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Arizona Corporation Commission

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AZ CORP COMMISSION  
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1 WILLIAM MUNDELL  
 2 Chairman  
 3 JAMES M. IRVIN  
 4 Commissioner  
 5 MARC SPITZER  
 6 Commissioner

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

7 IN THE MATTER OF THE APPLICATION  
 8 OF H2O, INC., FOR AN EXTENSION OF  
 9 ITS EXISTING CERTIFICATE OF  
 10 CONVENIENCE AND NECESSITY.

DOCKET NO. W-02234A-00-0371

11 IN THE MATTER OF THE APPLICATIONS  
 12 OF JOHNSON UTILITIES, L.L.C., DBA  
 13 JOHNSON UTILITIES COMPANY FOR AN  
 14 EXTENSION OF ITS CERTIFICATE OF  
 15 CONVENIENCE AND NECESSITY TO  
 16 PROVIDE WATER AND WASTEWATER  
 17 SERVICE TO THE PUBLIC IN THE  
 18 DESCRIBED AREA IN PINAL COUNTY,  
 19 ARIZONA.

DOCKET NO. W-02987A-99-0583  
WS-02987A-00-0618

20 IN THE MATTER OF THE APPLICATION  
 21 OF DIVERSIFIED WATER UTILITIES,  
 22 INC. TO EXTEND ITS CERTIFICATE OF  
 23 CONVENIENCE AND NECESSITY.

DOCKET NO. W-02859A-00-0774

24 IN THE MATTER OF THE APPLICATION  
 25 OF QUEEN CREEK WATER COMPANY  
 26 TO EXTEND ITS CERTIFICATE OF  
 CONVENIENCE AND NECESSITY.

DOCKET NO. W-01395A-00-0784

**NOTICE OF FILING REJOINDER  
TESTIMONY OF DONALD L. SCHNEPF  
AND RICHARD F. BARTHOLOMEW**

H2O, Inc. ("H2O"), hereby files the Rejoinder Testimony of Donald L. Schnepf and Richard F. Bartholomew, P.E., R.L.S., in the above dockets.

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DATED this 0<sup>th</sup> day of March, 2001.

FENNEMORE CRAIG, P.C.

By Karen E. Shapiro  
Jay Shapiro  
Karen E. Errant  
3003 North Central, Suite 2600  
Phoenix, Arizona 85012  
Attorneys for H2O, Inc.

AN ORIGINAL and ten copies  
of the foregoing were filed  
this 6<sup>th</sup> day of March, 2001 with:

Docketing Supervisor  
Docket Control  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, AZ 85007

A COPY of the foregoing  
was delivered this 6<sup>th</sup>  
day of March, 2001 to:

Marc Stern, Hearing Officer  
Arizona Corporation Commission  
1200 W. Washington Street  
Phoenix, Arizona 85007

Teena Wolfe, Esq.  
Legal Division  
Arizona Corporation Commission  
1200 West Washington St.  
Phoenix, AZ 85007

1 A COPY of the foregoing  
2 was mailed this 10th  
3 day of March, 2001 to:

4 Thomas H. Campbell  
5 Gregory Y. Harris  
6 Lewis & Roca  
7 40 N. Central Avenue  
8 Phoenix, Arizona 85007

9 Charles A. Bischoff  
10 Jorden & Bischoff  
11 7272 E. Indian School Road, Suite 205  
12 Scottsdale, AZ 85251

13 Petra Schadeberg  
14 Pantano Development Limited Partnership  
15 3408 North 60th Street  
16 Phoenix, Arizona 85018-6702

17 William P. Sullivan  
18 MARTINEZ & CURTIS  
19 2712 N. 7th Street  
20 Phoenix, AZ 85006-1090

21 Richard N. Morrison  
22 SALMON, LEWIS & WELDON  
23 4444 N. 32nd Street, Suite 200  
24 Phoenix, AZ 85018

25 Louis Felix  
26 18100 Walter Butte Drive  
Florence, AZ 85232-9700

Dick Ames  
Vistas Partners, O.K.  
1121 West Warner Road, Suite 109  
Tempe, AZ 85284

Kathy Almena  
Wellford, O.K.  
3850 E. Baseline Road, Suite 123  
Mesa, AZ 85206

By   
1161498/46627.002

1 WILLIAM MUNDELL  
Chairman  
2 JAMES M. IRVIN  
Commissioner  
3 MARC SPITZER  
Commissioner  
4

BEFORE THE ARIZONA CORPORATION COMMISSION

5  
6 IN THE MATTER OF THE  
APPLICATION OF H2O, INC., FOR  
7 AN EXTENSION OF ITS EXISTING  
CERTIFICATE OF CONVENIENCE AND  
8 NECESSITY.

DOCKET NO. W-02234A-00-0371

9 IN THE MATTER OF THE  
10 APPLICATIONS OF JOHNSON  
UTILITIES, L.L.C., DBA JOHNSON  
11 UTILITIES COMPANY FOR AN  
EXTENSION OF ITS CERTIFICATE OF  
12 CONVENIENCE AND NECESSITY TO  
PROVIDE WATER AND WASTEWATER  
13 SERVICE TO THE PUBLIC IN THE  
DESCRIBED AREA IN PINAL COUNTY,  
ARIZONA.

DOCKET NO. W-02987A-99-0583  
WS-02987A-00-0618

14 IN THE MATTER OF THE  
15 APPLICATION OF DIVERSIFIED  
WATER UTILITIES, INC. TO EXTEND  
16 ITS CERTIFICATE OF CONVENIENCE  
AND NECESSITY.

DOCKET NO. W-02859A-00-0774

17 IN THE MATTER OF THE  
18 APPLICATION OF QUEEN CREEK  
WATER COMPANY TO EXTEND ITS  
19 CERTIFICATE OF CONVENIENCE AND  
NECESSITY.

DOCKET NO. W-01395A-00-0784

20 REJOINDER TESTIMONY OF  
21 DONALD L. SCHNEPF

22 Q. PLEASE STATE YOUR NAME, PRESENT POSITION AND PLACE OF  
23 EMPLOYMENT.

24 A. My Name is Donald L. Schnepf. I am the president of  
25 H2O, Inc. ("H2O"). H2O's business address is 832 W Baseline Road  
26 Suite 18, Mesa, Arizona 85210.

1 Q. HAVE YOU PREVIOUSLY TESTIFIED IN THIS MATTER?

2 A. Yes, I provided rebuttal testimony on January 30,  
3 2001. In that testimony, I explained why H2O entered into the  
4 January 23, 2001 Settlement Agreement ("Settlement Agreement")  
5 and responded to certain aspects of the Staff Report dated  
6 January 9, 2001.

7 Q. WHAT IS THE PURPOSE OF YOUR REJOINDER TESTIMONY?

8 A. To respond to the rebuttal testimony of Mr. Scott  
9 Gray, Mr. Greg Potter and Mr. Jim Wright on behalf of  
10 Diversified Utilities, Inc. ("Diversified").

11 Q. MR. GRAY TESTIFIES THAT DIVERSIFIED SHOULD BE  
12 CERTIFICATED TO SERVE SUBSTANTIAL PORTIONS OF THE SO-CALLED  
13 CONTESTED AREA. DO YOU AGREE WITH MR. GRAY'S TESTIMONY?

14 A. No, I do not agree. Mr. Gray focuses on what he  
15 perceives as best for Diversified and ignores the public  
16 interest, including the interests of his current and future  
17 customers. Additionally, in order to support his position, Mr.  
18 Gray makes a number of inaccurate statements about H2O, Johnson  
19 Utilities and Queen Creek. I don't know why Mr. Gray would  
20 resort to making inaccurate statements about H2O unless he felt  
21 the need to shift the Commission's focus away from the reasons  
22 Diversified should not be authorized to extend its CC&N. In any  
23 event, I respectfully suggest that the Commission focus on each  
24 company's ability to provide safe and reliable utility service  
25 to its current as well as future customers, and not on  
26 unsupported criticisms by opposing parties.

1 Q. WHAT FACTORS DO YOU BELIEVE ARE IMPORTANT IN  
2 DETERMINING WHICH COMPANY SHOULD BE CERTIFICATED TO SERVE THE  
3 CONTESTED AREA?

4 A. The most important factor to consider is what is in  
5 the public interest. The public interest in this case  
6 specifically includes the interests of current customers in each  
7 of the four water companies' certificated service areas as well  
8 as the interests of the future customers in the contested area.

9 H2O has given a great deal of thought to the needs of its  
10 current and future customers and has developed a master plan to  
11 ensure that their needs will be met. (See Master Plan, copy of  
12 which is attached hereto as Exhibit "A".) In addition, most  
13 recently, H2O entered into the Settlement Agreement with Johnson  
14 Utilities and Queen Creek. While I am not suggesting that  
15 Diversified is not entitled to object to the settlement, or that  
16 Staff's concerns should be ignored, it cannot be disputed that  
17 the Settlement Agreement presents a comprehensive approach to  
18 extending water and wastewater utility service throughout the  
19 contested area and is almost unanimously supported by the  
20 affected landowners as well as supported by Pinal County, the  
21 political subdivision primarily responsible for land use  
22 planning throughout the contested area.

23 Q. MR. SCHNEPF, WHAT ABOUT DIVERSIFIED'S CLAIM THAT ITS  
24 INTERESTS ARE NOT CONSIDERED BY THE APPROACH TAKEN IN THE  
25 SETTLEMENT AGREEMENT?

26 A. Contrary to the statements of Mr. Gray, the Settlement

1 Agreement was not intended to harm Diversified. However, it was  
2 the dissatisfaction of the customers and landowners within  
3 Diversified's CC&N that motivated them to begin the process of  
4 forming a water improvement district to replace Diversified,  
5 which in turn, provided the stimulus for the approach taken in  
6 the Settlement Agreement. (See Testimony of Dr. Griffis in  
7 Support of Application for Approval of Settlement Agreement  
8 filed February 22, 2001).

9 To date, Diversified has done everything in its power to  
10 thwart the Settlement Agreement including challenging the  
11 formation of the district. Whether the district forms or not,  
12 the Settlement Agreement provides a comprehensive solution to  
13 water and sewer utility service in northern Pinal County.  
14 Meanwhile, Diversified should focus its efforts on the reasons  
15 customers and landowners in its certificated service area would  
16 prefer to be served by someone else.

