805 North Black Canyon Highway
Phoenix, Arizona 85015

RE: **Arizona Water Company**
Application for Physical Availability Demonstration #20-400600

Dear Mr. Garfield:

The Department has completed review of the report entitled *Hydrology Study Report, Pinal AMA, Casa Grande Groundwater Flow Model*, prepared by Clear Creek Associates, August 31, 2001. The area of review has been limited to the Casa Grande (including Arizona City), Coolidge, and Tierra Grande service areas of Arizona Water Company's Pinal County CC&Ns. The model study area is located primarily in the Maricopa-Stanfield and Eloy sub-basins of the Pinal Active Management Area.

In accordance with A.A.C. R-12-15-702(C), it was determined that approximately 57,507 acre-feet per year of groundwater is available for the Casa Grande service area; 13,510 acre-feet per year is available for the Coolidge service area; and 4,786 acre-feet per year is available for the Tierra Grande service area. These quantities represent the amount of groundwater available for new demands within the service area of each system. The groundwater is projected to be physically available for 100 years under A.A.C. R-12-15-703(B) for assured water supply purposes in the respective areas. Currently, the water supply systems are in compliance with water quality standards for the purposes of A.A.C. R-12-15-704. It is the Department's conclusion that, pumping the projected demands for 100 years, will take the depth-to-static water level to approximately the maximum depth allowed by A.A.C. R-12-15-703(B).

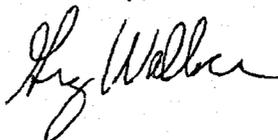
The results of the Department's hydrologic review fulfill the requirements of A.A.C. R12-15-702 (C) and can be cited in applications for a Certificates of Assured Water Supply or for Designation of Assured Water Supply. These applications have certain additional requirements based on the assured water supply criteria referenced in A.R.S. §45-576 and A.A.C. R-12-15-701 *et. seq.* For further information on these requirements, please contact the Office of Assured and Adequate Water Supply Certification at (602)417-2465. **If the Department finds that the groundwater supply is not available because the assumptions and information used in determining the physical availability under the current criteria prove incorrect, the Department will modify the availability of groundwater accordingly.**

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April 24, 2002
Mr. William Garfield
Arizona Water Company
Application for Physical Availability Demonstration #20-400600

The Department's determination is an appealable agency action. In order to appeal this decision, you must request an appeal within thirty (30) days from receipt of this letter. I have enclosed a summary of the appeals process and an appeal form should you wish to pursue this option.

If you have any questions regarding the physical availability review, please contact me at (602) 417-2448.

Sincerely,



Greg Wallace
Chief Hydrologist

GW/KM/rd
202245

cc: Steve Corell, Clear Creek Associates
Doug Dunham, ADWR
Dennis Kimberlin, ADWR, Pinal AMA