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FENNEMORE CRAIG, P.C.
Jay L. Shapiro (No. 014650)
Patrick J. Black (No. 017141)
3003 N. Central Ave., Suite 2600
Phoenix, Arizona 85012
Attorneys for Desert Hills Water Company

2007 FEB 14 1P 4: 34

AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF DESERT HILLS
WATER COMPANY'S APPLICATION
FOR APPROVAL OF TRANSFER OF
ASSETS TO THE TOWN OF CAVE
CREEK, PURSUANT TO ARIZONA
REVISED STATUTES 40-285

DOCKET NO: W-02124A-06-0717

NOTICE OF FILING TESTIMONY

Desert Hills Water Company, Inc. ("Desert Hills"), an Arizona corporation, hereby files the Testimony of Usama Abujbarah in Response to Staff Report.

DATED this 14th day of February, 2007.

FENNEMORE CRAIG, P.C.

Arizona Corporation Commission

DOCKETED

FEB 14 2007

DOCKETED BY	nr
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By: _____

Jay L. Shapiro
Patrick J. Black

3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012

Attorneys for Desert Hills Water Company, Inc.

ORIGINAL and thirteen (13) copies of the foregoing were delivered this 14th day of February, 2007:

Docket Control
Arizona Corporation Commission
1200 W. Washington St.
Phoenix, AZ 85007

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Copy of the foregoing was **hand delivered**
this 14th day of February, 2007:

Lyn Farmer
Chief Administrative Law Judge
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Linda Jaress
Utilities Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Maureen Scott
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Robin Mitchell
Legal Division
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Copy of the foregoing was **mailed**
this 14th day of February, 2007:

Court Rich Esq.
The Rose Law Group
6613 N. Scottsdale Road, Suite 200
Scottsdale, AZ 85250

By: *Maria San Jose*

1884592.1/18332.007

1 FENNEMORE CRAIG, P.C.
2 Jay L. Shapiro (No. 014650)
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4 3003 N. Central Ave., Suite 2600
5 Phoenix, Arizona 85012
6 Attorneys for Desert Hills Water Company

7
8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: W-02124A-06-0717

15 **TESTIMONY OF**
16 **USAMA ABUJBARAH**
17 **IN RESPONSE TO STAFF REPORT**
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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Usama Abujbarah. My office is located at 37622 North Cave Creek
3 Road, Cave Creek, AZ 85331.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by the Town of Cave Creek ("Town") as the Town Manager.

6 **Q. PLEASE SUMMARIZE YOUR RESPONSIBILITIES WITH RESPECT TO**
7 **DESERT HILLS WATER COMPANY?**

8 A. Since the Town purchased the stock of Desert Hills Water Company ("DHWC"),
9 my responsibilities associated with DHWC have included managing the day to day
10 operation and supervision over the business and the operation of the corporation,
11 subject to the control of the Board of Directors. These responsibilities include
12 signing, executing, and acknowledging, in the name of the corporation, deeds,
13 mortgages, bonds, contracts and other instruments authorized by the Board of
14 Directors. More specifically, I have been working with Arizona-American Water
15 Company to negotiate a permanent connection between the Anthem System and
16 DHWC working to ensure short and long term water supplies, and authorizing
17 needed capital improvements for DHWC.

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
19 **PROCEEDING?**

20 A. To address two issues raised in the Staff Report filed in this matter on February 1,
21 2007.

22 **Q. WOULD YOU PLEASE IDENTIFY THESE TWO ISSUES?**

23 A. Certainly. In this Response to the Staff Report, I address issues concerning
24 DHWC's: (1) actions to finalize long-term plans for water supply after the transfer
25 of assets to the Town take place, and (2) compliance with the Maricopa County
26 Environmental Services Department ("MCESD") and Arizona Department of

1 Environmental Quality ("ADEQ") rules and regulations.

2 **Q. IN ITS REPORT, STAFF CONCLUDES THAT ALTHOUGH DHWC**
3 **CANNOT PRODUCE ENOUGH WATER TO SERVE EXISTING**
4 **CUSTOMERS, NEGOTIATIONS CONTINUE WITH ARIZONA-**
5 **AMERICAN WATER COMPANY TO SECURE A LONG-TERM SUPPLY.**
6 **WOULD YOU PLEASE COMMENT ON THIS ISSUE?**

7 A. First, I must clarify that the deadline for DHWC's contract for water supply from
8 Arizona-American Water Company ("Arizona-American") was extended, and does
9 not expire until March 31, 2007. A copy of the extension agreement is attached
10 hereto as Exhibit 1. With respect to securing a long-term water supply from
11 Arizona-American, the Town is continuing its efforts to finalize a more
12 comprehensive agreement to address water supply. A draft of the proposed
13 agreement is currently being reviewed by Arizona-American and the Town. It
14 would provide for Arizona-American to furnish a firm supply of up to 2 million
15 gallons of water per day to the town for the Desert Hills service area. The
16 agreement would commence April 1, 2007 and have a ten-year term. The
17 agreement would also provide for Arizona-American to wheel and treat water to be
18 separately acquired by the Town. It would also provide that the permanent
19 interconnection between the Anthem system and the DHWC service area be
20 completed by March 31, 2008. If the Town has not separately acquired a
21 supplemental water supply for the DHWC area by March 31, 2010, Arizona-
22 American could cancel the agreement on 180 days notice.

23 **Q. IS THE TOWN PURSUING OTHER EFFORTS TO SECURE AN**
24 **ADEQUATE WATER SUPPLY FOR ITS CUSTOMERS?**

25 A. Yes. The Town is in the process of acquiring Cave Creek Water Company
26 ("CCWC"), which already has a permanent interconnection to the DHWC water

1 system. A settlement agreement in principle has been reached between the Town
2 and Global Water, Inc., subject to resolution of one or two outstanding issues. We
3 hope to finalize the settlement agreement and transfer of possession of CCWC and
4 pacer equities systems in late February or early March of this year. In the event
5 that the two systems are ultimately acquired, the Town intends to integrate and
6 improve the interconnection between the two systems so that additional water
7 supplies are available to all customers within the DHWC service area.

8 **Q. MR. ABUJBARAH, WOULD YOU PLEASE ADDRESS ISSUES RAISED IN**
9 **THE STAFF REPORT CONCERNING COMPLIANCE WITH MCESD**
10 **AND ADEQ RULES AND REGULATIONS?**

11 A. Yes. Staff correctly points out that the Town has taken the steps necessary to
12 resolve the Notice of Violation and Demand for Compliance issued by MCESD on
13 September 11, 2006. On November 27, 2006, DHWC signed a Stipulated
14 Settlement Agreement with MCESD, attached hereto as Exhibit 2. The
15 engineering report required by MCESD demonstrating adequate pressure, storage
16 and water supply for DHWC is attached hereto as Exhibit 3.

