ORIGINAL

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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: October 6, 2006

RE: STAFF REPORT FOR THE ARIZONA CORPORATION COMMISSION'S GENERIC EVALUATION OF THE REGULATORY IMPACTS OF NON-TRADITIONAL FINANCING ARRANGEMENTS BY WATER FROM THE USE OF UTILITIES AND THEIR AFFILIATES - DOCKET NO. W-00000C-06-0149

Attached is the Staff Report for the Arizona Corporation Commission's evaluation of the regulatory impacts of non-traditional financing arrangements for water and wastewater utilities and their affiliates. This Report does not address the issue of whether entities using certain non-traditional financing arrangements are or are not public service corporations.

EGJ:JJD:CCK:lhm

Originator: James J. Dorf

Arizona Corporation Commission
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Docket No. W-00000C-06-0149

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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

THE REGULATORY IMPACTS FROM THE USE OF NON-TRADITIONAL FINANCING ARRANGEMENTS BY WATER AND THEIR AFFILIATES UTILITIES

DOCKET NO. W-00000C-06-0149

OCTOBER 2006

EXECUTIVE SUMMARY

In connection with the Arizona Corporation Commission's ("Commission") evaluation of the regulatory impacts of non-traditional financing arrangements by water and wastewater utilities and their affiliates, Staff offers its comments regarding such transactions. In general, Staff recommends that the substance, rather than the form, of the transaction should be evaluated to determine the appropriate regulatory treatment.

Regarding the appropriate regulatory treatment of certain non-traditional funding methods, Staff encourages the development of policies that will facilitate either regulated or non-regulated entities to seek regional solutions to Arizona's water and wastewater infrastructure development. Staff concludes that certain non-traditional financing methods can provide appropriate long-term solutions which promote conservation of water supplies and efficient wastewater utilization. The appropriate regulatory treatment should be determined on a case by case basis. However, based on the scenarios contained in this report, Staff recommends that the costs be treated as advances or contributions instead of equity for ratemaking purposes.

In addition to its review of non-traditional financing methods, Staff requested comments on the proper level of Advances in Aid of Construction ("AIAC") and/or Contributions in Aid of Construction ("CIAC"). Staff continues to recommend that such funding not exceed 30 percent of capital expenditures for private and investor owned utilities.

Staff also requested comments on the proper capital structure for "new" utilities. Staff typically recommends capital structures with at least 40 percent equity as appropriate to provide a balance of cost and financial health for regulated utilities and ratepayers. However, "new" utilities usually require higher levels of equity and should be determined on a case-by-case basis. Staff generally recommends a minimum of 100 percent equity for "new" utilities with variances allowed for good reason.

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Introduction

On March 8, 2006, a generic docket was opened for the Arizona Corporation Commission ("Commission" or "ACC") in the matter of the Commission's generic evaluation of the regulatory impacts from the use of non-traditional financing arrangements by water and/or wastewater utilities ("utilities") and their affiliates.

On June 2, 2006, the Commission's Utilities Division Staff ("Staff") docketed a series of scenarios and questions which outlined three separate non-traditional financing arrangements for water and wastewater companies (including their affiliates) and requested that respondents propose their perspective of the appropriate regulatory treatment for each arrangement.

The Staff also requested comments on the maximum percentage of total capital that refundable Advances in Aid of Construction ("AIAC") and non-refundable Contributions in Aid of Construction ("CIAC") should represent. Additionally, Staff requested that respondents comment on the most economical capital structure for "new" water or wastewater utilities.

On June 7, 2006, Commissioner Mundell submitted in this docket a memorandum requesting Global Water Resources, LLC ("Global") to make a presentation on "matters of public interest regarding agreements it has with local governmental entities and developers." Commissioner Mundell suggested that Global address the following issues related to Infrastructure Coordination Agreements it has with the cities of Maricopa and Casa Grande and private land owners and developers:

1. The nature of its (Global) relationship with local governments.

2. The nature of its Infrastructure Coordination and Finance Agreements ("ICFAs"), especially

    a. Global's perspective on the role of the Arizona Corporation Commission regarding the agreements.

    b. The nature of "per dwelling fees" versus "hook-up fees".

    c. Why do customers need a middleman to "coordinate" services to be provided by a public service corporation?

