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Transcript Exhibit(s)

AZ CORP COMMISSION
DOCUMENT CONTROL

Docket#(s): W-02124A-06-0717

Exhibit #: A-1, A-2, A-3, A-4, A-5, A-6, A-7, A-8
S-1, S-2, S-3.

Arizona Corporation Commission
DOCKETED

MAR 09 2007

DOCKETED BY	NR
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1 FENNEMORE CRAIG, P.C.
2 Jay L. Shapiro (No. 014650)
3 Patrick J. Black (No. 017141)
4 3003 N. Central Ave., Suite 2600
5 Phoenix, Arizona 85012
6 Attorneys for Desert Hills Water Company

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

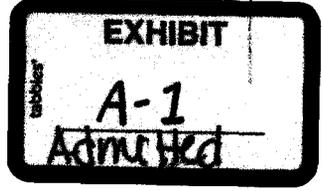
DOCKET NO:
**APPLICATION FOR APPROVAL OF
TRANSFER OF UTILITY ASSETS TO
TOWN OF CAVE CREEK, PURSUANT
TO A.R.S. 40-285**

12 Desert Hills Water Company ("Desert Hills" or the "Company") hereby submits this
13 Application for Approval of the Transfer of Assets to the Town of Cave Creek (the
14 "Town") pursuant to A.R.S. § 40-285. In connection with the issuance of such approval
15 by the Arizona Corporation Commission ("Commission"), Desert Hills also requests that
16 the Commission cancel the Company's CC&N, because transfer of the assets subject to
17 this application will terminate Desert Hills' public service function.

18 I. **Summary of Transaction.**

19 On November 7, 2006, the Town and Desert Hills entered into an Asset Transfer
20 Agreement ("Transfer Agreement") for the transfer of the Company's assets to the Town,
21 attached hereto as **Exhibit 1**.¹ The Transfer Agreement includes, among other things,
22 appropriate provisions that: 1) protect rights to customer deposits; 2) continue refund
23 obligations set forth in all outstanding extension agreements; 3) freeze current rates for
24 water service for a period of one year from the date of closing; 4) require the Town to

25 _____
26 ¹ The Transfer Agreement will be ratified by the Town and Desert Hills' Board of Directors at a November 16, 2006
Town Council meeting. Schedule 5 of the Transfer Agreement shall be filed as a supplemental filing.



1 continue efforts to bring the water distribution system into compliance with all
2 government regulations; 5) require the Town to address long-term water supply needs; 6)
3 require the Town to provide a credit of the monthly minimum charge for the period of
4 June through September, 2006, to approximately 189 customers located within a one
5 square-mile area who experienced service interruptions during this time; 7) provide
6 customers access to information concerning water service on the Town's website; and 8)
7 require the Town to honor all current third party contracts and settlement agreements.

8 **II. The Parties.**

9 Desert Hills is a public service corporation providing water service to
10 approximately 1,600 customers in Maricopa County pursuant to a CC&N granted by the
11 Commission in Decision No. 41279 (April 5, 1971). The Town is a municipality duly
12 organized under the laws of Arizona pursuant to A.R.S. §§ 9-101 and 9-231, and
13 incorporated in 1986. At an election held pursuant to A.R.S. § 9-514 on September 10,
14 2002, the citizens of the Town authorized the Town to engage in the water utility business
15 both inside and outside Town limits. At an election held on May 17, 2005, the citizens
16 approved a bond issue to finance water company acquisitions.

17 **III. Standard of Review.**

18 According to A.R.S. § 40-285(A), a public service corporation may not sell or
19 otherwise dispose of the whole or part of its system necessary or useful in the
20 performance of its duties to the public without first having secured from the Commission
21 an order authorizing the transaction. However, whenever such transfers involve the
22 acquisition of utility assets by a municipality, the Commission may not consider the
23 amount and reasonableness of the consideration to be paid by the municipality, or the
24 terms and conditions of any deferred payments, but may conduct a hearing for the purpose
25 of determining that the public service corporation has made appropriate provisions for
26 water service to customers, as well as the proper disposition of obligations under

1 contractual agreements. *See, generally, Arizona Attorney General Opinion No. 62-7.*