17 **Q. ARE THERE ANY OTHER OUTSTANDING ISSUES WITH MCESD**
18 **THAT REQUIRES IMMEDIATE ACTION AT THIS TIME?**

19 A. Yes, there is one. The physical interconnection between DHWC and Arizona-
20 American's Anthem District is currently above-ground, primarily because the
21 interconnection was originally built as a temporary interconnect. The
22 interconnection's current configuration is not consistent with MCESD's rules and
23 regulations. Therefore, MCESD has requested that the Town provide notice by
24 April 1, 2007, of whether it intends to discontinue using the temporary
25 interconnection, or make it a permanent underground connection between
26 DHWC's system and Arizona-American's Anthem District.

1 **Q. HAS THE TOWN MADE A DECISION CONCERNING THIS**
2 **INTERCONNECTION?**

3 A. Yes. The Town has decided that a permanent underground interconnection is
4 warranted, though the pipeline's exact size and location have not been yet
5 determined. The Town has notified MCESD that the temporary interconnection
6 will be disconnected on April 1, 2007, after the extended agreement for water from
7 Arizona-American expires on March 31, 2007. This action will satisfy the Notice
8 of Violation. Once the size and location of the interconnection and related piping
9 have been determined, DHWC or the Town (whoever owns the assets at the time)
10 will file an application for an Approval to Construct the permanent connection.

11 **Q. BUT MR. ABUJBARAH, ARIZONA-AMERICAN IS CURRENTLY**
12 **PROHIBITED FROM DISCONNECTING THE INTERCONNECTION**
13 **PURSUANT TO COMMISSION DECISION NO. 68952 (SEPTEMBER 15,**
14 **2006), IS IT NOT?**

15 A. Yes. However, DHWC intends to file a motion to lift this preliminary order so that
16 the disconnection can be made, among other things. I believe that lifting this
17 requirement of Decision No. 68952 will assist DHWC and the Town in complying
18 with MCESD regulations concerning the temporary nature of the above-ground
19 interconnection between DHWC and Arizona-American's Anthem District.

20 **Q. WHEN DOES DHWC INTEND TO FILE THIS MOTION?**

21 A. Within the next ten (10) days. DHWC will request lifting the preliminary order
22 pursuant to Ordering Paragraph 4(f), which allows any party affected by the
23 Decision to file such a motion after an application to transfer assets is filed
24 pursuant to A.R.S. § 40-285.

25 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

26 A. Yes.

Exhibit 1

AGREEMENT TO EXTEND TEMPORARY WATER SUPPLY AGREEMENT

THIS AGREEMENT TO EXTEND TEMPORARY WATER SUPPLY AGREEMENT is entered into as of August 31st, 2006, by and between DESERT HILLS WATER COMPANY, INC. ("Desert Hills"), an Arizona corporation, and ARIZONA-AMERICAN WATER COMPANY ("Arizona-American"), an Arizona corporation. Parties to this Agreement may be referred to individually as a "Party" or collectively as the "Parties."

RECITALS

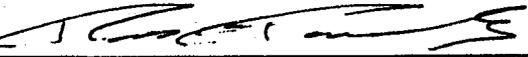
- A. Arizona-American is a public service corporation within the meaning of Article 15, Section 2, of the Arizona Constitution, and is authorized to provide potable water service within portions of Maricopa County, Arizona, in accordance with a Certificate of Convenience and Necessity ("CC&N") granted by order of the Arizona Corporation Commission ("Commission").
- B. Desert Hills is a public service corporation within the meaning of Article 15, Section 2, of the Arizona Constitution, and is authorized to provide potable water service within portions of Maricopa County, Arizona, in accordance with a CC&N granted by order of the Commission.
- C. On or about June 6, 2006, Desert Hills and Arizona-American entered into a Temporary Water Supply Agreement, a copy of which is attached hereto and incorporated herein by this reference ("Agreement"). Under the Agreement, Arizona-American agreed to provide, on a temporary basis, water to Desert Hills and Desert Hills agreed to pay for such water.
- D. The Agreement is scheduled to expire on October 15, 2006, however, Desert Hills and Arizona-American desire to extend the terms and conditions of the Agreement until March 31, 2007.

NOW, THEREFORE, for and in consideration of the following covenants and promises, the Parties agree as follows:

1. **Recitals.** The Recitals set forth above are true and correct, and are by this reference incorporated herein.
2. **Term of Agreement.** Desert Hills and Arizona-American agree to extend the term of the Agreement from October 15, 2006 until March 31, 2007.
3. **Ratification of Agreement.** Except as specifically modified herein, Arizona-American and Desert Hills agree that all provisions of the Agreement shall remain applicable.

IN WITNESS WHEREOF, the Parties enter into this Agreement as of August __,
2006.

ARIZONA-AMERICAN WATER COMPANY,
an Arizona corporation

By: 

Its: President

DESERT HILLS WATER COMPANY, INC.,
an Arizona corporation

By: Mary B. Rowland

Its: Vice President

1828647

Exhibit 2



Maricopa County
Environmental Services Department

DHWC file

604-12

Office of the Director
1001 N. Central Ave., Ste. 595
Phoenix, Arizona 85004
Phone: (602) 506-6623
Fax: (602) 506-5141

November 27, 2006

Mr. Usama Abujbarah
Town of Cave Creek
37622 N. Cave Creek Road
Cave Creek, AZ 85331

Re: Stipulated Settlement Agreement for Desert Hills Water Company

Mr. Abujbarah:

Enclosed is a copy of the completed Stipulated Settlement Agreement with each required signature. The agreement is effective today, November 27, 2006. Please note the various deadlines within the document to ensure Desert Hills Water Company is able to maintain compliance.

If you have any questions or need to discuss submittal procedures, please feel free to call me at (602) 506-6930.

Sincerely,

A handwritten signature in cursive script that reads "Aimee Upton".

Aimee Upton, MAOM, RS
Enforcement Manager
Maricopa County Environmental Services



**BEFORE THE DIRECTOR OF THE
MARICOPA COUNTY
ENVIRONMENTAL SERVICES DEPARTMENT**

IN THE MATTER OF:
Desert Hills Water Company
Owner: Town of Cave Creek
37622 N. Cave Creek Road
Cave Creek, AZ 85331

CAUSE NO. 06-0014131
PUBLIC WATER SYSTEM

STIPULATED SETTLEMENT AGREEMENT

The Maricopa County Environmental Services Department (MCESD), and Town of Cave Creek, owner of Desert Hills Water Company, hereby enter into this Stipulated Settlement Agreement regarding the settlement of existing enforcement action by MCESD against Desert Hills Water Company.