On June 12, 2006, Chairman Hatch-Miller docketed a memorandum in support of Commissioner Mundell's request and suggested that municipalities and developers also participate.

Background

Global has entered into several ICFAs and Memorandums of Understanding ("MOU") agreements with developers and /or municipalities. The services to be provided under these agreements are presented below. These agreements require Global to provide certain services that have been traditionally performed by ACC regulated water and wastewater utilities.

Global's states that "With regard to the ICFAs, these agreements are merely a financing tool which place the standards and resource planning squarely in the hands of Global, rather than the developers. By allowing the infrastructure planning and resource development to be managed by Global, substantial long-term benefits are achieved, including: regionalization; rate stability; and risk protection."[1]

Global adds that ICFAs permit the pursuit of (1) conservation of groundwater; (2) consolidation of small or unviable utilities; and (3) cooperation with regulators, local government and developers. Payments made to Global under the ICFAs merely compensate Global for the carrying cost associated with this infrastructure development. It also indicated that IFCAs partially funded Global's acquisition of West Maricopa Combine, Inc.[2]

These Global matters are mentioned here because it is primarily these matters that initiated this docket.

Presented below is Staff's preliminary evaluation of the preferred regulatory treatment for the non-traditional financing arrangements. Staff first presents a summary of the services provided for under these agreements, then a summary of Staff's response to Scenarios 1, 2, and 3. Staff then presents a summary of possible regulatory treatments related to these non-traditional financing arrangements.

Finally, Staff provides its perspective regarding AIAC, CIAC and the proper capital structure for "new" water and wastewater utilities.

Services Provided Under ICFA and MOU Agreements

Global's response and Commissioner Mundell's filing include examples of ICFAs, MOUs or other agreements, some of the parties to which may not be regulated by the Commission. The services offered under these agreements include[3]:

1. Coordination meetings.

2. Conservation coordination efforts.

[1] Global's Motion to Dismiss and Answer, page 1.
[2] Global's Response to Arizona Water Company's Request for Oral Argument, page 3.
[3] Items 1-7 from Exhibit B MOU in Global's response; items 8-13 from Exhibit B ICFA in Commissioner Mundell's June 7, 2006 filing;

3. Reclamation projects.

4. Economic development efforts.

5. Annual land-use planning documents.

6. Community outreach programs.

7. Annexation assistance.

8. Financing and coordination fee which represents an approximation of the carrying costs associated with interest and capitalized interest associated with the financing of infrastructure for the benefit of the Landowner, until such time as the rates associated from the provision of services within the areas to be served as contemplated by this Agreement generate sufficient revenue to carry the on going carrying costs for this infrastructure.

9. Obtaining permits from ACC, Arizona Department of Water Resources, Arizona Department of Environmental Quality, and Central Arizona Association of Governments.

10. Coordinate with regulated water and wastewater companies to facilitate the provision of service.

11. Coordinate and provide access to utility agreements for water, wastewater, natural gas, electricity, telephone, cable television, internet, and internet services.

12. Coordinate with Landowner the granting of easements and rights of way.

13. The transfer of water rights and wells to regulated water/wastewater companies.

14. See attached Exhibit B which is a description of the services to be provided by the coordinator (from the agreement in Exhibit C of Commissioner Mundell's June 7, 2006 filing).

Many of the above services are usually provided by ACC regulated public service corporations. The cost of providing many of these services, had they been incurred by a regulated water or wastewater utility, would be capitalized as either Organization (Account 301), Franchises (Account 302), Land and Land Rights (Account 303), Wells (Account 307) or other plant accounts under the Uniform System of Accounts ("USoA") promulgated by the National Association of Regulatory Utility Commissioners. See Exhibit A for a copy of the USoA instructions for these accounts.

Staff concludes that, to the extent these services are provided under contracts between non-regulated entities, it is unclear whether the Commission has jurisdiction over the contracts or the related activities. However, the Commission does have jurisdiction over the regulated utilities affected by these agreements and how these utilities account for these costs.