2 **IV. The Transaction is in the Public Interest.**

3 Approving the Transfer Agreement will serve the public interest. Desert Hills is a
4 public service corporation that has recently experienced operational, maintenance and
5 long-term water supply difficulties. With the transfer of assets, water utility service will
6 now be provided to customers by the Town – primarily through its operating agreement
7 with American Water Operations and Maintenance, Inc. Additionally, the Town is
8 making provisions for a long-term water supply to serve present and future customers. It
9 is negotiating a water supply agreement with Arizona-American Water Company and is
10 actively seeking additional long-term water supplies. The Town has the financial
11 capacity, sound management structure and political will to ensure that customers located
12 in the Company's CC&N will receive water utility service after the assets have been
13 transferred to the Town. As evidence of its commitment, the Town has agreed to assume
14 certain obligations and liabilities of the Company, including:

- 15 1. Customer service accounts, customer deposits and meter deposits;
- 16 2. Assumed contracts, including line extension agreements, vendor agreements
17 and all other contractual agreements required for the provision of water service to
18 customers;
- 19 3. All governmental permits associated with the water distribution system
20 infrastructure;
- 21 4. The obligation to maintain Company's water service rates at the present
22 levels for at least one year from the date the Transfer Agreement closes;
- 23 5. Credit of monthly minimum payments to approximately 189 water
24 customers for service interruptions experienced between June and September, 2006; and
- 25 6. The extension of service to property being developed by Renaissance
26 Partners, LLC, ("Renaissance") consistent with the terms of a settlement agreement

1 reached between the parties in Docket No. W-02124A-06-0286, attached hereto as
2 **Exhibit 2.**

3 Arizona law provides several methods by which a municipal corporation may
4 acquire the assets of a public service corporation. A.R.S. § 9-515. One method is clear;
5 condemnation by court action pursuant to A.R.S. § 9-515(C)(3), which would limit the
6 Commission's review only to a determination that there will be no other customers or
7 persons served, and that the public service corporation will be relieved of its duties to
8 serve customers. Alternatively, a municipal corporation may choose to acquire utility
9 assets through an agreement, with the utility applying for a transfer of assets pursuant to
10 A.R.S. § 40-285.

11 In the interest and spirit of cooperation between the Commission and the Town,
12 Desert Hills has made this application pursuant to A.R.S. § 40-285 so that the
13 Commission can: 1) review the Transfer Agreement, and determine that the conditions
14 therein will serve the public interest; and 2) find that Desert Hills' public service function
15 will have ended with the transfer of assets, and order that the Company's CC&N be
16 extinguished.

17 **RELIEF REQUESTED**

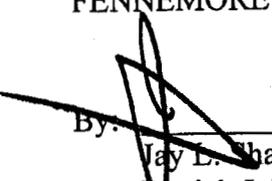
18 WHEREFORE, the Company respectfully requests that the Commission provide
19 the following relief:

- 20 A. Issue an Order approving the Transfer Agreement; and
- 21 B. Extinguish the CC&N currently held by Desert Hills.

22 ...
23 ...
24 ...
25 ...
26 ...

1 DATED this 8th day of November, 2006.

2 FENNEMORE CRAIG, P.C.

3
4 By: 

Jay L. Shapiro

Patrick J. Black

3003 North Central Avenue, Suite 2600

Phoenix, Arizona 85012

Attorneys for Desert Hills Water Company,
Inc.

5
6
7
8
9 ORIGINAL and thirteen (13) copies of the
10 foregoing were delivered
11 this 8th day of November, 2006, to:

12 Docket Control
13 Arizona Corporation Commission
14 1200 W. Washington St.
15 Phoenix, AZ 85007

16 Copy of the foregoing **hand delivered**
17 this 8th day of November, to:

18 Chairman Jeff Hatch-Miller
19 Arizona Corporation Commission
20 1200 W. Washington Street
21 Phoenix, AZ 85007

22 Commissioner William Mundell
23 Arizona Corporation Commission
24 1200 W. Washington Street
25 Phoenix, AZ 85007

26 Commissioner Mike Gleason
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

1 Commissioner Kris Mayes
2 Arizona Corporation Commission
3 1200 W. Washington Street
4 Phoenix, AZ 85007

4 Commissioner Barry Wong
5 Arizona Corporation Commission
6 1200 W. Washington Street
7 Phoenix, AZ 85007

7 Lyn Farmer
8 Chief Administrative Law Judge
9 Arizona Corporation Commission
10 1200 W. Washington Street
11 Phoenix, AZ 85007