17 Q. HOW DOES H2O'S "MASTER PLAN" PROMOTE THE PUBLIC  
18 INTEREST?

19 A. For many years, H2O has planned for and worked towards  
20 serving significant portions of the contested area. Again, over  
21 the last year, H2O has developed a Master Plan to serve the  
22 contested area. (Exhibit "A"). This plan will ensure that H2O  
23 can provide safe and reliable water utility service to the  
24 contested area, at the same time, benefiting customers in our  
25 existing CC&N through increased system redundancy and greater  
26 economies of scale. Unlike Diversified, that has not set forth

1 any specific plan to serve the contested area, H2O has already  
2 determined the extent and location of the necessary facilities  
3 to serve each of the planned developments. In addition, we have  
4 begun working with Johnson Utilities and Queen Creek to  
5 coordinate facilities construction and search for  
6 interconnections and other means of achieving economies of scale  
7 and enhanced serviceability.

8 Q. COULDN'T DIVERSIFIED ACHIEVE THESE SAME RESULTS?

9 Although Diversified would like the Commission to believe  
10 that it can do whatever it takes to serve portions of the  
11 contested area, unless and until Diversified develops an actual  
12 plan, it is impossible to know whether Diversified can provide  
13 safe and reliable service at a reasonable cost and on a schedule  
14 that satisfies the needs of landowners and Pinal County. This  
15 is especially true given Diversified's difficulty serving its  
16 current certificated area.

17 For example, according to Arizona Department of  
18 Environmental Quality's ("ADEQ") records, Diversified has  
19 consistently failed to comply with the department's regulations.  
20 ADEQ records show that Diversified has been in violation of the  
21 department's regulations for the past several years. (See  
22 Letters from ADEQ to Diversified, Exhibits "B" and "C"). I find  
23 it amazing that over the past several months, while Diversified  
24 has been telling the Commission that Diversified should be  
25 allowed to serve an additional 15,000 customers in the contested  
26 area, Diversified has been in violation of ADEQ regulations.

1 (See February 7, 2001 letter from ADEQ to Scott Gray, Exhibit  
2 "D").

3 ADEQ has determined that Diversified does not have adequate  
4 storage to serve its current customers. In fact, according to  
5 ADEQ, Diversified has less than half the necessary storage to  
6 serve its customers. Additionally, ADEQ found that Diversified  
7 failed to include new facilities within its Microbiological Site  
8 Sampling Plan. As a result, Diversified was not collecting the  
9 necessary total coliform samples throughout its distribution  
10 system. These violations, along with Diversified's historic  
11 violations, illustrate an inability to adequately plan for and  
12 address growth within Diversified's service area.

13 Regardless of the reasons for these problems, ultimately,  
14 the facts demonstrate the Mr. Gray is not doing what is  
15 necessary to manage Diversified's operations in accordance with  
16 ADEQ's health and safety regulations. I believe that it is  
17 H2O's responsibility to ensure safe and reliable service that  
18 meets or exceeds all relevant health and safety standards is  
19 continuously provided to H2O's customers. This includes, for  
20 instance, inspecting the work of all contractors prior to the  
21 facilities being connected to H2O's system.

22 Q. MR. GRAY'S TESTIOMNY OFFERED A NUMBER OF OTHER REASONS  
23 THAT DIVERSIFIED SHOULD BE AUTHORIZED TO EXTEND ITS CC&N IN THIS  
24 PROCEEDING. FOR EXAMPLE, HE TESTIFIED THAT LOT-SPLITTING IS A  
25 PROBLEM FOR DIVERSIFIED. IS LOT-SPLITTING A PROBLEM FOR H2O AND  
26 HAS H2O BEEN ABLE TO OVERCOME THE PROBLEM?

1           A.    Yes, lot-splitting has been a problem for H2O.  
2   However, after the Commission approved H2O's Capacity  
3   Reservation Charge Tariff ("CRC Tariff"), the problem has been  
4   substantially eliminated. Previously, the Commission's rules  
5   limited us to a 6-inch maximum line extension. We had no  
6   authority to fund the cost of over-sizing to accommodate future  
7   developments that occur along a main. Now, by collecting the  
8   CRC Tariff, H2O can appropriately size lines used to serve lot-  
9   splitters.

10           Q.   MR. GRAY SEEMS TO IMPLY THAT YOU MISLED HIM ABOUT  
11   H2O'S APPLICATION TO EXTEND ITS CC&N TO SERVE THE HOME PLACE AND  
12   WARE FARMS DEVELOPMENTS. IS THAT TRUE?

13           A.    Not exactly. The nature of the September 25, 2000  
14   telephone conversation Mr. Gray refers to led me to believe he  
15   was aware of the CC&N extension applications by both H2O and  
16   Johnson Utilities. I do not recall specifically mentioning  
17   H2O's application to Mr. Gray, however, I do recall mentioning  
18   that Diversified may be affected by the CC&N extension and,  
19   therefore, Mr. Gray should check with the Corporation  
20   Commission. H2O made no effort to hide its application from  
21   Diversified and if he was, in fact, unaware of the pending  
22   applications, it was because he failed to actively monitor the  
23   areas around Diversified's CC&N. As a water utility provider, I  
24   have always taken care to monitor developments, proceedings at  
25   the Commission and other events which may impact H2O and its  
26   ability to serve its customers.

1 Q. MR. GRAY ALSO TESTIFIED THAT SOME UNIDENTIFIED  
2 LANDOWNERS AS WELL AS DIVERSIFIED DID NOT RECEIVE NOTICE OF  
3 H2O'S APPLICATION. DID H2O PROVIDE PUBLIC NOTICE?

4 A. Yes. H2O published notice in the newspaper on June  
5 10, 2000 and mailed notice to each landowner in the contested  
6 area. Additionally, in conjunction with Johnson Utilities, a  
7 second notice was mailed to each landowner on or around  
8 September 27, 2000.

9 Q. MR. GRAY TESTIFIED THAT DIVERSIFIED HAS FACILITIES  
10 WITHIN A SECTION CONTIGUOUS TO PARCELS 16, 17, AND 18. HOW DOES  
11 THAT COMPARE TO H2O'S FACILITIES?

12 A. H2O currently has facilities along Schnepf Road ending  
13 at the Queen Creek Wash Bridge immediately adjacent to Section  
14 28 (Parcel 16, known as Home Place). H2O is in the process of  
15 obtaining an existing well, storage and pumping site at the  
16 southeast corner of Section 32, which is contiguous to Section  
17 33 (Parcels 17 & 18 known as Ware Farms).

18 Q. MR. GRAY TESTIFIED THAT H2O'S RESOURCES WOULD BE  
19 "SEVERELY STRETCHED" IF IT PROVIDED SERVICE TO PECAN RANCH,  
20 JOHNSON FARMS, WARE FARMS, HOME PLACE AND A PORTION OF CIRCLE  
21 CROSS RANCH SIMULTANEOUSLY. DO YOU AGREE WITH HIS CONCLUSION?

22 A. No, and with all due respect, I do not know where Mr.  
23 Gray is getting his information. In any case, H2O has been  
24 planning to serve these developments for many years. H2O's  
25 overall engineering plan addresses each of these developments.  
26 The plan includes the location and size of transmission lines,

1 source wells, storage and pumping plants that will be needed to  
2 serve the area. The plan addresses how the entire system will  
3 be integrated. Integrated plants provide redundancy, which is  
4 extremely beneficial to H2O's customers. By integrating the  
5 plants, H2O's customers are assured continuous service even if  
6 there is an unexpected outage at a plant. Additionally, H2O has  
7 met with representatives of the Combs School District to  
8 determine the number, location and size of new schools to be  
9 built within the area. H2O's plan addresses the needs of the  
10 school district, including extraordinary fire flow requirements  
11 necessitated by each school. In addition, H2O is fully capable  
12 of meeting the needs of customers within the new developments.  
13 H2O has a full time office and field personnel; necessary  
14 equipment; tools, parts and inventory systems; and computerized  
15 billing/accounts receivable and a general ledger system, all of  
16 which enhance its ability to extend service throughout the  
17 contested area.

18 Q. MR. GRAY ALSO TESTIFIED THAT, AS RECENTLY AS 1997, H2O  
19 HAD BEEN SUFFERING OPERATING LOSSES FOR SEVERAL YEARS AND  
20 PROJECTED FUTURE LOSSES DUE TO DELINQUENT PROPERTY TAXES. WHAT  
21 IS H2O'S FINANCIAL CONDITION?

22 A. I can only assume that Mr. Gray reached his conclusion  
23 based on a settlement H2O reached in 1998 with Pinal County  
24 concerning H2O's property taxes. Prior to 1996, H2O was  
25 delinquent in the payment of property taxes because its rates  
26 were insufficient to cover all of the Company's expenses,

1 including property taxes. Although H2O proposed a payment plan  
2 that called for payment of all outstanding tax liability, the  
3 County requested a one-time payment of a portion of the taxes as  
4 satisfaction in full. H2O and Pinal County subsequently entered  
5 into a settlement agreement along these lines.

6 Today, H2O's property taxes are paid current and have been  
7 since August 1998 with sufficient reserves to pay future taxes  
8 when they come due. H2O has closed the last three years with  
9 increasing net operating income balances and closed the year  
10 ending 12/31/2000 with operating revenues of nearly \$500,000.

11 Mr. Gray's conclusion that H2O is suffering financial  
12 problems highlights the fact that unsupported and self-serving  
13 conclusions are not relevant to the Commission's decision and  
14 should be rejected. In another example, Mr. Gray points to the  
15 direct testimony of Paul T. Gardner as containing evidence that  
16 H2O is not fit to serve the contested area. (See Direct  
17 Testimony of Paul T. Gardner dated October 4, 2000). It  
18 certainly appears that Mr. Gray made absolutely no effort to  
19 substantiate Mr. Gardner's testimony. If he had, he would have  
20 realized, as did Mr. Gardner after we discussed H2O's current  
21 facilities, plans and financial picture, that Mr. Gardner's  
22 testimony on this subject was simply uninformed. (See  
23 Supplemental Pre-Filed Testimony of Paul T. Gardner dated  
24 February 22, 2001.)

25

26

1 Q. MR. GRAY ALSO TESTIFIED THAT H2O DOES NOT NEED  
2 ADDITIONAL TERRITORY BECAUSE THERE ARE A NUMBER OF QUALITY ON-  
3 GOING PROJECTS WITHIN H2O'S CERTIFICATED AREA (SUCH AS OCOTILLO  
4 MEADOWS AND LINKS ESTATE). ACCORDING TO MR. GRAY H2O DOES NOT  
5 REQUIRE ANY ADDITIONAL SERVICE AREA TO ENSURE ECONOMIC VIABILITY  
6 OR OBTAIN ECONOMIES OF SCALE. DO YOU AGREE?