Responses to Staff's Questions

On June 23, 2006, eight responses to Staff's scenarios and questions regarding non-traditional financings were submitted to Docket Control. A summary of the responses is provided on Schedule JJD-1. The responses offered a variety of opinions on each of the questions posed by Staff. There appears to be no consensus as to the proper regulatory treatment to be afforded each of the circumstances posed.

Staff's Response

Staff has developed preliminary positions for its scenarios and questions.

Scenario 1:

A developer purchases a non-regulated parent company's non-voting stock. Each of the non-voting shares has a par value of $1.00, is not eligible for dividends, is partially refundable and can be repurchased (subject to certain conditions) by the non-regulated parent for one cent ($0.01). The parent company subsequently contributes the funds to an ACC regulated subsidiary water utility as additional paid-in-capital.

The form of the transaction at the parent level is somewhat irrelevant. Staff's position is that each case will have to be evaluated on its own merits and appropriate regulatory treatment should follow the substance, rather than the form, of the transaction.

The transactions posed by this scenario are similar to that of a Certificate of Convenience and Necessity ("CC&N") application by Litchfield Park Service Company ("LPSCO").[4] LPSCO's parent company proposed to charge developers a Treatment Plant and Effluent Disposal ("TPED") Facilities charge of $1,500 per equivalent residential unit for which the developers would receive the non-voting class B stock of the parent company. Based upon the facts presented in that case, Staff concluded that any amounts contributed by the parent to LPSCO that were related to the TPED charges would be treated as if they were advances in aid of construction. In its response to Staff's Report in the docket, LPSCO has objected to Staff's recommended treatment. The matter is still pending before the Commission.

[4] Docket No. SW-01428A-05-0022.

Scenario 2:

A developer purchases a regulated utility's non-voting stock and that utility invests those funds in plant. The utility records equity for the proceeds. Neither refundable advances in aid of construction nor contributions in aid of construction are recorded.

Staff's position for this transaction is that each case will have to be evaluated on its own merits and appropriate regulatory treatment should follow the substance, rather than the form, of the transaction.

Scenario 3:

A developer or a Municipal Government pays a fee for services provided by a non-regulated parent company for services typically covered by "Off-site Hook-up Fees" collected by regulated water and wastewater utilities. Then the parent company invests the proceeds in the regulated utility which is recorded as equity by the utility (similar to ICFA/MOU method used by Global).

As stated earlier, it is unclear whether the ACC has jurisdiction over the actual contracts, but does have jurisdiction over the regulated utilities' treatment of the results of these contracts.

Staff has prepared an example of the possible regulatory outcomes that could be utilized by the Commission depending upon the facts and circumstance of each case. Staff has assumed the creation of a new Commission regulated water utility ("Company A") that has constructed facilities costing a total of $500,000. Schedule JJD-3 provides a summary of the plant accounts recorded as a result of the construction.

Company A has a refundable Main Extension Agreement ("MXA") which is an at cost tariff and is intended to recover costs of on-site facilities. In this example there is only one developer, Developer X. Company A also has a non-refundable "Hook-up Fee Tariff" intended to recover back-bone plant costs from Developer X. As indicated in column A on Schedule JJD-3, the total cost of the plant is $500,000 which was funded by $100,000 in Main Extensions, $100,000 with Hook-up Fees and $300,000 in common equity. Assuming no operating expenses or no taxes and an authorized return on rate base of 10 percent, the annual revenue requirement for the first year would be $30,000 (500,000 – 100,000 – 100,000 = 300,000 x 10% = 30,000).

In an alternative situation, Company A is 100 percent owned by a parent company ("Parent") and has a MXA only. Instead of a Hook-up Fee Tariff, Parent has an agreement with Developer X. Parent performs services under the agreement wherein it incurs the costs noted in column B on Schedule JJD-3 ($200,000). The Parent collects $100,000 from Developer X under the agreement and pays $100,000 of its own funds to complete the preliminary facilities construction.

Parent then deeds all $200,000 worth of the property it constructed to Company A as paid in capital and also invests $200,000 of its own funds to complete the initial funding of Company A. Company A then proceeds to complete construction of the remaining facilities. To complete the construction, Company A collects $100,000 in MXAs from Developer X. Based solely on the accounting records of Company A (see column C Schedule JJD-3), a potential regulatory outcome could be an annual revenue requirement of $40,000 (500,000 – 100,000 = 400,000 @ 10% = 40,000).