11 Janice Alward
12 Legal Division
13 Arizona Corporation Commission
14 1200 W. Washington Street
15 Phoenix, AZ 85007

15 Maureen Scott
16 Legal Division
17 Arizona Corporation Commission
18 1200 W. Washington Street
19 Phoenix, AZ 85007

18 Steven Olea
19 Assistant Director, Utilities Division
20 Arizona Corporation Commission
21 1200 W. Washington Street
22 Phoenix, AZ 85007

22
23 By: 

24 1848077.1/18332.007

25

26

Exhibit 1

TRANSFER AGREEMENT

BETWEEN

DESERT HILLS WATER COMPANY

AND

TOWN OF CAVE CREEK

NOVEMBER 7, 2006

ASSET TRANSFER AGREEMENT

This Asset Transfer Agreement (this "**Transfer Agreement**") is entered into as of November 7, 2006, (the "**Effective Date**") between Desert Hills Water Company, an Arizona corporation ("**Transferor**"), and the Town of Cave Creek, an Arizona municipal corporation ("**Town**") (individually, a "**Party**" and collectively, the "**Parties**").

BACKGROUND

A. Transferor is a public service corporation authorized to provide water utility service in certain portions of Maricopa County, pursuant to a Certificate of Convenience and Necessity ("CC&N") granted by the Arizona Corporation Commission ("Commission") in Decision No. 41279 (April 5, 1971), as more particularly described in **Exhibit A** attached hereto.

B. Town is a municipal corporation duly organized under the laws of the state of Arizona.

C. Town desires to acquire substantially all of the assets, properties and contractual rights used by Transferor in providing water utility service to persons located within the CC&N, and Transferor desires to transfer such assets, properties and contractual rights and liabilities to Town, all in accordance with the terms and conditions set forth in this Transfer Agreement.

D. Transferor is willing to transfer, and Town is willing to acquire, certain assets used in connection with providing water utility service, including all utility plant, equipment, machinery, fixtures, materials, real property, customer accounts and other items (collectively, the "**Transferred Assets**"), in accordance with the terms of this Transfer Agreement.

TRANSFER AGREEMENT

For valuable consideration, which Transferor acknowledges receipt thereof, the Parties agree as follows:

SECTION 1. THE TRANSFERRED ASSETS.

1.1 Transfer of Assets by Transferor. On the terms and subject to the conditions set forth in this **Transfer Agreement**, at the Closing Transferor shall grant, convey, transfer and assign to Town, and Town shall accept from Transferor, all of Transferor's right, title and interest in and to the following **Transferred Assets** (but excluding the Excluded Asset), for the price of \$10.00:

(a) all utility plant and infrastructure of the water distribution system, including all storage and pump facilities, utilized in providing water utility service to consumers ("**Utility Plant**") listed in Schedule 1;

(b) all real property held by Transferor, including all structures, improvements, fixtures, easements and other rights and interests relating thereto, and personal property held by Transferor, including motor vehicles and power equipment, including the real and personal property listed on Schedule 2;

(c) all Permits held by Transferor, including the Permits listed on Schedule 3;

(d) all furniture, fixtures and office equipment;

(e) all computer hardware and related basic operating systems used, or held for use, principally in connection with providing water services;

(f) all customer service contracts and deposits, line extension agreements and other contracts (collectively, the "**Assumed Contracts**"), listed on Schedule 4;

(g) all books and records, including customer lists and vendor lists;

(h) all prepaid expenses and deposits, including any such expenses and deposits with respect to leases, rentals and utilities;

(i) all Accounts Receivable.

1.2 Excluded Asset. The Parties agree that a certain asset of Transferor shall remain the property of Transferor and shall not be transferred to Town at the Closing. The Excluded Asset is the **Transferor's CC&N**.

SECTION 2. REPRESENTATION AND WARRANTIES OF TRANSFEROR.

Transferor represents and warrants to Town that the statements contained in this Section 2 are correct and complete as of the date of this Transfer Agreement.

2.1 Utility Plant. At the Closing, Transferor shall have good and marketable title to the Utility Plant.

2.2 Permits. Transferor has all material Permits necessary to enable it to own and operate the Utility Plant, which Permits are listed in Schedule 3.

2.3 Assumed Contracts. Listed in Schedule 4 is a complete and accurate list of: (a) all customer service accounts and deposits; (b) all active line extension agreements; and (c) all other contracts, including vendor contracts, related to the provision of water utility service to customers.