7 A. Absolutely not. Over the 30-year existence of H2O,  
8 development within our CC&N has primarily been very low density  
9 (Suburban Ranch 144,000 sq. ft. lot size). To date, these  
10 developments account for approximately 40% of H2O's current CC&N  
11 area, yielding less than 800 customers. Only recently has the  
12 area attracted high-density development. If H2O does not  
13 receive additional certificated areas it will not achieve  
14 viability at full build out.

15 I will acknowledge that Diversified could benefit from  
16 growth, however, that growth should come from within its  
17 certificated area given the current state of Diversified's  
18 facilities. Diversified is in no position to serve areas  
19 outside its current CC&N as its compliance problems with ADEQ  
20 and its customers' complaints illustrate. Unable to adequately  
21 address the growth that it has experienced over the last several  
22 years, Diversified should concentrate on providing adequate  
23 service and be satisfied to begin planning for growth within its  
24 current CC&N, assuming, of course, that an improvement district  
25 is not formed to replace Diversified.

26

1 Q. MR. GRAY FURTHER TESTIFIED THAT DIVERSIFIED NEEDS TO  
2 LOOP ITS SYSTEM. DO YOU AGREE?

3 A. Not the way Mr. Gray implies. Each area of service  
4 should be looped with no dead end lines. Diversified may create  
5 a looped system within its current certificated area. Mr.  
6 Gray's claim alludes to looping its entire service area in a  
7 circular manner around the Sun Valley Farms Unit VI Water  
8 Company which is not necessary to provide quality service to  
9 Diversified's existing customers.

10 Q. MR. GRAY TESTIFIED THAT ONE OF THE REASONS WHY  
11 DIVERSIFIED SHOULD BE CERTIFICATED TO SERVE SECTIONS 28 AND 33  
12 IS THAT ITS EXISTING SERVICE LINES ARE LESS THAN 4,000 FEET FROM  
13 THE WARE FARMS DEVELOPMENT. DO YOU AGREE THAT THIS FACT IS  
14 RELEVANT?

15 A. No. The existing service line Mr. Gray alludes to is  
16 already nearly 3 miles from Diversified's current source well,  
17 storage and pumping plant. Extending this service line another  
18 4,000 feet would render it unable to deliver quality service.  
19 This is not in the public interest.

20 Q. MR. GRAY TESTIFIED THAT THE QUEEN CREEK WASH IS THE  
21 DIVIDING LINE BETWEEN THE DIVERSIFIED AND H2O CERTIFICATED AREAS  
22 AND THAT THE COMMISSION SHOULD CONSIDER THAT BOUNDARY IN  
23 DECIDING WHAT COMPANY SHOULD SERVE THESE PORTIONS OF THE  
24 CONTESTED AREA. IS THIS ACCURATE?

25 A. Not entirely. The Queen Creek Wash runs between the  
26 northern boundary of Diversified's and H2O's respective CC&Ns.

1 However, the wash does not divide the two utilities on the  
2 western border of Diversified. On Diversified's western border  
3 there is only uncertificated land that lies between H2O and  
4 Diversified. Therefore, the wash does not provide the type of  
5 boundary suggested by Mr. Gray.

6 Q. MR. GRAY ALSO TESTIFIED THAT CROSSING THE QUEEN CREEK  
7 WASH IS UNDULY COSTLY AND SHOULD BE AVOIDED. HOW DO YOU  
8 RESPOND?

9 A. H2O recently constructed a crossing of the Queen Creek  
10 Wash along Vineyard Road. Comparatively, when crossing the  
11 wash, the line must be buried deeper than normal and Class 200  
12 pipe used in place of the normal Class 150. If the line  
13 crossing the wash is not constructed in conjunction with the  
14 construction of a road and box culvert structure, the utility  
15 would simply include the use of 1 bag slurry backfill to protect  
16 the line against scouring. The cost differential is less than  
17 50% over normal line construction costs. Further, the wash is  
18 only a 200-300 foot distance. Crossing the Queen Creek wash is  
19 not unduly costly and does not materially impact H2O's ability  
20 to serve customers on the south side of the wash.

21 Q. WHAT ABOUT THE "TORRENTS" IN THE QUEEN CREEK WASH THAT  
22 MR. GRAY CLAIMS CAN DESTROY WATER LINES, PLACING CUSTOMERS IN  
23 JEOPARDY OF LOSING SERVICE?

24 A. The Queen Creek Wash has been dammed at no less than  
25 two points up-stream from where any of H2O's water lines would  
26 cross the wash. There are no "torrents." All flows past the

1 upstream dams are measured to a specific manageable rate. I  
2 have observed the Queen Creek Wash water flows since 1945 and  
3 following construction of the Whitlow Ranch Dam and the Central  
4 Arizona Project Flood Control Dams, the Queen Creek Wash has not  
5 had any major water flows.

6 Q. WHY ELSE SHOULD H2O BE CERTIFICATED TO SERVE SECTIONS  
7 28 (HOME PLACE), 29 (PECAN RANCH), THE NORTH EAST PORTION OF 31  
8 (CIRCLE CROSS RANCH), 33 (WARE FARMS) T2S, R8E?

9 A. Well, again, to summarize what I have discussed above,  
10 H2O has for years anticipated providing water service to this  
11 area. H2O has invested a substantial amount of time and  
12 resources in developing an engineering plan that quantifies the  
13 amount, size and types of infrastructure that will most  
14 efficiently serve this area. Consequently, H2O is in the best  
15 position to provide quality, cost-efficient water utility  
16 service within the least amount of time. Additionally, H2O does  
17 not have any other areas within which to expand, thereby  
18 creating greater efficiencies within its system. H2O is  
19 bordered on the west by Queen Creek Water Company and to the  
20 north and east by State Trust Lands which have little or no  
21 potential to develop in the foreseeable future. These portions  
22 of the contested area are contiguous in all respects to H2O's  
23 current CC&N area and H2O needs this additional area to insure  
24 that it will remain a viable company when its entire area is  
25 completely developed.

26

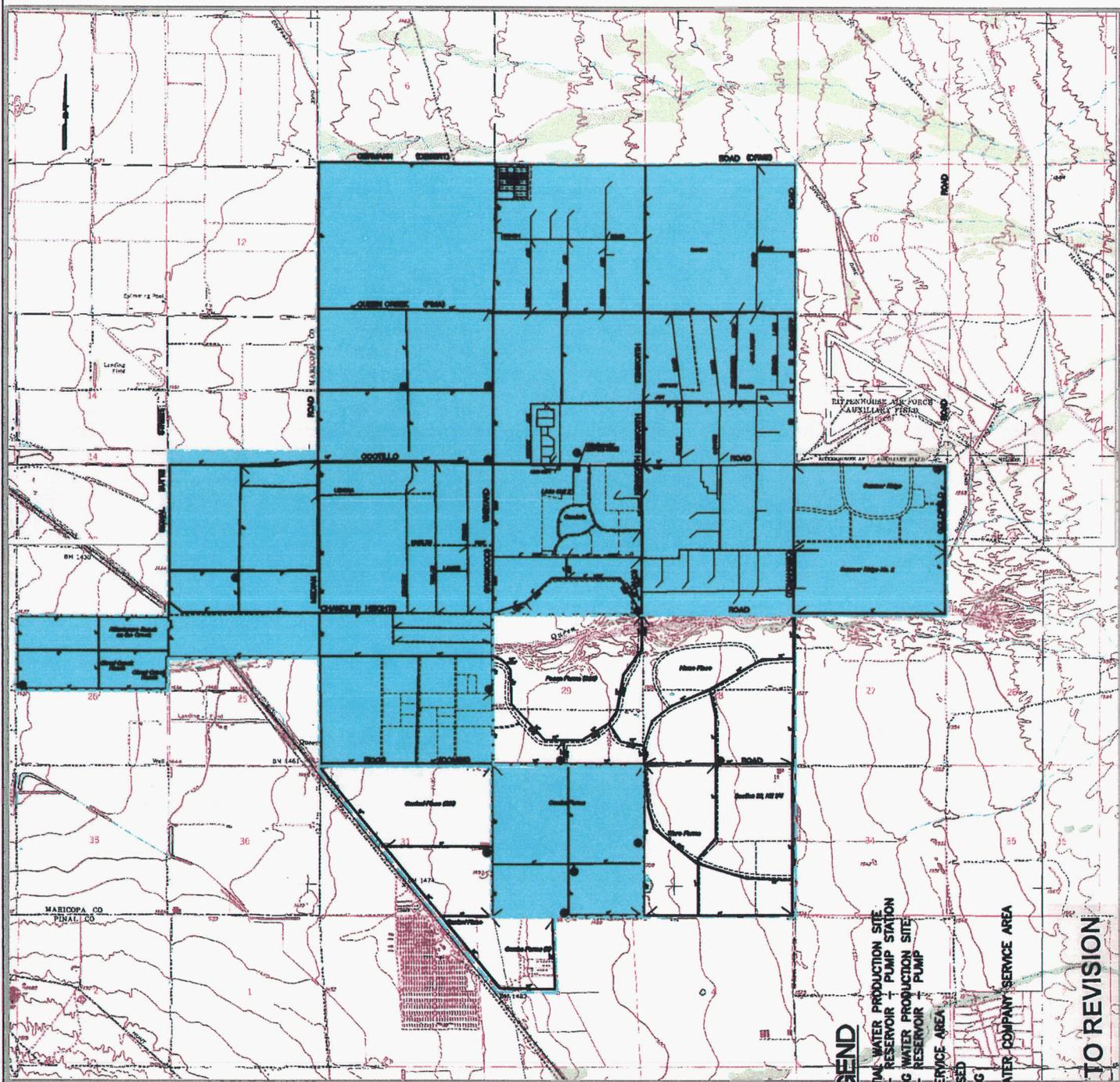
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Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

1159636.1/46327.002

**EXHIBIT A**



**LEGEND**

- POTENTIAL WATER PRODUCTION SITE
- WELL
- RESERVOIR
- PUMP STATION
- EXISTING WATER PRODUCTION SITE
- WELL
- RESERVOIR
- PUMP
- H2O SERVICE AREA
- PROPOSED
- EXISTING
- H2O WATER COMPANY SERVICE AREA

**SUBJECT TO REVISION**

DATE	DESCRIPTION

BARTOLOMEY ENGINEERING, INC.

1/24, INC.  
WATER SYSTEM MODEL  
MARICOPA/PINAL COUNTY, ARIZONA

**EXHIBIT B**

Arizona Department of Water Resources  
(602) 417-2460  
FAX (602) 417-2423

ARIZONA DEPARTMENT OF WATER RESOURCES - Office of Assured & Adequate Water Supply:

Person Requesting Information: Kathy Rall

Requestor's Phone Number: 602-417-2460, ext 7311

Date of Request: July 1, 1999

*Certain information concerning water systems in Arizona is necessary to complete reviews performed by the Water Resources Section. Please fill in the following information on the requested utility. System numbers are provided when they are known. Please return this information by fax number (602) 417-2423.*

System name: DIVERSIFIED WATER UTILITIES, INC.