Because Developer X funds the activities of the Parent under the agreement rather than under a hook-up fee tariff, Parent is able to transfer $200,000 in plant for which it only had to utilize $100,000 of its own funds. In this instance, Staff would recommend that either the rate base be adjusted downward by $100,000 or the return on equity be adjusted downward from 10 percent since a portion of the capital contributed had a zero cost (contributed by developers). Staff assumes that the amount contributed by developers is ultimately collected from lot owners. As such, Staff's preference would be to reduce rate base rather than attempt to adjust the return

<u>**Questions 1 & 2:**</u>

What is the maximum percentage of refundable "AIAC" or non-refundable "CIAC" appropriate as a percent of total capital for a private or investor owned water utility?

Historically, Staff has recommended limiting AIAC and CIAC funding to 30 percent of total capital. Over reliance on AIAC or CIAC creates undercapitalized water and wastewater providers. To illustrate why Staff uses 30 percent as its upper limit, please refer to Schedule JJD-2. In this example, capital expenditures totaling $1 million are funded with a combined 30 percent or $300,000 of AIAC/CIAC, $420,000 in long-term debt, and $280,000 of common equity. In establishing the company's cost of capital, Staff does not include AIAC or CIAC as part of the capital structure. AIAC and CIAC are subtracted from rate base rather than included in the capital structure and/or the determination of the cost of capital.

In relation to the total capital expenditures, AIAC/CIAC represents 40 percent while the common equity only represents 18 percent of the funding. Assuming the AIAC/CIAC amounts are passed on to lot purchasers, the lot owners would have more capital at risk than the regulated water company. Hence, Staff consistently recommends that AIAC/CIAC not exceed 30 percent of capital expenditures for private or investor owned utilities.

<u>**Question 3:**</u>

What is the most appropriate and most economical capital structure for a "new" water or wastewater utility?

Many respondents indicated that the Commission should exercise discretion in establishing an appropriate capital structure for new water/wastewater utilities. Staff generally agrees that establishing a single standardized capitalization requirement may not be appropriate. However, Staff recommends that the Commission establish some parameters from which any deviations must be justified. Traditionally, Staff recommends capital structure for private or investor owned utilities consisting of approximately 40 percent equity and 60 percent debt. Variations from this structure may be appropriate when a utility experiences rapid growth and during a period of unusual capital expenditure requirements, such as arsenic treatment facilities. With a minimum of 40 percent equity, it is presumed this capital structure will provide a balance between cost and financial stability. Therefore, Staff encourages regulated entities with access to the capital markets to have an equity level of 40 to 60 percent.

For "new" water/wastewater utilities, Staff generally recommends equity percentages of up to 100 percent. Factors influencing Staff's recommendation include the experience of the proposed operator, the financial health of the utility's owners, current debt market environment, inflation rate, the projected growth rate, etc.

Other Jurisdictions

Staff surveyed other jurisdictions[5] and responses indicated that other commissions have not encountered or were not aware of similar non-traditional financing arrangements and primarily dealt with AIAC and CIAC on a case-by-case bases.

Summary

With respect to the appropriate regulatory treatment of the non-traditional funding mechanisms, Staff encourages the development of policies that will facilitate either regulated or non-regulated entities to seek regional solutions to Arizona's water and wastewater infrastructure development. Staff concludes that IFCA type arrangements can provide appropriate long-term solutions which promote conservation of water supplies and efficient wastewater utilization. If such costs are incurred at the parent level and subsequently contributed to the regulated utility, the cost of such contributed capital should be determined on a case by case basis. However, based on the scenarios contained in this report, Staff would recommend that these costs be treated as advances or contributions instead of equity for ratemaking purposes.

With respect to the proper level of AIAC and/or CIAC, Staff continues to recommend that such funding not exceed 30 percent of capital expenditures for private and investor owned utilities.