In consideration of the mutual covenants contained in this Stipulated Settlement Agreement, and for good and valuable consideration, the receipt and sufficiency of which is acknowledged, the parties agree as follows:

I. RECITALS AND LEGAL AUTHORITY

1. MCESD, acting under the authority of A.R.S. §36-183.02 and Delegation Agreement #00-0026 between the Arizona Department of Environmental Quality and Maricopa County, is responsible for enforcing the Safe Drinking Water Requirements contained in Title 18, Chapter 4 of the Arizona Administrative Code (AAC) in Maricopa County and the requirements of the Maricopa County Environmental Health Code.
2. On September 11, 2006, MCESD issued a Notice of Violation and Demand for Compliance to Ms. Mary Beth Rowland, Desert Hills Water Company, demanding the water system be brought into compliance with the Maricopa County Environmental Health Code and the Arizona Administrative Code.
3. On September 13, 2006, Town of Cave Creek acquired Desert Hills Water Company and took responsibility for all open enforcement actions.
4. On October 17, 2006, representatives from MCESD and Town of Cave Creek met to discuss a settlement of the Notice of Violation and Demand for Compliance.
5. Desert Hills Water Company, without admitting to any of the allegations, desires to settle all matters without any further enforcement action.

II. SETTLEMENT OF ENFORCEMENT ACTION

1. In full settlement of all claims made or arising out of the facts alleged in the September 11, 2006 Notice of Violation and Demand for Compliance, Town of Cave Creek agrees to the following timeline:
 - a. An engineering report, sealed by a Professional Engineer, must be submitted within 30 days of signature of this agreement. The plans must demonstrate the following:
 1. The water system is capable of maintaining pressure at all times as required by Maricopa County Environmental Health Code, Chapter V, Regulation 1(a) and AAC R18-5-502B.
 2. The water system has adequate storage that is equal to the average daily demand during the peak month of the year as required by Maricopa County Environmental Health Code, Chapter V, Regulation 1(a) and AAC R18-5-503A.
 3. The water supply is adequate to deal with currently planned subdivision projects and is sufficient to supply future growth within the current planning cycle.
 - b. Within 10 days of signature of this agreement, Town of Cave Creek will submit written correspondence providing a date when the Master Plan for Town of Cave Creek (including Desert Hills Water Company) is expected to be completed. Upon completion, a copy will be submitted to MCESD.
 - c. Within 30 days of signature of this agreement, Desert Hills Water Company will submit a copy of the final agreement between Desert Hills Water Company and American Water regarding the connection between the two systems should any emergency require Desert Hills to use the service of American Water.
 - d. Within 10 days of signature of this agreement, Town of Cave Creek will update all MCESD permit information for Desert Hills Water Company.
 - e. If it is found during the review process that Desert Hills Water Company will be required to make any system corrections to address the pressure, storage, and/or supply issues, an additional meeting will occur within 10 days of the review findings between MCESD and Town of Cave Creek to negotiate timeframes for completion of the project(s).

2. In full settlement of all claims made or arising out of the facts alleged in the Notice of Violation and Demand for Compliance, Town of Cave Creek shall cause to be paid to MCESD a monetary penalty of \$12,000.00 within 15 days of signature of this agreement. Monetary payment received by MCESD pursuant to this Stipulation Settlement Agreement shall be deposited in the general fund of Maricopa County as provided for by A.R.S. §§ 36-183.04 and 36-183.05. Payment shall be made payable to Maricopa County Environmental Services Department and submitted to the attention of:

Aimee Upton
Enforcement Manager
1001 N. Central Avenue, Suite #711
Phoenix, AZ 85004.

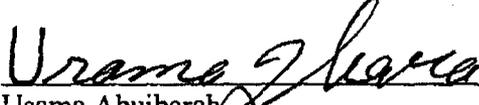
3. Town of Cave Creek admits to the jurisdiction of MCESD in the matter stated herein and waives all rights to a hearing of these matters and further, waives its right to judicial review of these matters.

III. SIGNATURES

MARICOPA COUNTY

 Date 11/27/06
John A. Power, PE, MPA
Director, Environmental Services Department

TOWN OF CAVE CREEK

 Date 11/17/06
Usama Abujbarah
Town Manager, Town of Cave Creek

ATTEST:

 Date 11/17/06
Name: CARRIE A. DYREK
TOWN CLERK 3

Exhibit 3

Draft Report

**Desert Hills Water Company
Stipulated Settlement
Agreement Report**

Prepared for
Town of Cave Creek

37622 N. Cave Creek Road
Cave Creek, AZ 85331

December 2006

CH2MHILL
CH2M HILL
2625 South Plaza Drive
Suite 300
Tempe, AZ 85282

Draft Report

**Desert Hills Water Company
Stipulated Settlement
Agreement Report**

Prepared for
Town of Cave Creek

December 2006

CH2MHILL

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Appendixes

- A Pressure Recorder Data
- B Arizona American Water letter

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SECTION 1

Introduction

This report is being submitted in response to a Stipulated Settlement Agreement (Agreement) that the Town of Cave Creek (Town) has entered into with the Maricopa County Environmental Services Department (MCESD). The Agreement was executed by MCESD on November 27, 2006. The completion of the stipulated timeline identified in the Agreement will settle the existing enforcement action by MCESD against the Desert Hills Water Company (DHWC). Specifically, MCESD issued a Notice of Violation (NOV) and Demand for Compliance to the previous owners of DHWC on September 11, 2006. On September 12, 2006, the Mayor and Council of the Town of Cave Creek authorized the Town to purchase all of the assets of the DHWC including real or personal property and/or all of the stock of the DHWC.