PWS ID #: 11-043

Compliance Status: Please check; if in Non-Compliance or Substantial Compliance, please explain why.  
 Compliance

XX Minor Deficiencies

Major Deficiencies

Explanation:

SEE ATTACHED WORKSHEET FOR DETAILS ON MINOR DEFICIENCIES WHICH REFLECT LATE MONITORING AND REPORTING.

The latest representative measurements for the following:

TDS 718 mg/L  
(Contaminant Code 1930)

Fluoride .30 mg/L  
(Contaminant Code 1025)

Nitrate .56 mg/L  
(Contaminant Code 1040)

Evaluation completed by: Nina Kondos (602) 207-4608 or 1-800-234-5677, ext. 4608 NINA K

Title: EHS II/Compliance Officer DATE: JULY 16, 1999

Individuals requesting information were notified of compliance status query results by US MAIL 07/19/99.

cc: Facility File PWS11-043 Diversified Water Utilities, Inc.  
Stephane Koes, ADEQ Field Inspector  
Requester: Kathy Rall, DWR Office of Assured and Adequate Water Supply  
PWS President: Scott Gray  
PWS Certified Operator: Jim Wright  
Requester: Augusto Meioli

**COMMUNITY WATER SYSTEM - V SHEET - GROUNDWATER  
THIS PWS PARTICIPATED IN THE MONITORING PARTNERSHIP 98 PROGRAM**

**PWS #: 11-043 PWS NAME:** DIVERSIFIED WATER UTILITIES Prepared By: Nina Kondos Date: July 16, 1999  
 Initial Monitoring Year: 1995 Phase II: 1995 Phase V: 1998 Rad Chems: 11/02/86  
 This PWS has 1 POE With 1 Well Pop.: 60 Service Connections: 60 MAP Year: 2001

RULE CITATION	REQUIRED M & R	YOU HAVE COMPLETED	WHAT YOU NEED	COMMENTS
<p><b>TOTAL COLIFORM</b> Microbiological R18-4-202 No Grandfathered Data</p>	<p>Monthly, based on population at sites representative of the water throughout the distribution system.</p>	<p><b>MINOR DEFICIENCIES</b>  <u>1993</u> Mar - Apr - May - No Results  <u>1994</u> Jan - Feb - Mar - No Results  <u>1995</u> June - ACUTE MCL Routine &amp; Repeat Samples TC +/-                      July - No Results. PWS should have completed a minimum 5 routine TC samples following a TC+ in June.  <u>1996</u> Aug - Sept-Oct - No Results                      Nov - TC +/- Only 3 of 4 Repeat Samples taken.  <u>1997</u> Feb-July-Dec - No Results  <u>1998</u> Jan - No Results                      Aug - NON ACUTE MCL                      Only 1 routine sample taken instead of a Minimum of 5 samples following a TC+ in July.                      1 routine sample TC +/-                      Repeat samples also TC+.                      Sept. - No minimum 5 routine TC samples following a TC+ in Aug.  <u>1999</u> Jan-June - No Deficiency</p>	<p><b>MINOR DEFICIENCIES</b>                      Please review your records and determine if you have the missing analytical results.                      Was Public Notice issued to persons served by the water system of the Acute and Non-Acute MCL violations and the Failure to Monitor in accordance with the TC monitoring rules?                      ADEQ has no Affidavit from the PWS that Public Notice was issued. Please review your records and determine if Public Notice was issued. Provide a copy of the Public Notice and an Affidavit to ADEQ in accordance with R18-4-105.</p>	

**COMMUNITY WATER SYSTEM - V SHEET - GROUNDWATER  
THIS PWS PARTICIPATED IN THE MONITORING PARTNERSHIP 98 PROGRAM**

**PWS #: 11-043 PWS NAME:** **DIVERSIFIED WATER UTILITIES** Prepared By: **Nina Kondos** Date: **July 16, 1999**  
 Initial Monitoring Year: **1995** Phase II: **1995** Phase V: **1998** Rad Chems: **11/02/86**  
 This PWS has 1 POE With 1 Well Pop.: 60 Service Connections: 60 MAP Year: 2001

RULE CITATION	REQUIRED M & R	YOU HAVE COMPLETED	WHAT YOU NEED	COMMENTS
<b>INORGANIC (IOC)</b> R18-4-205 Grandfather Data 1990 - 1992 for 93-95 Compliance Period.	One sample at each POE due once every 3 years during each compliance period.	<b>MINOR DEFICIENCIES</b> No Grandfathered Data. Compliance Period <u>1993-1995</u> Have 3Q95 results for ALL contaminants EXCEPT Cyanide. <u>Compliance Period 1996-1998</u> Have Cyanite Waiver. Have 4Q98 results for ALL remaining contaminants.	<b>MINOR DEFICIENCIES</b> Please review your records and determine if you have the missing analytical results for Cyanide for 1993-1995.	< 10,000 Population - ADEQ Monitoring Assistance Program (MAP) will begin monitoring during Compliance Period 1992 to 2001, and will determine the required monitoring.
<b>ASBESTOS</b> R18-4-207 Grandfather Data After 1990	One sample at each POE due in the initial monitoring year. Due once every 9 years.	<b>NO DEFICIENCIES</b> Have 3Q95 and 4Q98 results.	<b>NO DEFICIENCIES</b>	

**COMMUNITY WATER SYSTEM - V SHEET - GROUNDWATER  
THIS PWS PARTICIPATED IN THE MONITORING PARTNERSHIP 98 PROGRAM**

**PWS #: 11-043 PWS NAME:** DIVERSIFIED WATER UTILITIES Prepared By: Nina Kondos Date: July 16, 1999  
 Initial Monitoring Year: 1995 Phase II: 1995 Phase V: 1998 Rad Chems: 11/02/86  
 This PWS has 1 POE With 1 Well Pop.: 60 Service Connections: 60 MAP Year: 2001

RULE CITATION	REQUIRED M & R	YOU HAVE COMPLETED	WHAT YOU NEED	COMMENTS
<b>NITRATE</b> R18-4-208 No Grandfather Data	One annual sample at each POE.	<b>MINOR DEFICIENCIES</b> 1993 - 1994 NO RESULTS 1995 Have 1 Q95 Combined Nitrate/Nitrite results. 1996 NO RESULTS 1997 Have 1 Q97 results. 1998 NO RESULTS 1999 To Date, No Results. Sample due by 12/31/99.	<b>MINOR DEFICIENCIES</b> Please review your records and determine if you have the missing analytical results.	
<b>NITRITE</b> R18-4-209 No Grandfather Data	One sample at each POE due in the initial monitoring year. Due once every 9 years.	<b>NO DEFICIENCY</b> Have 1 Q95 Combined Nitrate/Nitrite results. Have 3 Q95 results.	<b>NO DEFICIENCY</b>	

**COMMUNITY WATER SYSTEM - V SHEET - GROUNDWATER  
THIS PWS PARTICIPATED IN THE MONITORING PARTNERSHIP 98 PROGRAM**

**PWS #: 11-043 PWS NAME:** DIVERSIFIED WATER UTILITIES Prepared By: Nina Kondos Date: July 16, 1999  
 Initial Monitoring Year: 1995 Phase II: 1995 Phase V: 1998 Rad Chems: 11/02/86  
 This PWS has 1 POE With 1 Well Pop.: 60 Service Connections: 60 MAP Year: 2001

RULE CITATION	REQUIRED M & R	YOU HAVE COMPLETED	WHAT YOU NEED	COMMENTS
<p><b>VOLATILE ORGANIC CHEMICAL (VOC)</b>                      R-18-4-211 &amp; R18-4-212                      Grandfather Data 1988-1992 for 93 - 95 Compliance Period.</p>	<p>Grandfather Data plus 2 annual samples at each POE during 93-98 Compliance Periods.                      No Grandfather Data: 4 consecutive quarterly samples at each POE during the initial monitoring year plus 2 annual samples during 93-98 Compliance Periods. Apply for reduced after 4 Qtrs plus 2 annual samples with no detect.</p>	<p><b>MINOR DEFICIENCIES</b>                      No Grandfathered Data                      Compliance Period 1993-1995 ADEQ has no record that 4 consecutive quarterly samples were completed.                      Have a single round of samples from 4Q95.                      Compliance Period 1996-1998 PWS granted a Waiver on 09/01/98 for ALL VOC contaminants based on 4Q98 sample.</p>	<p><b>MINOR DEFICIENCIES</b>                      Minor Deficiency reflects failure to complete required 4 consecutive quarters of base monitoring between 1993-1995.</p>	<p>&lt; 10,000 Population - ADEQ Monitoring Assistance Program (MAP) will begin monitoring during Compliance Period 1999 to 2001, and will determine the required monitoring.</p>

**COMMUNITY WATER SYSTEM - V SHEET - GROUNDWATER  
THIS PWS PARTICIPATED IN THE MONITORING PARTNERSHIP 98 PROGRAM**

**PWS #: 11-043 PWS NAME:** **DIVERSIFIED WATER UTILITIES** Prepared By: **Nina Kondos** Date: **July 16, 1999**  
 Initial Monitoring Year: **1995** Phase II: **1995** Phase V: **1998** Rad Chems: **11/02/86**  
 This PWS has 1 POE With 1 Well Pop.: 60 Service Connections: 60 MAP Year: 2001

RULE CITATION	REQUIRED M & R	YOU HAVE COMPLETED	WHAT YOU NEED	COMMENTS
<p><b>SYNTHETIC ORGANIC CHEMICALS (SOC)</b>                      R18-4-215 &amp; R18-4-216                      Grandfather Data 1990 - 1992 for 93 - 95 Compliance Period.</p>	<p>Grandfather Data 1993 - 1995, no additional monitoring required until 96 - 98 Compliance Period.                      No Grandfather Data: GW Only - &lt; 10,000 population, apply for Interim Monitoring Relief (IMR). Take one round of samples between 08/06/96 and 08/06/99, for ALL SOC at each POE in lieu of 4 consecutive quarters and certify depth to groundwater &gt; 20 feet.                      &lt; 3,300 population take 4 consecutive quarterly samples at each POE during 93-95. Take 1 sample for each contaminant during repeat compliance periods. (See rule for waivers/ reduced).                      Compliance Period 1999-2000 - apply for reduced monitoring.</p>	<p><b>MINOR DEFICIENCIES</b>                      No Grandfathered Data                      Compliance Period <u>1993-1995</u>                      Have a Dioxin Waiver.                      ADEQ has no record that 4 consecutive quarterly samples were completed for the remaining contaminants.                      Have a single round of samples from 4Q95 for ALL contaminants EXCEPT Glyphosate.                      Compliance Period <u>1996-1998</u>                      Have a Dioxin Waiver.                      PWS granted a Waiver on 09/01/98 for ALL SOC contaminants for Compliance Period 1996-1998 based on 4Q98 sample.</p>	<p><b>MINOR DEFICIENCIES</b>                      Minor Deficiency reflects failure to complete required 4 consecutive quarters of base monitoring between 1993-1995.</p>	<p>&lt; 10,000 Population - ADEQ Monitoring Assistance Program (MAP) will begin monitoring during Compliance Period 1999 to 2001, and will determine the required monitoring.</p>