2.4 Regulatory Compliance. Transferor is currently a party to a Commission Order to Show Cause proceeding, Docket No. W-02124A-06-0379. A recommended order and opinion has been issued, but has not yet been acted upon by the Commission.

SECTION 3. REPRESENTATION AND WARRANTIES OF TOWN.

Town represents and warrants to Transferor that the statements contained in this Section 3 are correct and complete as of the date of this Transfer Agreement.

3.1 Organization. Town is a municipal corporation duly organized, validly existing and in good standing under the laws of the state of Arizona and is duly authorized and qualified to provide water utility services in the places and in the manner to which Transferor provides such services.

3.2 Authority. Town has all necessary power and authority to enter into this Transfer Agreement and to consummate the Closing and perform its obligations under this Transfer Agreement.

3.3 Binding Effect. The execution, delivery and performance of this Transfer Agreement by Town are within its powers and will have been approved by all requisite action of Town prior to Closing, and no other proceedings on the part of Town are necessary to authorize the execution and delivery of this Transfer Agreement, the consummation by Town of the performance of the Parties' respective obligations under this Transfer Agreement. This Transfer Agreement has been duly executed and delivered by Town and, assuming the due authorization, execution and delivery by Transferor in accordance with Section 4 and Section 5 herein, constitutes the valid and legally binding agreement of Town enforceable against Town in accordance with its terms.

3.4 Independent Investigation. Town has conducted an independent investigation of the Transferred Assets. Town acknowledges that, **EXCEPT AS EXPRESSLY SET FORTH IN THIS TRANSFER AGREEMENT, (i) THE TRANSFERRED ASSETS ARE CONVEYED "AS IS, WHERE IS" AND "WITH ALL FAULTS," AND (ii) TRANSFEROR HAS NOT MADE, AND TRANSFEROR HEREBY EXPRESSLY DISCLAIMS AND NEGATE, ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, OF ANY KIND OR NATURE WHATSOEVER RELATING TO THE TRANSFERRED ASSETS (INCLUDING ANY IMPLIED OR EXPRESSED WARRANTY OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE).** As of the date of this Transfer Agreement, Town is not aware of any breach of the representations or warranties made by Transferor in Section 2.

3.5 Assumption of Obligations. Subject to the terms and conditions set forth in this Transfer Agreement, Town agrees that at the Closing Town shall: be obligated to:

- (a) assume all Transferor's obligations under the Permits and the Assumed Contracts to the extent such obligations are related to periods subsequent to the Closing;
- (b) provide 189 customers, who are more accurately described and listed in Schedule 5, credit for monthly minimum charges for water services paid from the period of June through September, 2006, due to service interruptions during that time;
- (c) charge the same rates and charges as set forth in Transferor's tariff for a period one year from the date of Closing;
- (d) continue efforts to bring the water distribution system into compliance with the Maricopa County Environmental Services Department and Arizona Department of Environmental Quality rules and regulations;
- (e) continue efforts to address long-term water supply needs for customers previously served by Transferor;
- (f) ensure that Town's website will give water customers access to important information in the provision of water service; and

SECTION 4. REGULATORY APPROVAL.

4.1 Commission. The Parties agree to undertake reasonable steps to obtain the approval of the Commission for this Transfer Agreement. The Closing of this Transfer Agreement, as set forth in Section 5 herein, will occur after the Commission has given regulatory approval.

4.2 Application. Within 30 days after the execution of this Transfer Agreement, Transferor shall file with the Commission an application seeking: 1) approval of the Transfer Agreement; and 2) the extinguishment of Transferor's CC&N.

SECTION 5. CLOSING.

The closing ("**Closing**") of this transaction will take place at the offices of Town at a time agreed upon by Town and Transferor on the Closing Date (as defined below).

5.1 Closing Date. The "**Closing Date**" will be a date within thirty (30) days after the Commission issues an order approving this Transfer Agreement. The Closing Date will be a date no later than April 15, 2007. If this Transfer Agreement does not close on or before the Closing Date, it shall be terminated.

5.2 Deliveries by Transferor. On the Closing Date, Transferor will deliver to Town, a duly executed bill of sale, assignment or assumption agreement conveying the Transferred Assets.

SECTION 6. GENERAL PROVISIONS.

6.1 Governing Law. This Transfer Agreement will be governed by and construed in accordance with the laws of the state of Arizona, without regard to any conflict of laws principles.