Staff typically recommends capital structures for entities with access to the capital markets of at least 40 percent equity as providing a good balance between cost and financial stability. However, "new" utilities usually require higher levels of equity and should be

[5] E-mail requests sent to California, Pennsylvania, Florida, Georgia and Texas and an informal survey at a NARUC Accounting Subcommittee meeting.

determined on a case-by-case basis. Staff generally recommends 100 percent equity with variances allowed for good reason.

Schedule JJD-1

Non-Traditional Financing Arrangements
Docket No. W-00000C-06-0149
Summary of Responses

	PROPOSED REGULATORY TREATMENT					
Respondant	1. A	1. B	1.C	2. AIAC	3. CIAC	4. Capital Structure
Arizona-American Water Company	Deduct from rate base, phantom hook-up fee	Deduct from rate base, phantom hook-up fee	Deduct from rate base, phantom hook-up fee	Depends on financial situation of a company	Depends on financial situation of a company	Depends on facts but an equity ratio of 20-80% is reasonable
Arizona Water Company	Treat as CIAC - a no cost source of capital	Enforce Rule 14-2-406, mains extension rules	AIAC if refundable or CIAC if nonrefundable	Depends on factors such as size, ownership type, etc.	Depends on factors such as size, ownership type, etc.	Common equity should be approx. 50%
Diversified Water Utilities, Inc.	No opinion	No opinion	No opinion	No limit 1) developers control growth 2) customers benefit 3) developer is at risk 4) protects water co.'s health 5) should be normal developer cost	CIAC is cheapest form of capital and should be encouraged	Depends on facts as equity is not a significant indicator of a utility's capability
Global Water Resources, LLC	No opinion	Appropriate, if voluntary, but not for "sham" transactions	Global's ICFA's are not hook-up fees	Depends, but generally agrees with Staff limit-30% for AIAC + CIAC	Agrees with Staff limit-30% for AIAC + CIAC	Discretionary, but avoid too much AIAC & CIAC
Residential Utility Consumer Office	Treat as equity, but evaluate on case by case basis	Treat as equity, but evaluate on case by case basis	Need to know more about "services" provided	20 to 25%, but case by case basis	20 to 25%, but case by case basis	Should have sufficient equity to have vested interest in company's success, debt is OK.
Robson Communities, Inc.	Should be used to construct plant, include in rate base and earn a return thereon	Should be used to construct plant, include in rate base and earn a return thereon	Should be used to construct plant, include in rate base and earn a return thereon	Should never be required and determined on case by case basis	Should never be required and determined on case by case basis	Should initially be equity oriented but all on case by case basis
Sallquist, Drummond & O'Connor, P.C.	Consider in susequent rate case & determine appropriate rate/return	If new entitiy- ARS §40-301 & 302 control	Source should be of no concern to the Commission	Depends on facts and suggests repayment period be extended	Depends on facts	Prefer to permit some debt in new companies
Valencia Water Company, Inc.	Depends, if investor has no rights, amount should be treated as AIAC	Depends, if investor has no rights, amount should be treated as AIAC	Depends, if investor has no rights, amount should be treated as AIAC	No limit, developer should be at risk, not the water co.	No limit, developer should be at risk, not the water co.	New water company risk should be bourn by developers

Non-Traditional Financing Arrangements
Docket No. W-00000C-06-0149
Capital Structure

Schedule JJD-2

[A] Amount of funding provided by each source.
[B] % of funding from each source.
[C] Capital structure for ratemaking purposes.
[D] Capital structure %'s.

	[A]	[B]	[C]	[D]
AIAC / CIAC	400,000	40%		
L-T Debt	420,000	42%	420,000	70%
Common Equity	180,000	18%	180,000	30%
	1,000,000	100%	600,000	100%

AIAC	Generally associated with "mains extension agreements", refundable over 10 years at 10% of related annual revenues. Amounts not refunded are converted to CIAC and amortized over the remaining life of the related plant.
CIAC	Generally non-refundable. Amount is amortized over the life of the related plant financed by the CIAC. Amounts not expended within three years are considered taxable income to the utility.
Hook-up Fees	Generally used to fund backbone plant such as storage, wells, or other plant specifically identified in the tariff that will benefit all customers. The amount received is usually non-refundable and is amortized similar to CIAC.

All of the above sources of funding for plant are treated as a reduction in rate base in general rate applications. They are not considered as part of the capital structure for rate making purposes.