**COMMUNITY WATER SYSTEM - 1 SHEET - GROUNDWATER  
THIS PWS PARTICIPATED IN THE MONITORING PARTNERSHIP 98 PROGRAM**

**PWS #: 11-043 PWS NAME:** **DIVERSIFIED WATER UTILITIES** Prepared By: **Nina Kondos** Date: **July 16, 1999**  
 Initial Monitoring Year: **1995** Phase II: **1995** Phase V: **1998** Rad Chems: **11/02/86**  
 This PWS has 1 POE With 1 Well Pop.: 60 Service Connections: 60 MAP Year: 2001

RULE CITATION	REQUIRED M & R	YOU HAVE COMPLETED	WHAT YOU NEED	COMMENTS
<p><b>RADIOCHEMICAL</b>                      R18-4-217                      No Grandfather Data.  <u>Community Water System Only</u></p>	<p>Due at 4 year intervals based on the annual composite of 4 consecutive quarterly samples OR the average of the results of 4 samples taken at quarterly intervals at the POE per rules effective 06/03/98. May be approved for grab samples.</p>	<p><b>MINOR DEFICIENCIES</b>                      Initial Sample due by 11/02/86.                      Approved for Grab Sample by ADEQ 06/03/93.  <u>4 Year Compliance Intervals</u>  <u>1987-1988-1989-1990</u>                      Have 2 Grab/Single samples from 1 Q87. Location of samples unknown,  <u>1991-1992-1993-1994</u>  <b>NO RESULTS</b>  <u>1995-1996-1997-1998</u>                      Have 4 Q95 Grab Sample.  <u>1999-2000-2001-2002</u>                      Next Sample Due.</p>	<p><b>MINOR DEFICIENCIES</b>                      Per rule change effective 06/03/98, ALL future samples can be taken from the POE instead of the individual sources.</p>	

**COMMUNITY WATER SYSTEM - V SHEET - GROUNDWATER  
THIS PWS PARTICIPATED IN THE MONITORING PARTNERSHIP 98 PROGRAM**

**PWS #: 11-043 PWS NAME:** DIVERSIFIED WATER UTILITIES Prepared By: Nina Kondos Date: July 16, 1999  
 Initial Monitoring Year: 1995 Phase II: 1995 Phase V: 1998 Rad Chems: 11/02/86  
 This PWS has 1 POE With 1 Well Pop.: 60 Service Connections: 60 MAP Year: 2001

RULE CITATION	REQUIRED M & R	YOU HAVE COMPLETED	WHAT YOU NEED	COMMENTS
<b>LEAD &amp; COPPER</b> R18-4-306 to R18-4-317	R18-4-310: Number of required samples is based on population. Collect 2 consecutive 6-month initial tap water samples. No action level exceedances - apply for reduced sampling.	<b>MINOR DEFICIENCIES</b> Have the first of 2 consecutive 6 month tap water samples taken June 13, 1999. No Action Level Exceedances.  Second consecutive 6 month sample due between July - Dec 1999. If NO Action Level Exceedances, PWS may apply for reduced sampling to Annual. If approved, Annual samples will be due in 2000 & 2001. See Rule for further reduced sampling requirements.	<b>MINOR DEFICIENCIES</b> Minor Deficiencies reflect late monitoring and reporting. Initial tap water samples were due by 12/31/95.	
<b>SULFATE</b> R18-4-401 Grandfather after 1990 if results are < 250 mg/L.	Take one sample at each POE before 12/31/95. Due once every 5 years.	<b>NO DEFICIENCY</b> Have 3Q95 and 4Q98 results.	<b>NO DEFICIENCY</b>	< 10,000 Population - ADEQ Monitoring Assistance Program (MAP) will begin monitoring during Compliance Period 1999 to 2001, and will determine the required monitoring.
<b>SODIUM.</b> R18-4-402 No Grandfather Data.	Samples based on the number of Water Treatment Plants (WTP). One sample every 3 years for each WTP. A Booster Chlorinator is NOT a WTP. A Chlorinator IS a WTP.	<b>NO DEFICIENCY</b> Have 3Q95 & 4Q98 results.	<b>NO DEFICIENCY</b>	< 10,000 Population - ADEQ Monitoring Assistance Program (MAP) will begin monitoring during Compliance Period 1999 to 2001, and will determine the required monitoring.
<b>UNREGULATED VOC</b> R18-4-404 Grandfather Data after 1983	Take one sample at each POE. Due once every 5 years.	<b>NO DEFICIENCY</b> Have 3Q95 and 4Q98 results.	<b>NO DEFICIENCY</b>	Effective March 9, 1999, PWS with < 10,000 Population no longer have to sample for unregulated contaminants. ADEQ has issued an EXCLUSION until EPA modifies it rules.

**COMMUNITY WATER SYSTEM - V SHEET - GROUNDWATER  
THIS PWS PARTICIPATED IN THE MONITORING PARTNERSHIP 98 PROGRAM**

**PWS #: 11-043 PWS NAME:** DIVERSIFIED WATER UTILITIES Prepared By: Nina Kondos Date: July 16, 1999  
 Initial Monitoring Year: 1995 Phase II: 1995 Phase V: 1998 Rad Chems: 11/02/86  
 This PWS has 1 POE With 1 Well Pop.: 60 Service Connections: 60 MAP Year: 2001

RULE CITATION	REQUIRED M & R	YOU HAVE COMPLETED	WHAT YOU NEED	COMMENTS
<p><b>UNREGULATED SOC</b> R18-4-405 No Grandfather Data</p>	<p>GW Only - &lt; 10,000 population, apply for Interim Monitoring Relief (IMR). Take one round of samples between 08/06/96 and 08/06/99, for ALL UNREGULATED SOC at each POE in lieu of 4 consecutive quarters and certify depth to groundwater &gt; 20 feet. OR take 4 consecutive quarterly samples at each POE before 12/31/95. Due once every 5 years.</p>	<p><b>MINOR DEFICIENCY</b> No Grandfathered Data Compliance Period 1993-1995 ADEQ has no record that 4 consecutive quarterly samples were completed. Have a single round of samples from 4Q95 for ALL contaminant. Compliance Period 1996-1998 Have 4Q98 results that qualifier for IMR.</p>	<p><b>MINOR DEFICIENCY</b> Minor Deficiency reflects failure to complete required 4 consecutive quarters of base monitoring between 1993-1995. <b>PROVIDE CERTIFICATION THAT DEPTH TO GROUNDWATER IS &gt; 20 FEET TO OBTAIN CREDIT UNDER IMR.</b></p>	<p>Effective March 9, 1999, PWS with &lt; 10,000 Population no longer have to sample for unregulated contaminants. ADEQ has issued an EXCLUSION until EPA modifies it rules.</p>
<p><b>CERTIFIED OPERATOR</b> R18-4-114 Drinking Water Rules R18-5-114.B. Chapter 5, Article 1: Environmental Reviews &amp; Certifications-General Requirements.</p>	<p>Drinking Water Rules: A water supplier of a PWS shall provide for a certified operator who is properly certified pursuant to Chapter 5, Article 1, to operate each WTP and distribution system.  Operator Certification Rules: Distribution systems are classified according to population served.</p>	<p><b>NO DEFICIENCY</b> ADEQ received a FAX notification on 07/09/99 that James R. Wright is currently employed as the Certified Operator.</p>	<p><b>NO DEFICIENCY</b></p>	

**COMMUNITY WATER SYSTEM - KSHIET - GROUNDWATER  
THIS PWS PARTICIPATED IN THE MO. DRINKING PARTNERSHIP 98 PROGRAM**

**PWS #: 11-043 PWS NAME:** DIVERSIFIED WATER UTILITIES Prepared By: Nina Kondos Date: July 16, 1999  
 Initial Monitoring Year: 1995 Phase II: 1995 Phase V: 1998 Rad Chems: 11/02/86  
 This PWS has 1 POE With 1 Well Pop.: 60 Service Connections: 60 MAP Year: 2001

RULE CITATION	REQUIRED M & R	YOU HAVE COMPLETED	WHAT YOU NEED	COMMENTS
<p><b>PUBLIC NOTICE</b> R18-4-105</p>	<p>A water supplier of a public water system that fails to conduct required monitoring shall publish notice in a daily newspaper of general circulation within 3 months of the monitoring violation OR if a Community Water System is located in an area NOT served by a daily newspaper the water supplier shall publish notice in a weekly newspaper of general circulation within 3 months of the violations.</p> <p>Repeat public notice is required every 3 months for as long as the violations exist.</p> <p>See Rule for complete details ON Public Notice for Acute &amp; Non-acute MCL and monitoring and reporting violations.</p>	<p><b>MINOR DEFICIENCY</b> ADEQ HAS NO RECORD THAT PWS ISSUED PUBLIC NOTICE TO PERSONS SERVED BY THE WATER SYSTEM OF THE VIOLATIONS LISTED IN THIS WORKSHEET.</p>	<p><b>MINOR DEFICIENCY</b> IMMEDIATELY ISSUE PUBLIC NOTICE TO PERSONS SERVED BY THE WATER SYSTEM OF THE VIOLATIONS LISTED IN THIS WORKSHEET.</p> <p>If you have any questions or need assistance call ADEQ.</p>	

**LAST INSPECTION: DECEMBER 16, 1997 -- NO OPERATIONS OR MAINTENANCE DEFICIENCIES.**

**COMMUNITY WATER SYSTEM - V SHEET - GROUNDWATER  
THIS PWS PARTICIPATED IN THE MOI AING PARTNERSHIP 98 PROGRAM**

**PWS #:** 11-043 **PWS NAME:** DIVERSIFIED WATER UTILITIES **Prepared By:** Nina Kondos **Date:** July 16, 1999  
**Initial Monitoring Year:** 1995 **Phase II:** 1995 **Phase V:** 1998 **Rad Chems:** 11/02/86  
**This PWS has** 1 **POE With** 1 **Well** **Pop.:** 60 **Service Connections:** 60 **MAP Year:** 2001