6.2 Notices. Except as otherwise required by law, any notice required or permitted under this Transfer Agreement must be in writing and must be given either: (i) by personal delivery; (ii) by United States certified mail, return-receipt requested, postage prepaid, and properly addressed; (iii) by any private overnight, "same day", or "next-day" delivery service, delivery charges prepaid with proof of receipt; or (iv) by facsimile machine or telecopy. Notice sent in any of the manners set forth above must be addressed or sent to the Transferor or Town at the addresses or telecopy phone numbers on record for the Transferor or Town. Any Party may change its address or telecopy number for the purposes of delivery and receipt of notices by advising all other parties in writing of the change. Notice delivered in one of the foregoing manners will be deemed to be received: (I) on the date of delivery, if personally delivered; (II) on the date which is two days after deposit in the United States mail, if given by certified mail; (III) on the day after deposit with an express delivery service, if given by overnight, "same day", or "next-day" delivery service; or (IV) on the date of transmittal, if given by facsimile machine or telecopy. No notice will be deemed effective unless sent in one of the manners described above.

6.3 Entire Transfer Agreement. This Transfer Agreement, together with the Bill of Sale, represents the entire agreement between Transferor and Town regarding its subject matter. This Transfer Agreement may not be modified or amended, except by a written instrument signed by each of the parties.

6.4 Severability. Each provision of this Transfer Agreement is independent and severable from the others, and no provision will be rendered unenforceable because another provision is determined to be unenforceable in whole or in part. If any provision of this Transfer Agreement is determined to be unenforceable in any court proceeding, the court may appropriately limit or modify the provision, and the provision will be given effect to the maximum extent permitted by law.

6.5 No Waiver. Any failure by either party to exercise any of its rights under this Transfer Agreement will not be construed as a waiver of those rights, nor will any failure preclude exercise of those rights at any later time.

6.6 Headings. The headings in this Transfer Agreement are for convenience only and do not affect its interpretation.

6.7 Counterparts. This Transfer Agreement and any amendments may be executed in any number of original or telecopy counterparts, each of which will be effective on delivery and all of which together will constitute one binding agreement of the parties. Any signature page of the Transfer Agreement may be detached from any executed counterpart of the Transfer Agreement without impairing the legal effect of any signatures and may be attached to another counterpart of the Transfer Agreement that is identical in form to the document signed (but that has attached to it one or more additional signature pages).

6.8 Construction. Each party was represented by legal counsel (or had the opportunity to be represented by legal counsel) in connection with this Transfer Agreement and each of them and its counsel have reviewed and revised this Transfer Agreement, or have had an opportunity to do so. Any rule of construction resolving ambiguities against the drafting party will not apply to the interpretation of this Transfer Agreement or any amendments or appendices to this Transfer Agreement.

6.9 Termination. The Town reserve the right to terminate this Transfer Agreement, upon twenty-four (24) hour written notice pursuant to Section 6.2, in the event that the Town, in its discretion, determines that unacceptable conditions might be or have been imposed on the transfer by any regulatory agency.

6.10 Default and Remedy. Except as provided herein, if either Party defaults under this Transfer Agreement and remains in default after three days written notice from the non defaulting party, the non-defaulting Party will be entitled to exercise all remedies available under law or in equity including injunctive relief.

This Transfer Agreement is effective as of the Effective Date.

"Transferor"

Desert Hills Water Company,
an Arizona corporation

By: Usama Alshereh
Name: Usama Alshereh
Title: President

"Town"

Town of Cave Creek,
a Municipal Corporation

By: Usama Alshereh
Name: Usama Alshereh
Title: Town Manager

**EXHIBIT A
TO
ASSET TRANSFER AGREEMENT**

Legal Description of Existing Service Area Within CC&N

Legal Description of Desert Hills Water Company's

Certificate of Convenience and Necessity

Sections 4, 5, 8, 9 T5N, R3E

North ½ of Section 6, T5N, R3E

Sections 29, 31, 33, 34, T6N, R3E

East ½ Section 28, T6N, R3E

East ½ Section 21, T6N, R3E

Southwest ½ of the south ½ of the southeast ¼ of Section 20, T6N R3E

All descriptions above are in the Gila, Salt River Base and Meridian, Maricopa County,
Arizona

**SCHEDULE 1
TO
ASSET TRANSFER AGREEMENT**

Utility Plant Facilities

Asset Transfer Agreement
Schedule 1

- Facilities inventory of Company as of 9/12/06:
 - 4" ACP, PVC pipe 6,208 l.f.
 - 6" ACP, PVC, DI pipe 143,941 l.f.
 - 8" ACP, PVC DI pipe 83,325 l.f.
 - 14" DI pipe 140 l.f.