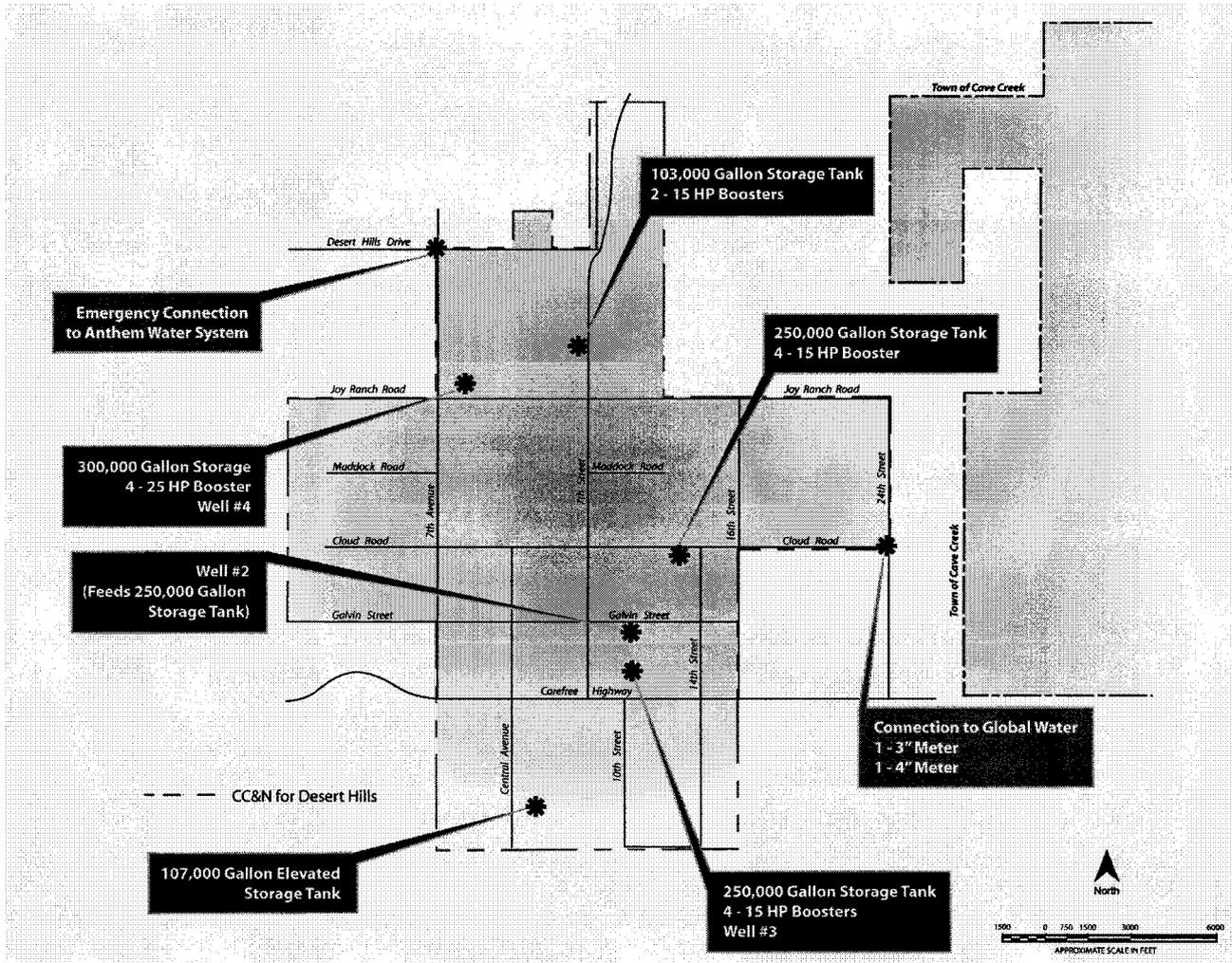
Subsequently, the Town has been proactive in managing the operations of the DHWC in a responsible and conscientious manner. The Town has moved forward on its own volition to conduct planning and engineering efforts with the intent to improve the short and long term integrity of the DHWC system. The Town has also engaged the services of Arizona American Water to provide professional operation and maintenance services to assure continued reliability of water service to its customers.

MCESD indicated the report must demonstrate the following:

- The water system is capable of maintaining pressure at all times as required by Maricopa County Environmental Health Code, Chapter V, Regulation 1(a) and AAC R18-5-502B.
- The water system has adequate storage that is equal to the average daily demand during the peak month of the year as required by Maricopa County Environmental Health Code, Chapter V, Regulation 1(a) and AAC R18-5-503A.
- The water supply is adequate to deal with currently planned subdivision projects and is sufficient to supply future growth within the current planning cycle.

An overview of the DHWC is shown in Figure 1. Many details regarding the system were obtained from a DHWC system map prepared by RBF Engineers with a revision date of January 2004.

FIGURE 1
System Overview
Desert Hills Water Company Stipulated Settlement Agreement



SECTION 2

System Pressure

As stated in AAC RI 8-5-502b, a potable water distribution system shall be designed to maintain and shall maintain a pressure of at least 20 pounds per square inch at ground level at all points in the distribution system under all flow conditions. To maintain adequate service pressure, the distribution system is divided into three service areas based on existing facilities and system operations. The three service areas are presented in Figure 2.

The hydraulic grade line established for each zone was established using static pressure readings. Head losses through the distribution system piping were not accounted for in this analysis. All references to elevation refer to NGVD 1929 datum. The following paragraphs detail how each zone is operated and how the hydraulic grade lines are maintained.