RULE CITATION	REQUIRED M & R	YOU HAVE COMPLETED	WHAT YOU NEED	COMMENTS
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**QUESTIONS -- PLEASE CALL TOLL FREE IN ARIZONA:**

- Monitoring Assistance Program (MAP) **Moncef Tilhami, Manager, 1-800-234-5677, ext. 4425, or Anthony Bode, 1-800-234-5677, ext. 4532.**
- Consumer Confidence Reporting (CC&R) **Dale Ohmreis, Manager, 1-800-234-5677, ext. 4648, or Bill Reed, 1-800-234-5677, ext. 4638.**
- Operator Certification **John Bulanowski, Manager, 1-800-234-5677, ext. 4625.**
- Drinking Water Compliance & Enforcement **1-800-234-5677, ext. 4624, or (602) 207-4624.**

**For calls OUTSIDE of Arizona:** Dial Area Code (602) and the Prefix 207 plus the extension number.

**ADEQ Internet Website:** [www.adeq.state.az.us](http://www.adeq.state.az.us) **Download copies of Guidance Documents-Forms and an UNOFFICIAL copy of the Rules.**

**OFFICIAL Copy of Drinking Water Rules must be purchased from the AZ Secretary of State-Publications (602) 542-4086 - A.A.C. Title 18, Chapter 4.**

**cc:** Facility File PWS11-043 Diversified Water Utilitics, Inc.  
 Stephanie Kocs, ADEQ Field Inspector  
 Requester: Kathy Rali, DWR Office of Assured and Adequate Water Supply  
 PWS President, Scott Gray  
 PWS Certified Operator Jim Wright  
 Requester: Augusto Meioli

REVISED 07/16/99 - NMK- M:\WPDOC\COMPSTAT.WPDCOUNTY\FINAL\11043.0

**EXHIBIT C**

Arizona Department of Environmental Quality  
Drinking Water Compliance Enforcement Unit  
3033 N. Central Avenue, M0501B  
Phoenix, AZ 85012

Fy1216

**COMPLIANCE STATUS REQUEST FORM** - To be completed for any written or verbal compliance status request made to the Drinking Water Compliance & Enforcement Unit.

PWS Name: Diversified Water Utilities

PWS ID #: 11-043

Compliance Status:  No Deficiencies  Minor Deficiencies  Major Deficiencies  
If system is in non-compliance, please indicate why in the comment section.

Comments: This community water system is currently up to date on the required monthly total coliform monitoring. Community water systems are required to monitor for asbestos and nitrite every 9 years. This water supplier last sampled for asbestos and nitrite in 1995. Nitrate monitoring is required annually on community water systems. This water system last sampled for nitrate in 12/99. This water supplier has completed the required 2 consecutive 6-month sampling periods for lead & copper. The water system has requested ADEQ grant them reduced monitoring for lead & copper. The request is under review.

Community water systems are required to monitor for radiochemicals once a quarter during the initial sampling year. ADEQ has evidence of radiochemical monitoring being completed during 6/95 only.

Date of last ADEQ inspection/sanitary survey: 12/16/97

Please attach a copy of the most recent inspection/sanitary survey report annotated to reflect current status of correction of deficiencies, or complete the section below:

If system has major deficiencies, please check all of the following that apply:

Operating Conditions:  unable to maintain 20psi  inadequate storage  
 backflow problems  unprotected source  
 required treatment not provided  treatment deficiencies  
 certified operator  coliform  
 surface water treatment rule  chemical

Administrative Order (please attach order, highlighting noncompliance items)

Is ADEQ compliance order in effect?  Yes  No  
In compliance with order?  Yes  No  N/A

If yes, please attach a copy of the order or a list of known violations.

Please fill in the following:

Number of Points of Entry = 1 Population Served = 60 Connections Served = 60  
Initial year for Phase II = 1995 Initial year for Phase V = 1998 MAP year = 2001

DWCE Evaluation completed by: Sally Ceccarelli-Wolf, Compliance Officer

Phone: (602) 207-7626 Date: October 24, 2000

ADEQ has determined that this system is currently delivering water that does not exceed any MCL (maximum contaminant level) and meets Safe Drinking Water Act water quality requirements. This compliance status report does not guarantee the water quality of this water system in the future. This compliance status report does not reflect the status of any other water system owned by this utility company.

*File*

**EXHIBIT D**



## ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY

Governor Jane Dee Hull

Jacqueline E. Schafer, Director

DW-01-0037  
February 07, 2001

**CERTIFIED LETTER**  
**Return Receipt Requested**  
**Z-138-567-034**

Scott Gray  
P.O. Box 17357  
Phoenix, Arizona 85011

RE: Compliance Inspection of Diversified Water Utilities (11-043)

### NOTICE OF OPPORTUNITY TO CORRECT DEFICIENCIES

The Arizona Department of Environmental Quality (ADEQ), Central Regional Office has determined by inspection on November 2, 2000 that Diversified Water Utilities is in violation of the Arizona Revised Statutes (A.R.S.), Title 49-101 et seq and applicable rules.

#### **I. NATURE OF DEFICIENCIES AND REQUIRED CORRECTIVE ACTIONS**

##### **A. Minor Deficiencies**

1. Failure to provide adequate storage. The minimum storage capacity for a community water system or a non-community water system that serves a residential population or a school will be equal to the average daily demand during the peak month of the year. Storage capacity may be based on existing consumption and phased as the water system expands. (A.A.C. R18-4-503.A)

During the inspection, it was discovered that the system currently supplied water to 168 service connections, with a population of about 420 people. Using a figure of 100 gallons per person per day as the average daily demand during a peak month, the amount of storage required would be approximately 42,000 gallons. The storage tank associated with the system holds 20,000 gallons, which leaves a deficit of 22,000 gallons.

Diversified Water Utilities has provided documents to ADEQ indicating that a 200,000 gallon storage tank is to be constructed beginning in the first week of February 2001. Provide documentation of the installation of the tank, and the ADEQ Approval of Construction within 30 days of receipt of this Notice of Opportunity to Correct, or provide ADEQ with a schedule detailing the time frame to bring the storage tank on-line.

2. Failure to collect total coliform samples at site which are representative of water throughout the distribution system according to a written site sampling plan that is subject to review and approval by the Department. (A.A.C. R18-4-202.C)

During the inspection, it was determined that the water system was supplying water to areas not identified in the Microbiological Site Sampling Plan that was submitted by the system on August 1, 1999. Diversified certified operator was notified of the necessity to revise the sampling plan to include the areas served by the system during the inspection. A revised Microbiological Site Sampling Plan was received by ADEQ on December 3, 2000, and was determined to be adequate.

In future, ensure to revise the Microbiological Site Sampling Plan when the service area is expanded. Ensure that coliform samples are taken from sites that are representative of water throughout the distribution system.

3. Failure to notify the Department, by telephone, as soon as possible but no later than 24 hours after the occurrence of the following emergencies:
  1. Loss of water supply from a source
  2. Loss of water supply due to major component failure
  3. Damage to power supply equipment or loss of power;
  4. Contamination of water in the distribution system from backflow;
  5. Collapse of a reservoir, reservoir roof, or pumphouse structure;
  6. Break in a transmission or distribution line
  7. Chemical or microbiological contamination of the water supply

On October 28, 2000, a water line break occurred in the distribution system. On October 30, 2000, numerous complaints regarding potential contamination of the water system were received by ADEQ from customers of the system. Diversified Water Utilities were informed of the complaints by Sally Ceccarelli-Wolf on October 30, 2000 in an attempt to determine the nature of the emergency with the system. At the time, Diversified representatives stated that a line break had happened, and that a valve had been inadvertently opened, providing customers with stagnant water that had not been flushed through the lines.

Ensure to modify the emergency operating plan to include the requirement to notify ADEQ within 24 hours of an upset condition as listed above. Provide a copy of the revisions to ADEQ for approval.

## **II. INSPECTOR RECOMMENDATIONS**

1. Rust stains were evident on the inside of the 20,000 gallon storage tank, from a pipe connection near the top of the tank. According to Jim Wright, the previous inflow line was replaced due to corrosion. Monitor the connection at the tank to ensure that the connection is not a point of corrosion.
2. Take chlorine residual samples from within the distribution system. Maintain a log of the chlorine residuals readings.

## **III. COMPLIANCE DOCUMENTATION**

- A. Diversified Water Utilities will submit compliance documentation within 30 days from receipt of this Notice.
- B. Compliance documentation will include: invoices, photographs, logs, laboratory analyses, engineering plans, permits or any other documents necessary to establish compliance.
- C. Diversified Water Utilities will be supply all required documentation in Section I of this Notice. If you cannot obtain compliance or provide complete documentation in 30 days then include your intended schedule for compliance and documentation.

In addition, ADEQ recommends that Diversified Water Utilities supply a write-up regarding actions taken in response to Section II, Inspector Recommendations.

- D. The above documentation will be deemed "submitted" when received by ADEQ at the following address:

Arizona Department of Environmental Quality  
Water Quality Compliance Section  
Drinking Water Compliance & Enforcement Unit  
Attention: Karen Berry  
3033 North Central Avenue  
Phoenix, Arizona 85012

DW-01-0037  
Scott Gray  
February 07, 2001  
Page 4

**IV. STATEMENT OF CONSEQUENCES**

- A. Failure to achieve compliance may result in ADEQ initiating a unilateral enforcement action. Achieving compliance does not preclude ADEQ from seeking administrative and/or civil penalties.
- B. A unilateral enforcement action may result in administrative and/or civil penalties. Penalties may be imposed for each violation for the entire non-compliance period.

**V. OFFER TO MEET**

- A. To schedule a meeting to discuss the specified violation(s) contact your inspector Karen Berry at (602) 207-4441 or 1-800-234-5677 ext 4441. Upon your request, or if your submittal is incomplete, a meeting will be scheduled after ADEQ has evaluated your submittal. Prior to the meeting, please submit an agenda including your specific objectives and the names and affiliations of the participants.