 - 5/8" x 3/4" meters 1,565
 - 3/4" meters 2
 - 1" meters 71
 - 1 1/2" meters 3
 - 2" meters 9
 - Residential standpipe 15
 - Commercial hauled 1 (metered: MCDOT)
 - Hydrant meters {8} (available but not currently connected)
 - Hydrants approx 45

 - Well #2 60hp submersible pump, cased 800', 8" diameter casing, 4" turbo meter, drilled 1972, approx 150-200 gpm, 5,000

 - Well #3 20hp submersible pump, cased 800', 8" diameter casing, 4" turbo meter, drilled 1981, approx 40 gpm, 5,000

 - Well #4 75hp submersible pump, cased 1000', 10" diameter casing, 4" turbo meter, drilled 1997, approx 250-300 gpm

- Booster pumps:
 - 6 15hp
 - 4 25hp

- Storage tanks:
 - 107,000 gal - Central Ave Tank site
 - 103,000 gal - 7th St. Booster Station, w/ 5,000 gal pressure tank
 - 250,000 gal - 10th St. Tank Site, w/ 5,000 gal pressure tank
 - 300,000 gal - Tank #4, w/ 5,000 gal pressure tank

- Other facilities not on line:
 - Cloud Rd. Booster Station: 250,000 gal water tank (completed), 4 - 15hp booster pumps, 5,000 pressure tank, 400 amp service. Construction being completed.

- Other assets:
 - 5,000 pressure tank (new) on site and not in use.
 - 400 amp electric service (new) on site and not in use.

**SCHEDULE 2
TO
ASSET TRANSFER AGREEMENT**

Real Property and Equipment, Motor Vehicles

Asset Transfer Agreement
Schedule 2

- Equipment and Vehicles
 - Misc. power and hand tools,
 - 1996 590SL Case Backhoe,
 - 1996 Dodge 1/2 ton truck,
 - 1997, Chevy 1 ton utility bed truck,
 - flatbed trailer,
 - 2001 Polaris quad,
 - 2003 Polaris quad

- Real Property
 - 211-52-058 H - Part of Office, Well #3, Tank #1 & #2
 - 211-52-058 F - Office, Well #3, Tank #1 & #2
 - 211-23-045 D - Well #4 and Tank #4
 - 211-23-213 A - Desert Hills Estates Tank - 38030 N. 7th St.
 - 211-52-032 T - Cloud Road Booster
 - 211-24-009 G - Tank #3
 - 211-68-030 A - Well #5
 - 211-52-122 - Well #2
 - 211-52-080 - Well #2

**SCHEDULE 3
TO
ASSET TRANSFER AGREEMENT**

Governmental Permits

Asset Transfer Agreement
Schedule 3

1. Maricopa County Department of Transportation Permit for Construction in County Right-of-Way
2. Maricopa County Franchise

**SCHEDULE 4
TO
ASSET TRANSFER AGREEMENT**

Assumed Contracts

Asset Transfer Agreement
Schedule 4

1. Line Extension Agreement between Desert Hills Water Co., Inc., Ken Mayberry, and Aldebaran-MS, L.L.C. dated April 28, 2006
2. Temporary Water Supply Agreement between Desert Hills Water Co., Inc. and Arizona-American Water Company dated June 6, 2006
3. Will Serve Letter to Richard Cannon dated August 15, 2006 regarding Cielo Grande at Desert Hills development
4. Vehicle Lease documents
5. Escrow Documents
Escrow No. 01610754-016-PRS
836 E. Maddox Road
6. Active Line Extension Agreements

**SCHEDULE 5
TO
ASSET TRANSFER AGREEMENT**

List of Customers to Receive Credit

Exhibit 2

SETTLEMENT AGREEMENT

This Settlement Agreement ("Agreement") is entered into by Desert Hills Water Company, Inc., an Arizona corporation ("Desert Hills") and Renaissance Partners, LLC, an Arizona limited liability company ("Renaissance").

1. Background.

1.1 Desert Hills is a water utility company authorized by the Arizona Corporation Commission to service an area generally located in Maricopa County.