Non-Traditional Financing Arrangements
Docket No. W-00000C-06-0149
Possible Regulatory Outcomes

Schedule JJD-3

PLANT ACCOUNTS	[A] Actual Total	[B] Initially Incurred by the Parent	[C] Regulated Subsidiary
301 Organization	$5,000	5,000	5,000
302 Franchises	1,000	1,000	1,000
303 Land & Land Rights	1,000	1,000	1,000
304 Structures & Improvements	12,000	12,000	12,000
307 Wells & Springs	40,000	40,000	40,000
311 Pumping Equipment	10,000	10,000	10,000
320 Water Treatment Equipment	6,000	6,000	6,000
330 Distribution Reservoirs	25,000	25,000	25,000
331 Transmission/Distribution Mains	90,000	90,000	90,000
335 Hydrants	10,000	10,000	10,000
Sub-total	200,000	200,000	200,000
333 Services	100,000		100,000
334 Meters & Meter Installations	100,000		100,000
336 Backflow Prevention Devices	30,000		30,000
339 Other Plant	10,000		10,000
340 Office Furniture & Equipment	2,000		2,000
341 Transportation Equipment	15,000		15,000
343 Tools & Garage Equipment	5,000		5,000
344 Laboratory Equipment	1,000		1,000
345 Power Operated Equipment	10,000		10,000
346 Communication Equipment	10,000		10,000
347 Miscellaneous Equipment	2,000		2,000
348 Other Tangible Plant	15,000		15,000
105 C.W.I.P.	0		0
	$500,000	200,000	500,000
Mains Extension Agreements	100,000		100,000
Hook-up Fees	100,000		
ICFA		100,000	
	200,000	100,000	100,000
Common Equity	300,000		400,000
Rev. requirement w/10% RORB *	$30,000		$40,000

* Return on rate base (no operating expenses or taxes).

EXHIBIT A

WATER UTILITY PLANT ACCOUNTS

The water utility plant accounts have been designed utilizing an account matrix. The matrix employs a list of object accounts which in effect act as control accounts. The object accounts are further segregated by the matrix into classifications by functions or subaccounts. The instructions for segregating the object accounts to the function subaccounts are contained in Accounting Instruction 31. Listed below are the object account descriptions.

301. Organization

This account shall include all fees paid to federal or state governments for the privilege of incorporation and expenditures incident to organizing the corporation, partnership or other enterprise and putting it into readiness to do business. A sample of items to be included in this account are listed below.

1. Actual cost of obtaining certificates authorizing an enterprise to engage in the public utility business.
2. Fees and expenses for incorporation.
3. Fees and expenses for mergers or consolidations.
4. Office expenses incident to organizing the utility.
5. Stock and minute books and corporate seal.

Note A:--This account shall not include any discounts upon securities issued or assumed; nor shall it include any costs incident to negotiating loans, selling bonds or other evidences of debt, or expenses in connection with the authorization, issuance and sale of capital stock.

Note B:--Exclude from this account and include in the appropriate expense account the cost of preparing and filing papers in connection with the extension of the term of incorporation unless the first organization costs have been written off. Where charges are made to this account for expenses incurred in mergers, consolidations or reorganizations, amounts previously included herein or in similar accounts in the books of the companies concerned shall be excluded from this account.

302. Franchises

A. This account shall include amounts paid to the federal government, to a state or to a political subdivision thereof in consideration for franchises, consents or certificates, running in perpetuity or for a specified term of more than one year, together with necessary and reasonable expenses incident to procuring such franchises, consents or certificates of permission and approval, including expenses of organizing and merging separate corporations, where statutes require solely for the purpose of acquiring franchise.

B. If a franchise or certificate is acquired by assignment, the charge to this account in respect thereof shall not exceed the amount paid therefor by the utility to the assignor, nor shall it exceed the amount paid by the original grantee, plus the expense of acquisition to such grantee. Any excess of the amount actually paid by the utility over the amount above specified shall be charged to account 426 - Miscellaneous Nonutility Expenses.

C. When any franchise has expired, the book cost thereof shall be credited hereto and charged to account 426 - Miscellaneous Nonutility Expenses, or to account 110.1 - Accumulated Amortization of Utility Plant in Service, as appropriate.