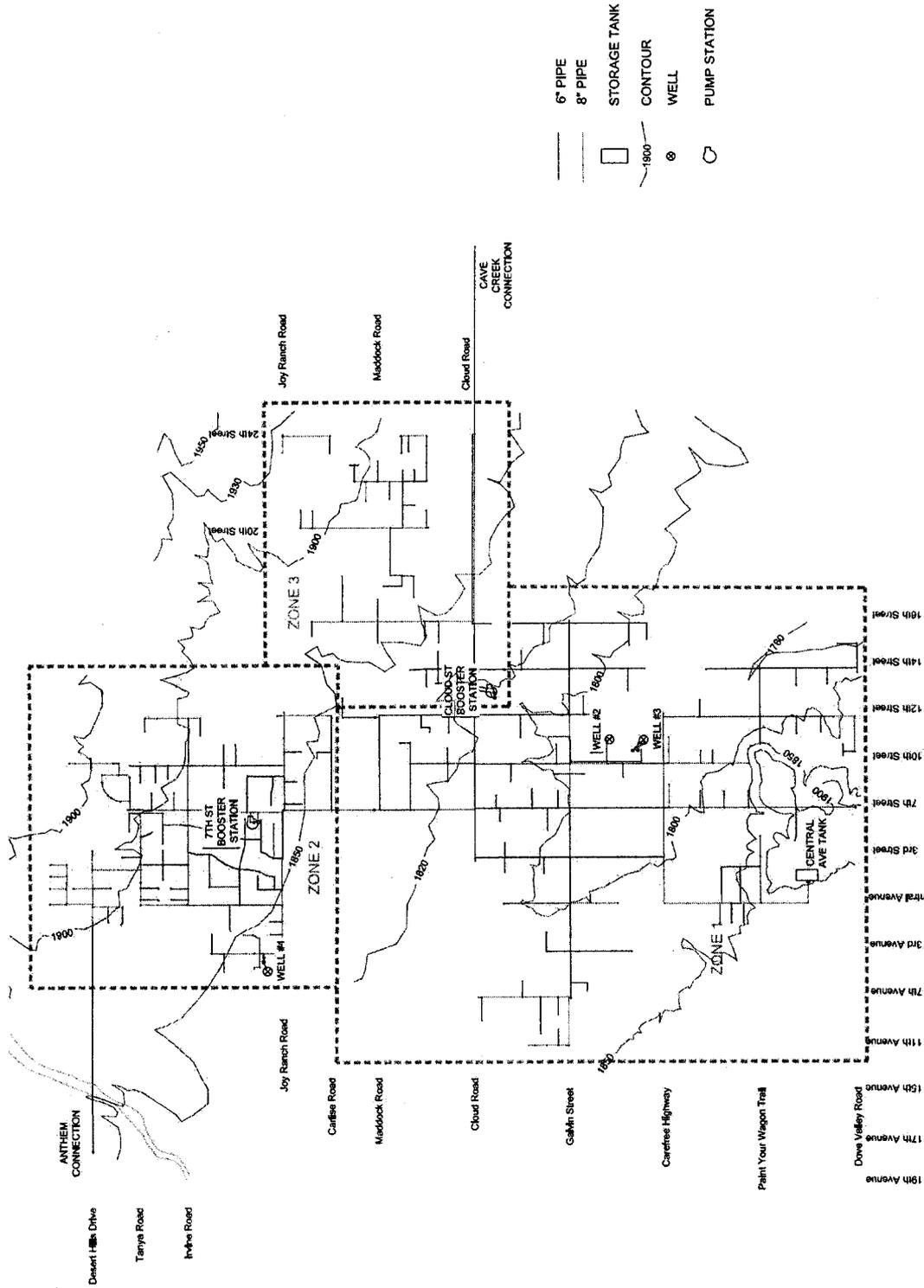
Zone 1—Central Avenue Zone

The hydraulic grade in the Zone 1 service area is currently maintained by a 107,000 gallon elevated storage with an overflow elevation of 1944.5. There are three wells that supply this area with booster pumps that are controlled based on the water level in the Central Ave tank. When the tank is empty, the highest customer to maintain 20 psi pressure would be at elevation 1883. Based on contour data obtained from the Maricopa County Assessors website, there are a few customers in the southern portion of the system at elevations higher than 1883. Based on information provided by Arizona American these residences were provided water service with the understanding that they were under obligation to have private booster pumps installed on their services as part of the development agreement for their lots.

Zone 2—7th Street Zone

The hydraulic grade line in the Zone 2 service area is maintained by the 7th Street Booster Station. Data collected from a pressure recorder placed at this location from 11/9/06 to 11/13/06 shows that the pressure ranges from 84 to 101 psi with an average of 95 psi (Appendix A). The resulting HGL at the minimum pressure recording of 84 psi is 2062. In order to maintain a minimum pressure of 20 psi at this HGL, a typical service location should not exceed an elevation of 2015. Based on contour data obtained from the Maricopa County Assessors website, all customers in this delineated area are situated sufficiently below the 2015 elevation and will maintain a minimum pressure above 20 psi.

FIGURE 2
 Water Distribution System Service Areas and Contours
 Desert Hills Water Company Stipulated Settlement Agreement



Zone 2 has an emergency supply connection to the Anthem water system that runs approximately 6,400 feet from Anthem Way and Meridian Drive to Desert Hills Drive and 7th Avenue. Based on pressure recorder data from 10/11/06 to 10/27 06, the Anthem system has a HGL of about 2004. This is significantly lower than the Desert Hills system. For the interim, the ACC has required that this connection remain in place as assistance to the operations of the DHWC. The Town is actively engaged in the planning and analysis of the short and long term function and utilization of this connection. Additional detail regarding its role and future function will be outlined in the Water Master Plan currently being conducted by the Town.

Zone 3—Cloud Street Zone

The hydraulic grade line in the Zone 3 service area is maintained by the Cloud Street booster station. Data collected from a pressure recorder placed at this location from 11/3/06 to 11/10/06 shows that the pressure ranges from 76 to 109 psi with an average of 85 psi (Appendix A). The resulting HGL at the minimum pressure recording of 76 psi is 1989. The highest customer to maintain 20 psi at this HGL would be at elevation 1943. Based on contour data obtained from the Maricopa County Assessors website, all customers in this delineated area shall maintain a minimum pressure well in excess of 20 psi.

Therefore, based on the pressure recording data received from Arizona American Water and contour data obtained from the Maricopa County Assessors website it appears that the system can maintain minimum pressures above 20 psi to the majority of the system with the exception of customers in Zone 1 above elevation 1883 that have private booster pumps installed. Furthermore, Arizona American Water, the certified operator of DHWC, substantiates that it is their standard operating procedure to maintain at least 20 psi at all times. A letter of concurrence from Arizona American Water is available in Appendix B.

SECTION 3

System Storage

DHWC has five storage tanks as described in Table 1. Four are ground storage tanks, and one is an elevated tank that floats on the southern part of the system.

TABLE 1
Storage Tanks
Desert Hills Water Company Stipulated Settlement Agreement

Tank Location	Quantity	Capacity (gal)
Dove Valley Rd. & Central Ave. (Elevated) ¹	1	107,000
7 th St. & Joy Ranch Rd. ¹	1	103,000
10 th St. & Carefree Hwy. ¹	1	250,000
14 th Street & Cloud Rd.	1	250,000
3 rd Ave. & Joy Ranch Rd. ¹	1	300,000
Total		1,010,000

¹Capacity obtained from DHWC system map prepared by RBF Engineers, revised January 2004.

The storage tank near 14th Street and Cloud Road was completed in the Fall of 2007, and increased DHWC's storage by 33%.

CH2M HILL has reviewed billing records of the DHWC for the past two years. The peak month occurred in July 2005 with consumption of 28,003,500 gallons. The average day, maximum month demand during this time was 903,400 gallons.

With the addition of the tank on Cloud Road, DHWC has adequate storage to meet the average daily demand during the peak month of the year. In addition, there are currently two backup connections providing supplemental supply to the DHWC System; one is to the Anthem water system on the west, and the other connects to the CCWC on the east. These connections essentially act as peripheral storage facilities by delivering additional volumes of water to the system to supplement the existing storage capacity.