John Calkins, Unit Manager  
Drinking Water Compliance And Enforcement Unit

cc: DWCEU Facility File No. 11-043  
Reading File

## GENERAL INFORMATION SUMMARY - WATER

Facility: Diversified Water Utilities

System No.: 11-043

Inspected By: Karen Berry

Date: November 2, 2000

Accompanied By: Sally Ceccarelli Wolf

County: Pinal

Number of Plants: 1

Number of Wells: 1

System Grade: 2

Population: 420

Service Connections: 168

### System Description

This is a Community Water System which consists of one well, one storage tank, one pressure tank, and a distribution system. The well, storage tank, pressure tank, and chlorination system are located within a locked, fenced enclosure. At the time of inspection, the fence was breached on the southwest corner. A phone message from Jim Wright identifying that the fence had been repaired was received on November 5, 2000. A drive by inspection on November 29, 2000 found that the fence had been repaired.

The well (55-609350) is a submersible well. Small openings were noted at the well seal, and the screen on the well vent and pressure relief vent were noted to have holes. Mr. Wright was advised to caulk the well seal and provide a new screen for the vents. Phone contact with Mr. Wright on November 5, 2000 identified that the seal was caulked and the screens replaced. Water from the well is pumped to a 20,000-gallon storage tank. Liquid chlorine is injected into the pipeline from the well to the storage tank approximately 9 feet from the wellhead.

Rust stains were evident on the inside of the 20,000 gallon storage tank, emanating from a pipe connection near the top of the tank. According to Jim Wright, the previous inflow line was replaced due to corrosion. Mr. Wright was advised to monitor the inflow connection at the tank to ensure that the line or connection is not a point of corrosion. The water in the tank appeared to be lightly rust colored, and a small amount of sedimentation was noted on the tank floor. The screen on the overflow pipe was clogged with rust debris, and had holes. Mr. Wright was advised to clean out the pipe and replace the screen. A splash block was not located below the overflow pipe. Phone contact with Mr. Wright on November 5, 2000 identified that the screen was replaced, and the splash block had been placed under the overflow pipe.

The liquid chlorine is stored within a shed south of the wellhead. Chlorine usage and residual logs were stored inside the shed. Mr. Wright related that he took the chlorine residual readings at from a point at the pressure tank, instead of within the distribution system. Mr. Wright was advised to take the residual sample from locations within the distribution system to determine if a residual exists in other areas.

At the time of inspection, one 5,000 gallon pressure tank was present. According to Mr. Wright, the pressure tank was to be replaced with a new tank because of corrosion within the old tank. No splash block was located below the cleanout valve. On November 5, 2000, Mr. Wright identified that a splash block had been placed below the clean-out valve. During a drive by inspection on November 29, 2000 a new pressure tank was observed to have been installed. According to Mr. Wright, the old pressure tank will not be used by the system in the future.

On October 28, 2000, a line break occurred within the distribution system. Numerous phone calls were received at ADEQ on October 30, 2000 by customers concerned about potential contamination, and reporting muddy water. Total coliform samples were taken from several locations with the distribution system by ADEQ inspector on October 30, 2000, which were negative. The ADEQ inspector observed staining within sinks, toilets, bathtubs, and a dishwasher during the sampling. Diversified was notified by Sally Ceccarelli-Wolf on October 30, 2000 of the complaints in an attempt to determine the nature of the emergency. Diversified representatives were unaware of the requirement to notify ADEQ within 24 hours of an emergency at the facility.

Certified operator -Jim Wright

This report addresses operation and maintenance of your water system and does not address the system's compliance with respect to the public notice, monitoring, and reporting requirements.

*Water*

**SENDER - COMPLETE THIS SECTION**

- Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
- Print your name and address on the reverse so that we can return the card to you.
- Attach this card to the back of the mailpiece, or on the front if space permits.

Article Addressed to:  
**Scott Gray**  
**P.O. Box 17357**  
**Phoenix, Arizona 85001**  
**PWS# 11043**

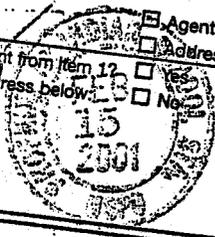
**COMPLETE THIS SECTION (ON DELIVERY)**

A. Received by (Please Print Clearly) **Scott Gray** B. Date of Delivery

C. Signature *[Signature]*  Agent  Addressee

D. Is delivery address different from item 1?  Yes  No  
 If YES, enter delivery address below:

FEB 20 2001



3. Service Type:
- Certified Mail
  - Registered
  - Insured Mail
  - Express Mail
  - Return Receipt for Merchandise
  - C.O.D.

4. Restricted Delivery? (Extra Fee)  Yes

2. Article Number (Copy from service label)

**Z-138-567-034**

**DW-01-0037 2-9-01**

**WCS 551**  
**KEB:mp3**

PS Form 3811, July 1999

Domestic Return Receipt

102595-00-M-0952

1 WILLIAM MUNDELL  
Chairman  
2 JAMES M. IRVIN  
Commissioner  
3 MARC SPITZER  
Commissioner  
4

BEFORE THE ARIZONA CORPORATION COMMISSION

5  
6 IN THE MATTER OF THE  
APPLICATION OF H2O, INC., FOR  
7 AN EXTENSION OF ITS EXISTING  
CERTIFICATE OF CONVENIENCE AND  
8 NECESSITY.

DOCKET NO. W-02234A-00-0371

9 IN THE MATTER OF THE  
10 APPLICATIONS OF JOHNSON  
UTILITIES, L.L.C., DBA JOHNSON  
11 UTILITIES COMPANY FOR AN  
EXTENSION OF ITS CERTIFICATE OF  
12 CONVENIENCE AND NECESSITY TO  
PROVIDE WATER AND WASTEWATER  
13 SERVICE TO THE PUBLIC IN THE  
DESCRIBED AREA IN PINAL COUNTY,  
ARIZONA.

DOCKET NOS. W-02987A-99-0583  
WS-02987A-00-0618

14 IN THE MATTER OF THE  
15 APPLICATION OF DIVERSIFIED  
WATER UTILITIES, INC. TO EXTEND  
16 ITS CERTIFICATE OF CONVENIENCE  
AND NECESSITY.

DOCKET NO. W-02859A-00-0774

17 IN THE MATTER OF THE  
18 APPLICATION OF QUEEN CREEK  
WATER COMPANY TO EXTEND ITS  
19 CERTIFICATE OF CONVENIENCE AND  
NECESSITY.

DOCKET NO. W-01395A-00-0784

20 REJOINDER TESTIMONY OF  
21 RICHARD F. BARTHOLOMEW, P.E., R.L.S.

22 Q. PLEASE STATE YOUR NAME, PRESENT POSITION AND PLACE OF  
23 EMPLOYMENT.

24 A. My Name is Richard F. Bartholomew. I am the president  
25 of Bartholomew Engineering, Inc. My business address is 3420 E.  
26 Shea Boulevard, Suite 161, Phoenix, Arizona 85028.

1 Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

2 A. H2O, Inc.'s. I have been H2O's consulting engineer  
3 for the past two years. In that capacity, I have prepared a  
4 Master Plan identifying the necessary facilities to serve H2O's  
5 current service area as well as the contested area.  
6 Additionally, I have performed systems analysis for development  
7 and developed project construction plans.

8 Q. WOULD YOU BRIEFLY SET FORTH YOUR EXPERIENCE?

9 A. I graduated from the University of Arizona in 1961  
10 with a degree in Civil Engineering (BSCE). After graduation I  
11 worked as a consultant designing water and wastewater systems.  
12 In 1966 I became the Director of the Arizona Water Supply  
13 Division, Arizona Department of Health Services (now known as  
14 the Department of Environmental Quality). As the Director I was  
15 responsible for the State's water supply program for over 900  
16 public and semi-public water supply systems. My duties were to  
17 oversee water system sampling, construction and operation  
18 activities to meet the State's requirements. This involved  
19 surveillance inspections of water systems to ensure that  
20 adequate facilities were being constructed. Our office issued  
21 approvals for the construction of the new water system  
22 facilities for development and other expansion needs. After six  
23 years with the ADHS, I returned to consulting.

24 In 1972, I began working for a private consultant designing  
25 water systems. In 1976, I started my own firm. Since that time  
26 I have completed plans for over 2,000 separate water and

1 wastewater systems. Our firm is also the consultant in charge  
2 of operating a major Superfund site in the Valley, treating  
3 approximately one million gallons of water per day. We also  
4 have completed master plans for two other water supply systems  
5 experiencing development growth similar to taking place in H2O's  
6 area.

7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

8 A. To respond to the testimony of Mr. Scott Gray and Mr.  
9 Greg Potter on behalf of Diversified Water Utilities, Inc.  
10 ("Diversified").

11 Q. MR. POTTER TESTIFIED THAT DURING DIVERSIFIED'S RECENT  
12 EXPANSIONS ALL OF THE DISTRIBUTION SYSTEM INSTALLATIONS HAVE  
13 BEEN SIZED 6-INCH OR LARGER IN ANTICIPATION OF SERVING AREAS  
14 OUTSIDE OF DIVERSIFIED'S CURRENT CC&N. IN YOUR OPINION, ARE 6-  
15 INCH LINES ADEQUATE TO SERVE SECTIONS 28 (HOME PLACE) AND 33  
16 (WARE FARMS), T2S, R8E?

17 A. No. A 6-inch line is too small to transmit the  
18 required water for domestic and fire flow to the large  
19 subdivisions planned for Sections 28 and 33. According to a map  
20 provided by Diversified, it appears that Diversified's well and  
21 storage are located in Section 2, Township 3 South, Range 8  
22 East, Pinal County. (See Map, Exhibit "A"). It would take a  
23 12-inch line or larger, for the entire distance between the  
24 plant and the subdivisions, because the distance between the two  
25 is over one mile. Given the distance between Diversified's  
26 current plant and Sections 28 and 33, along with the fact that

1 Diversified is currently serving customers between these two  
2 areas, I do not believe it would be feasible to serve Ware Farms  
3 and Home Place from the current plant. Consequently,  
4 Diversified's current facilities are inconsequential in  
5 addressing service to Sections 28 and 33.

6 Q. MR. POTTER TESTIFIED THAT, WITH THE PLANNED  
7 CONSTRUCTION OF A NEW 200,000 GALLON STORAGE FACILITY AND A NEW  
8 5,000 GALLON PRESSURE TANK, DIVERSIFIED IS IN THE POSITION TO  
9 SERVE NEW GROWTH WITHIN AND OUTSIDE OF ITS CURRENT CERTIFICATED  
10 AREA. DO YOU AGREE?

11 A. No. For domestic water supply purposes, a 200,000  
12 gallon tank is only adequate for 2,000 people (at 100 gallons  
13 per person per day per ADEQ regulations). This calculation does  
14 not include fire flow storage. Diversified's proposed storage  
15 tank is insufficient to serve the current customers plus the  
16 proposed developments. There are 1,485 lots planned for Ware  
17 Farms and 2,174 lots planned for Home Place, plus the existing  
18 170 connections currently on the system. This totals 3,839 lots.  
19 Using the Pinal County Planning Department minimum lot density  
20 of single family homes of 2.5 people per lot the service  
21 population would be 9,597 people. The storage requirement to  
22 meet ADEQ regulations would be no less than 959,700 gallons.  
23 Additionally, Diversified must have a water supply sufficient to  
24 meet the anticipated demand.