D. Records supporting this account shall be kept so as to show separately the book cost of each franchise.

Note:--Annual or other periodic payments under franchises shall not be included herein but in the appropriate expense account.

303. Land and Land Rights

This account shall include the cost of land and land rights used in connection with source of supply, pumping, water treatment plant, transmission and distribution, and general plant operations (See Accounting Instruction 24). A sample of items to be included in this account are listed below:

1. Bulkheads buried, not requiring maintenance or replacement.
2. Cost, first, of acquisition including mortgages and other liens assumed (but not subsequent interest thereon).
3. Condemnation proceedings, including court and counsel costs.
4. Consents and abutting damages, payment for.
5. Conveyancers' and notaries' fees.
6. Fees, commissions, and salaries to brokers, agents, and others in connection with the acquisition of the land or land rights.
7. Leases, cost of voiding upon purchase to secure possession of land.
8. Removing, relocating, or reconstructing property of others, such as buildings, highways, railroads, bridges, cemeteries, churches, telephone and power lines, etc., in order to acquire quiet possession.
9. Retaining walls unless identified with structures.

WATER UTILITY PLANT ACCOUNTS

10. Special assessments levied by public authorities for public improvements on the basis of benefits for new roads, new bridges, new sewers, new curbing, new pavements, and other public improvements, but not taxes levied to provide for the maintenance of such improvements.
11. Surveys in connection with the acquisition, but not amounts paid for topographical surveys and maps where such costs are attributable to structures or plant equipment erected or to be erected or installed on such land.
12. Taxes assumed, accrued to date of transfer of title.
13. Title, examining, clearing, insuring and registering in connection with the acquisition and defending against claims relating to the period prior to the acquisition.
14. Appraisals prior to closing title.
15. Cost of dealing with distributees or legatees residing outside of the state or county, such as recording power of attorney, recording will or exemplification of will, recording satisfaction of state tax.
16. Filing satisfaction of mortgage.
17. Documentary stamps.
18. Photographs of property at acquisition.
19. Fees and expenses incurred in the acquisition of water rights, and grants.
20. Cost of fill to extend bulkhead line over land under water, where riparian rights are held, which is not occasioned by the erection of a structure.
21. Sidewalks and curbs constructed by the utility on public property.
22. Labor and expenses in connection with securing rights of way, where performed by company employees and company agents.

EXHIBIT B

EXHIBIT B
INFRASTRUCTURE COORDINATION AGREEMENT

DESCRIPTION OF SCW AND PVU SERVICES TO BE COORDINATED BY Coordinator

SCW

- Expand the existing CC&N water service area to include the Development
- Prepare a master water plan with respect to the Development
- Confirm and or develop sufficient water plant capacity for the Development
- Extend a water distribution main line to the Delivery Point
- Provide will-serve letters to applicable governmental agencies necessary for final plat approvals with a schedule of commitment dates personalized for the Development
- Obtain a 100-year assured water supply and Certificate of Designation required for final plat approvals and Department of Real Estate approvals
- Provide expedited final subdivision plat water improvement plan check and coordination with the Arizona Department of Environmental Quality for Approvals to Construct
- Obtain/Develop facilities extension agreement for construction of infrastructure within the Development (subject to reimbursement)

PVU

- Expand the existing CC&N wastewater service area to include the Development
- Prepare a master wastewater plan with respect to the Development

  Develop a master reclaimed water treatment, retention, and distribution plan
- Confirm and or develop sufficient wastewater plant capacity for the Development
- Extend a wastewater collection system main line to the Delivery Point
- Provide all permitting and regulatory approvals including but not limited to an Aquifer Protection Permit and Central Arizona Association of Governments (CAAG) 208 Water Quality Plan
- Provide will-serve letters to applicable governmental agencies necessary for final plat approvals with a schedule of commitment dates personalized for the Development
- Provide expedited final subdivision plat wastewater improvement plan check and coordination with the Arizona Department of Environmental Quality for Approvals to Construct
- Obtain/Develop facilities extension agreement for construction of infrastructure within the property boundaries and is subject to reimbursement