A significantly important recent development is the fact that the Town and Global Water Resources have suspended the ongoing condemnation process in favor of a mediated settlement. Currently, the Town and Global Water Resources have and, have agreed in principal to the acquisition of the CCWC by the Town of Cave Creek. Upon acquisition of CCWC, one of the initial CIP projects already contemplated by the Town will be the permanent interconnection of the CCWC and the DHWC to improve the reliability and stability of water service associated with both water systems. In addition, upon acquisition, the Town is evaluating a plan to proceed with the design and construction of an additional storage within the current CCWC service area. This additional storage will have beneficial

effects for servicing both water system needs. The Town has preliminarily selected sites in anticipation of this project.

SECTION 4

Planned Projects

Based upon research conducted at the Maricopa County Planning and Development (P&D) Department on residential developments, there is one development that is not fully built-out, one development that has been approved but construction has not yet begun as final approvals from MCESD are pending, and two developments that are pending P&D approval. Little or no information was available regarding commercial developments in the area. These are summarized in Table 2 below.

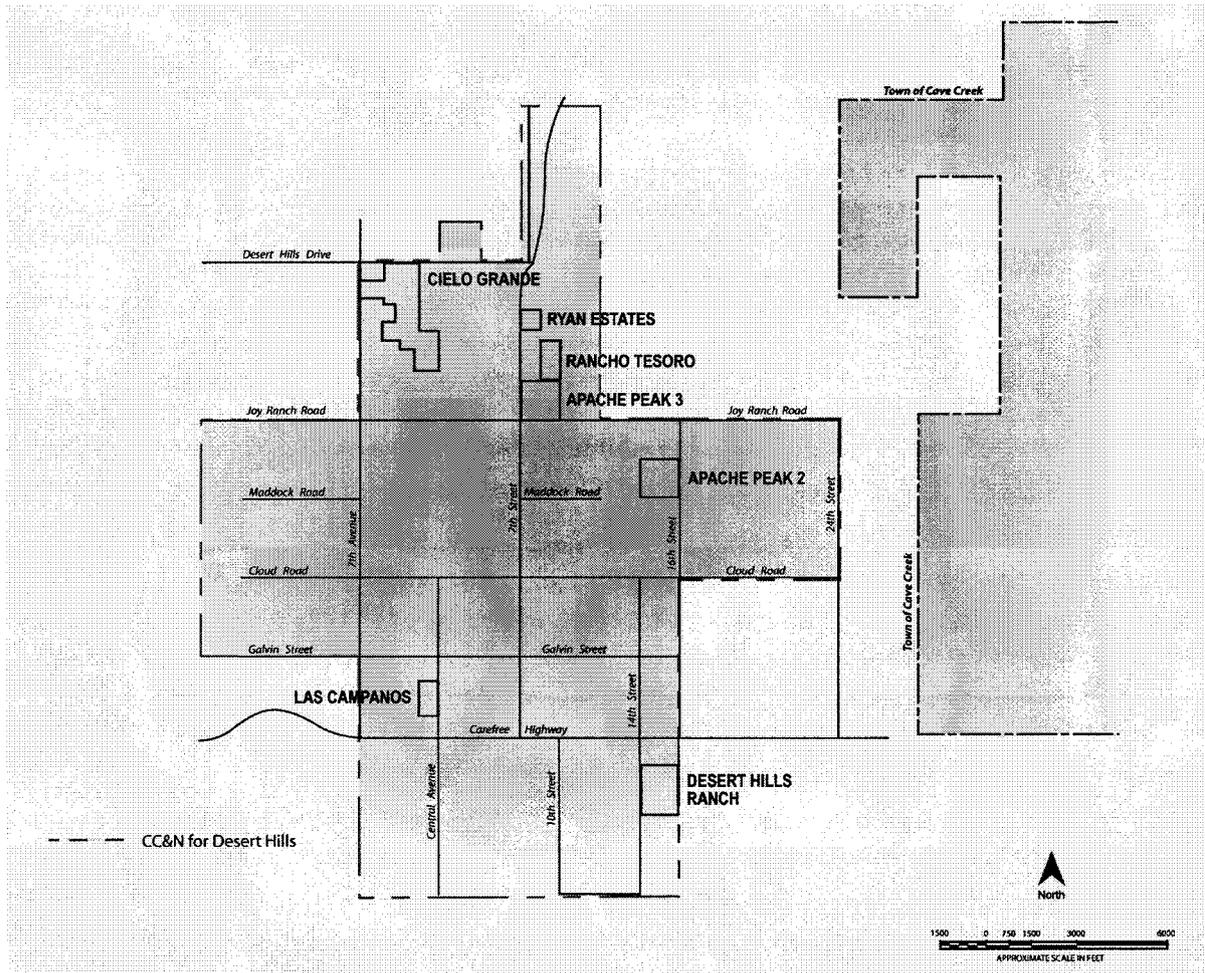
TABLE 2
 Maricopa County Planning and Development Research
Desert Hills Water Company Stipulated Settlement Agreement

Development	Acreege	Zoning	Number of Single Family Lots	Status
Rancho Tesoro	17.97	Rural-43	15 lots	Withdrawn
Ryan Estates	6.81	Rural-43	6 lots	Built out
Apache Peak Manor II	35.92	Rural-43	30 lots	Built out
Apache Peak III	39.95	Rural-43	32 lots	Approximately 12 Vacant Lots
Cielo Grande	100.41	Rural-43 RUPD	73 lots	Vacant (Pending final approval from MCESD)
Las Campanas	N/A	Rural-43	13 lots	Pending County Approval
Desert Hills Ranch	N/A	Rural-43	41 lots	Pending County Approval

Approximate locations of these developments are shown in Figure 3.

MCESD recommended assumptions of 3.2 people per dwelling unit (people/du) at 100 gallons per capita per day (gpcd) for predictions of future water use. Based on the addition of 139 lots (Apache Peak III, Cielo Grande, Las Campanas and Desert Hills Ranch), DHWC would need to supply an additional 44,500 gallons per day (gpd).

FIGURE 3
 Planned Residential Developments
 Desert Hills Water Company Stipulated Settlement Agreement



DHWC has three active groundwater wells that provide the majority of supply to customers, as shown in Table 3.