25 Q. BOTH MR. POTTER AND MR. GRAY TESTIFIED THAT  
26 DIVERSIFIED LOOP ITS SYSTEM THROUGH SECTIONS 28 AND 33 IN ORDER

1 TO ADEQUATELY SERVE THE NORTHERN PORTION (SECTIONS 34 AND 27) OF  
2 ITS CURRENT CERTIFICATED SERVICE AREA. IS THIS ACCURATE?

3 A. No. A review of Diversified's current CC&N area shows  
4 that its system can be adequately looped without serving  
5 Sections 28 and 33. Diversified may create a loop in Sections  
6 27 and 34, T2S, R8E, Pinal County and a second loop to serve its  
7 certificated area in T3S, R8E, Pinal County.

8 Diversified's claim that it needs to loop its system around  
9 Sun Valley Farms Unit VI Water Company ("Sun Valley") is not  
10 sound. First, Diversified claims that larger transmission lines  
11 and booster stations will be needed to move water through its  
12 system if Diversified is unable to loop its system around Sun  
13 Valley. This argument, although it may appear legitimate at  
14 first glance, is actually meaningless. If high density  
15 developments were to be constructed in Sections 27 and 34,  
16 Diversified would not be able to serve the new customers with  
17 its current plant. Therefore, the size of transmission lines  
18 and the number of booster stations that would be required to  
19 transport water from Diversified's current plant to future  
20 customers in Sections 27 and 34 is irrelevant.

21 Second, Diversified claims that, without looping its system  
22 around Sun Valley, it will be required to extend its facilities  
23 for approximately 1.5 miles without any service connections  
24 creating the potential for significant "stagnant" water issues.  
25 This argument fails for several reasons. To begin with,  
26 Diversified does not have to extend its facilities for

1 approximately 1.5 miles without any service connections. As I  
2 stated earlier, Diversified may create a loop in Sections 34 and  
3 27. By looping its system this way Diversified can extend its  
4 facilities without service connections. In contrast, if  
5 Diversified looped its system around Sun Valley, Diversified  
6 would be required to install approximately one-half of a mile of  
7 main through Section 4 without any service connections.  
8 Moreover, Diversified incorrectly claims that water will  
9 stagnate if the system is not looped around Sun Valley. Water  
10 will stagnate when there is insufficient usage at the end of the  
11 line. If Diversified creates a loop in Sections 27 and 34, this  
12 will not be a problem. Also, Diversified may either flush its  
13 lines or ensure that the water is properly chlorinated to  
14 prevent any deterioration of water quality.

15 Third, Diversified claims that by looping its system around  
16 Sun Valley, Diversified will be able to provide a more direct  
17 transmission route which will result in a more efficient and  
18 economical operation. As I stated earlier, if Sections 34 and  
19 27 are fully developed, Diversified will not be able to serve  
20 all of the future customers with current plant. Therefore, the  
21 most efficient and economical transmission of water to its  
22 current and future customers will occur if Diversified develops  
23 a plant in either Section 34 or 27.

24 Although I do not doubt that Diversified would like to  
25 serve the Home Place and Ware Farms, in my opinion, there is no  
26 "engineering" need for Diversified to serve the area. Further,

1 Diversified may increase the quality of its service to its  
2 current customers by looping its system within its current CC&N.

3 Q. MR. GRAY TESTIFIED THAT DIVERSIFIED SHOULD BE  
4 CERTIFICATED IN SECTIONS 28 AND 33 BECAUSE IT HAS FACILITIES  
5 LOCATED THE NORTH HALF OF SECTION 34. DO YOU AGREE THAT THIS IS  
6 AN APPROPRIATE BASIS FOR DETERMINING WHAT COMPANY SHOULD SERVE  
7 SECTIONS 28 AND 33?

8 A. No.

9 Q. WHY NOT?

10 A. Their facilities are not adequate for the large  
11 number of lots proposed for the new development. Diversified's  
12 well capacity is reported to be 120 gallons per minute (g.p.m.).  
13 Industry standards require that well capacity should be adequate  
14 to provide at least 1 g.p.m. per lot. This requires at least  
15 3,839 g.p.m. to serve the current 170 lots plus the proposed  
16 3,669 lots in Sections 28 and 33. The average well production  
17 in the service area is 1,000 to 1,500 g.p.m. per well.  
18 Diversified would have to drill at least three more wells to  
19 serve these Sections in addition to their existing well. In  
20 contrast, H2O already has two wells of at least 1,000 g.p.m.  
21 each. Approximately, 1,000 g.p.m. is needed to serve their  
22 current service area leaving approximately 1,000 g.p.m. for new  
23 developments. Additionally, even if its well were adequate  
24 Diversified would have to construct major transmission pipelines  
25 from their well to the new developments. H2O's Master Plan  
26 calls for two more well sites in Sections 28 and 33 to augment

1 their supply system. With a completely integrated system H2O  
2 will be able to adequately provide water service to these new  
3 developments at less cost than Diversified.

4 Q. MR. GRAY TESTIFIED THAT THE LAND USE PLANS FOR HOME  
5 PLACE (SECTION 28) AND WARE FARMS (SECTION 33) INCLUDE MAJOR  
6 TRANSMISSION LINES THAT WILL BE CONSTRUCTED TO SCHNEPF ROAD  
7 WHERE THEY COULD BE READILY INTERCONNECTED WITH DIVERSIFIED'S  
8 EXISTING SYSTEM PROVIDING SIGNIFICANT ENHANCEMENTS TO  
9 DIVERSIFIED AND ITS CUSTOMERS. DO YOU AGREE WITH HIS  
10 CONCLUSIONS?

11 A. No. It takes more than just transmission lines to  
12 serve these new developments. It takes wells, storage,  
13 reservoirs and pump stations, all of which Diversified does not  
14 have. Although Mr. Potter vaguely refers to planning being done  
15 by Diversified, no specific plans are identified. By comparison  
16 H2O has already developed extensive detailed plans for serving  
17 the contested area.

18 Q. MR. GRAY TESTIFIED THAT H2O DOES NOT REQUIRE ANY  
19 ADDITIONAL SERVICE AREA TO ENSURE ECONOMIC VIABILITY AND ENHANCE  
20 ECONOMIES OF SCALE. CAN YOU PLEASE DESCRIBE THE BENEFITS TO THE  
21 CURRENT SYSTEM THAT WILL BE GAINED BY EXPANDING H2O'S  
22 CERTIFICATED AREA?

23 A. The H2O system can be economically expanded using  
24 satellite wells and storage reservoirs, integrated through a 12-  
25 inch main system grid. The economy of scale will reduce the  
26 water rates required for customer service as compared to a small

1 system which is expanding beyond its means to add customers.  
2 H2O has begun constructing an infra-structure of transmission  
3 pipelines and storage reservoirs necessary to serve significant  
4 parts of the contested area.

5 Q. MR. GRAY TESTIFIED THAT CROSSING THE QUEEN CREEK WASH  
6 IS UNDULY COSTLY AND SHOULD BE AVOIDED. DO YOU AGREE WITH THAT  
7 ASSESSMENT?

8 A. No. H2O has already successfully crossed the wash.

9 Q. PLEASE DESCRIBE WHAT WAS INVOLVED IN CROSSING THE  
10 QUEEN CREEK WASH?

11 A. A 12-inch diameter pipeline was placed under Queen  
12 Creek Wash at a depth of 4-5 feet of cover to adequately protect  
13 the pipe from being scoured out by erosion. In some cases the  
14 pipe is enclosed in concrete.

15 Q. MR. GRAY TESTIFIED THAT H2O DOES NOT HAVE FACILITIES  
16 IN PROXIMITY TO SECTIONS 28 AND 33. DO YOU AGREE?

17 A. No.

18 Q. PLEASE DESCRIBE H2O'S EXISTING AND PLANNED FACILITIES  
19 TO SERVE SECTIONS 28, 29, 31, 32, AND 33.

20 A. H2O has a new 12-inch line on Schnepf Road which  
21 extends to the northeast corner of Section 21. The distribution  
22 system in Section 21 consists of 6-inch mains. H2O's plan to  
23 serve the contested area is detailed in its Master Plan. A copy  
24 of the map depicting H2O's planned facilities is attached to the  
25 Rejoinder Testimony of Donald Schnepf as Exhibit "A". The 12-  
26 inch line along Schnepf Road will be extended south in Schnepf

1 Road to loop Sections 28 and 33. Another 12-inch pipe will  
2 cross through Sections 28 and 29 to loop the development.  
3 Another 12-inch line will be placed on Riggs Road between  
4 Vineyard Road and Schnepf Road. The Master Plan for H2O calls  
5 for 12-inch pipe on all Section lines with 8-inch lines  
6 (minimum) inside the Sections. Well sites are being secured  
7 within each Section. Storage reservoirs and pump stations are  
8 being planned at each well site and at strategic locations  
9 within the distribution system in order to provide adequate  
10 pressure and supplies to each development as it is planned. The  
11 facilities will be constructed with the approval of the Arizona  
12 Department of Environmental Quality and the Department of Real  
13 Estate. We have prepared the Master Plan for the water company  
14 for this purpose.

15 Q. DO YOU BELIEVE THAT IT IS IN THE PUBLIC INTEREST FOR  
16 H2O TO SERVE SECTIONS 28 (HOME PLACE), 29 (PECAN RANCH), 31  
17 CIRCLE CROSS RANCH), AND 33 (WARE FARMS) by H2O?

18 A. Yes.

19 Q. WHY?

20 A. As shown by H2O's Master Plan, H2O has the capability  
21 to serve these Sections economically from their existing and  
22 planned infrastructure. By continuing to upgrade pipelines,  
23 reservoirs and pump stations, H2O's facilities can all be  
24 connected together. Also, by the integration of their total  
25 system as shown on the Master Plan, the entire service area can  
26 be served by the individual wells and reservoir sites. The use

1 of multiple sources and storage allows the system to effectively  
2 serve customers in case a well is out of service for repair or  
3 there is a major pipe break. The service in these Sections will  
4 be part of this integrated system and would promote the public  
5 interest better than if served through a non-integrated system  
6 such as would occur if Diversified serves Ware Farms and Home  
7 Place.

8 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

9 A. Yes.

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**EXHIBIT A**