TABLE 3
Active Wells
Desert Hills Water Company Stipulated Settlement Agreement

Well Name	ADWR ID No.	Drill Date	Casing Depth (feet)	Casing Diameter (inches)	Pump HP	Pump Yield (gpm)	Meter Size (in)
Well #2	55- 631199	1972	800	8	60	200	4
Well #3	55- 087697	1981	800	8	20	100	4
Well #4	55- 559936	1997	1,000	10	75	380	4

ADWR = Arizona Department of Water Resources
gpm = gallons per minute

The maximum yield of the wells is 680 gallons per minute (gpm) or 979,200 gpd, assuming the wells were pumping at capacity 24 hours per day. CH2M HILL reviewed monthly water consumption reports for 2004 through 2006. The data are summarized in Table X.

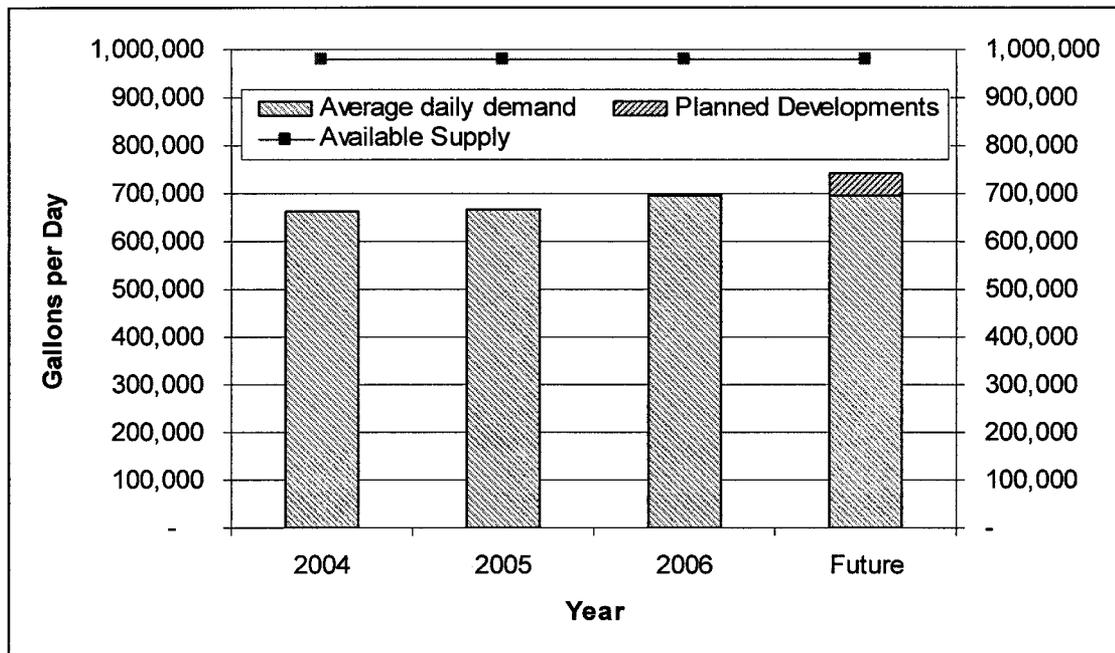
TABLE 4
Average Daily Demand
Desert Hills Water Company Stipulated Settlement Agreement

Year	Average Daily Demand (gpd)
2004	660,939
2005	666,892
2006 ¹	695,643

¹Monthly consumption excludes December.

The estimated supply required from the future residential developments is less than 10% of the average daily demand for the past three years (44,500 gpd vs. over 660,000 gpd). Figure 4 shows the comparison between available supply and the average daily demand and predicted future demand.

FIGURE 4
 Available Supply versus Current and Predicted Demands
Desert Hills Water Company Stipulated Settlement Agreement



The available supply assumes the wells are operating 24 hours per day. This analysis demonstrates that the DHWC may accommodate additional growth on an average day. Peak hour or daily demands may exceed the available supply, but the system has storage and supplemental supply connections to meet these peak demands.

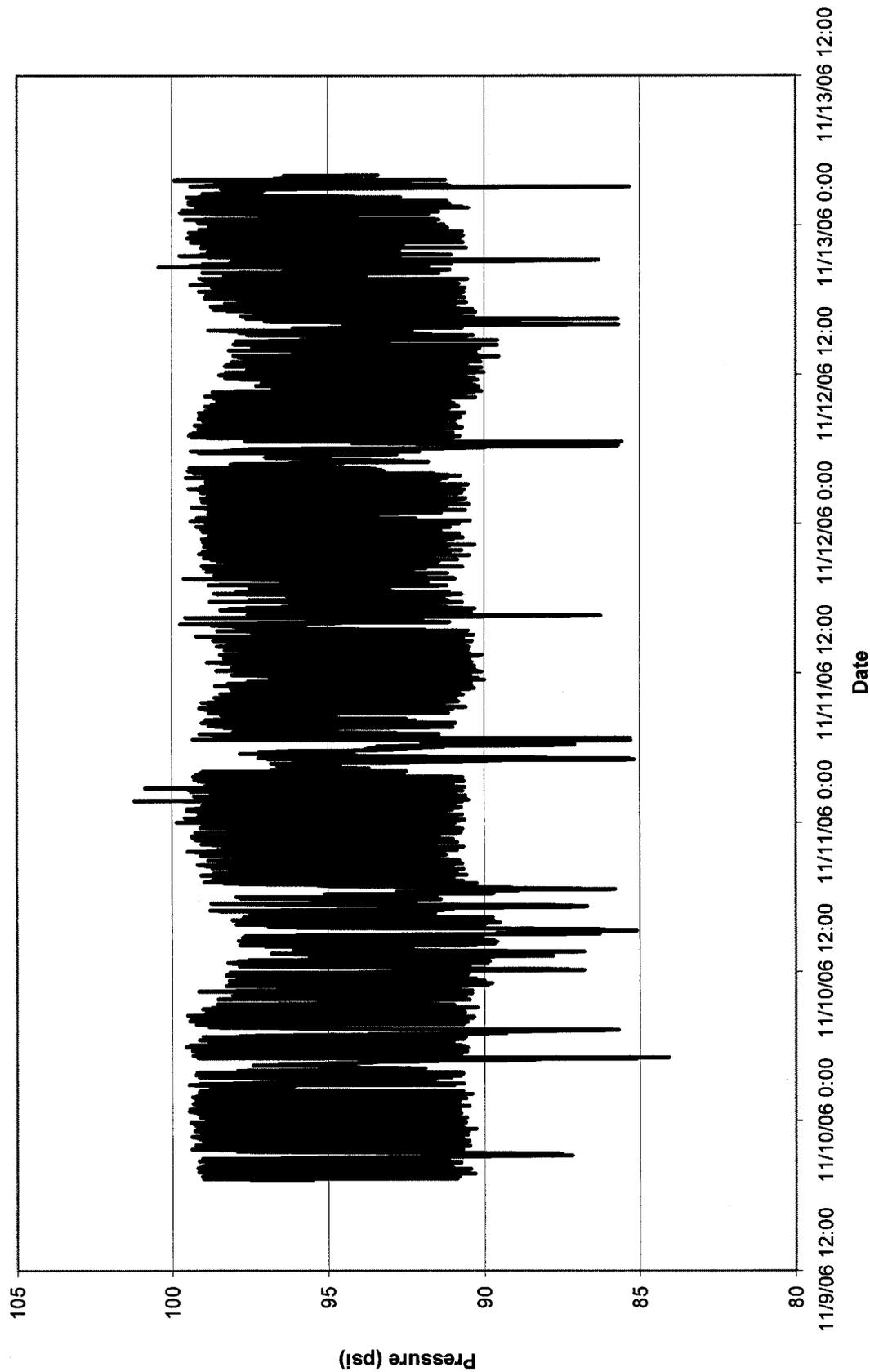
As previously referenced, the Town has an agreement in place through March 2007 with Arizona American Water to supply water from Anthem via an above-ground pipeline. The Town is currently negotiating with Arizona American Water to establish a longer-term, renewable agreement for emergency water supply from the Anthem community.

The Town has also agreed in principal with the CCWC owners to purchase the water system. This acquisition will provide a long-term connection between CCWC and DHWC to enhance DHWC customer service.

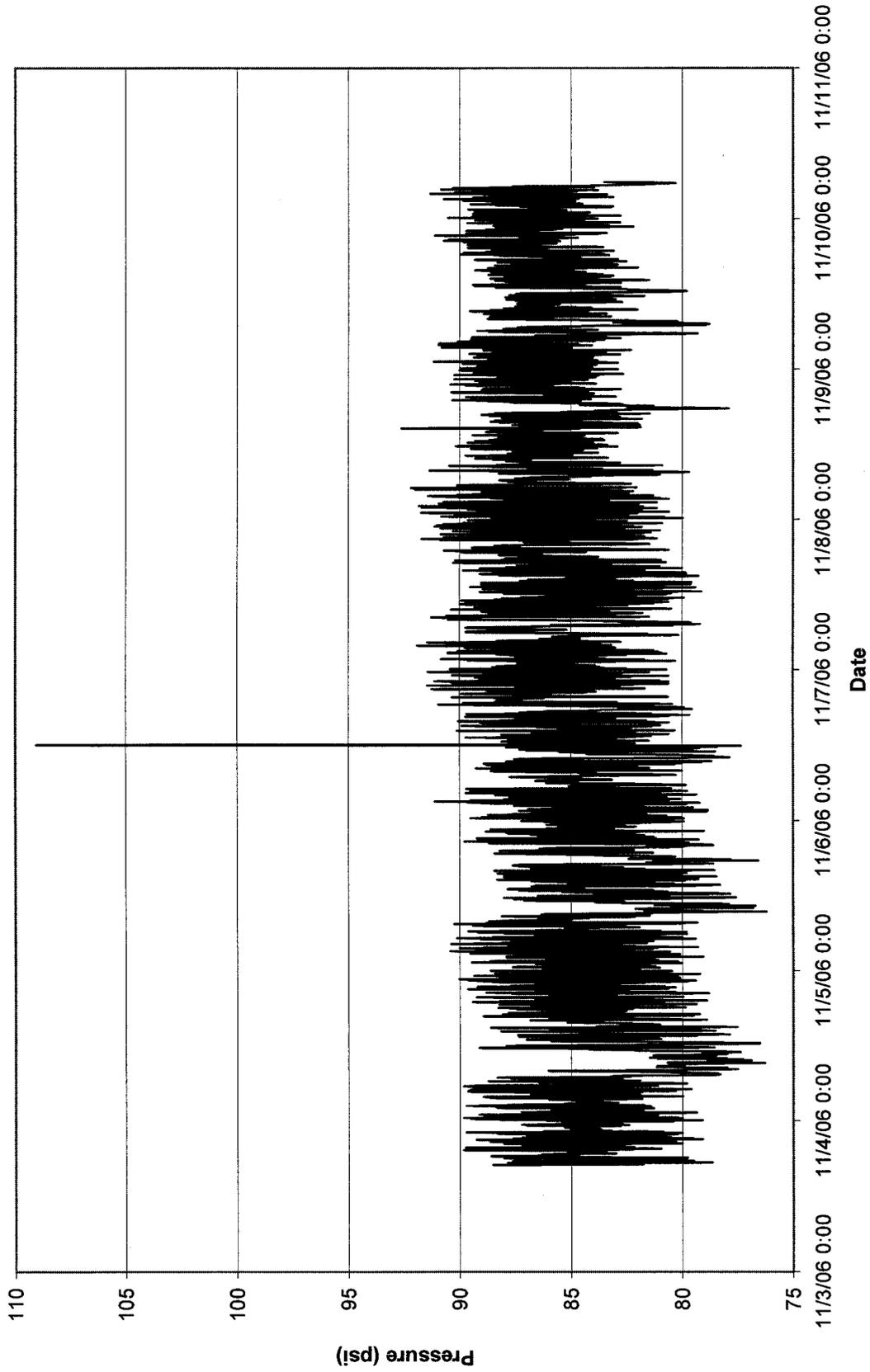
To further evaluate the existing operation of DHWC and develop a plan for needed capital improvements, CH2M HILL is also engaged in formulating a water master plan for the Town encompassing both water systems (DHWC and CCWC) and other areas that are under the purview of the Town. A water system model is currently in development to assess supply and demand conditions. The water master plan is scheduled to be completed in the first quarter of 2007.

Appendix A

7th Street Booster Station



Cloud Street Booster Station



Appendix B



**Environmental Management
and Compliance**

Maricopa County Environmental Services Department
Water & Wastewater Management Division
1001 North Central Avenue, Suite 150
Phoenix, Arizona 85004

Name Jeffrey Stuck
Phone 623-445-2491
Fax 623-445-2451
E-Mail Jeffrey.stuck@amwater.com

To Whom It May Concern,

It is a standard operating practice for Arizona American Water to maintain at least 20 psi at all times in the distribution systems we operate.

Please do not hesitate to contact me directly at (623) 445-2491 if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Jeffrey W. Stuck".

Jeffrey Stuck, Director
Environmental Management and Compliance
American Water – Western Region

American Water

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