1.2 Renaissance owns certain real property (the "Property") within Desert Hills' service area that is generally located east of North 22nd Street, just south of Joy Ranch Road in Maricopa County, Arizona. Renaissance is in the process of developing the Property.

1.3 The parties had a dispute relating to Desert Hills' obligation to serve the Property. As a result, Renaissance filed a formal complaint (the "Complaint") with the Arizona Corporation Commission ("ACC").

1.4 The parties hereby resolve all disputes relating to the Complaint under the terms and conditions stated in this Agreement.

Therefore, in consideration of mutual promises and consideration, the Parties agree as follows:

2. Agreement.

2.1 Line Extensions. Desert Hills will construct the main line extension from the Desert Hills water system to the Property. The Parties will execute a water line extension agreement (the "Extension Agreement") concurrently with this Agreement. The Extension Agreement must state that if any term in the Extension Agreement conflicts with this Agreement, this Agreement controls.

2.2 Line Extension Schedule. Within five days of the execution of the Extension Agreement, Desert Hills must complete the engineering plans for the water line extensions to the Property and submit these plans to Maricopa County for expedited review. Within three working days after Desert Hills receives Maricopa County's approval of the engineering plans, Desert Hills will solicit bids on the project requiring commencement of construction within ten days of the execution of the construction contract.

2.3 Operation of Extended Water Lines. The Parties acknowledge that the water lines that Desert Hills will construct under this Agreement will likely not be operated until the resolution of the Order to Show Cause and complaint (collectively the

"OSC") brought by the Staff of the Arizona Corporation Commission against Desert Hills that is currently pending with the Arizona Corporation Commission. However, Desert Hills agrees to commence pressure testing, chlorination, and bacteriological testing within 24 hours of being legally able to do so, whether as a result of the resolution of the OSC or some earlier occurrence that makes water service to the Property legally permissible, and will use its best efforts to provide actual water service to the property within 5 working days of being legally able to serve the property.

2.4 Renaissance Payment for Line Extension. Renaissance will pay no more than \$17,000.00 under the Extension Agreement.

2.5 Dismissal of ACC Complaint. Renaissance will dismiss the Complaint within five days after the water line becomes operational and provides service to the Property.

3. Miscellaneous.

3.1 Each party executing this Agreement hereby warrants that he or she has read this Agreement and is legally empowered to authorize execution of this Agreement on behalf of the party for which he or she acts.

3.2 This Agreement may be signed in counterparts.

3.3 The prevailing party in a dispute relating to this Agreement will be entitled to its attorneys' fees and costs arising out of that dispute.

3.4 Arizona law controls this Agreement.

RENAISSANCE PARTNERS, LLC

DESERT HILLS WATER
COMPANY, INC.

By: _____
Its: _____

Mary B. Rowland
By: MARY BETT ROWLAND
Its: V. President

1 FENNEMORE CRAIG, P.C.
2 Jay L. Shapiro (No. 014650)
3 Patrick J. Black (No. 017141)
4 3003 N. Central Ave., Suite 2600
5 Phoenix, Arizona 85012
6 Attorneys for Desert Hills Water Company

7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: W-02124A-06-0717

**NOTICE OF FILING
SUPPLEMENTAL EXHIBITS**

14 Desert Hills Water Co., Inc. ("Desert Hills") hereby submits this Notice of Filing
15 Supplemental Exhibits to its Application for Approval of Transfer of Assets to the Town
16 of Cave Creek ("Application") filed on November 8, 2006.

17 The following resolutions authorizing both the Town of Cave Creek and Desert
18 Hills to enter into the Transfer Agreement are attached hereto as Exhibits 1, 2 and 3,
19 respectively.

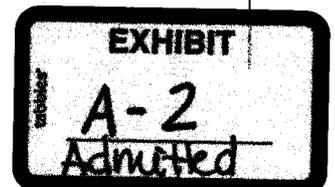
- 20 1. Resolution No. R2006-29 (Town of Cave Creek),
- 21 2. Resolution No. SHDH2006-02 (Shareholders of Desert Hills), and
- 22 3. Resolution No. DH2006-02 (Board of Directors of Desert Hills).

23 RESPECTFULLY SUBMITTED this 15th day of December, 2006.

24 FENNEMORE CRAIG, P.C.

25 By: 

26 Jay L. Shapiro
Patrick J. Black
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012
Attorneys for Desert Hills Water Company, Inc.



1 ORIGINAL and thirteen (13) copies of the
2 foregoing were delivered
3 this 15th day of December, 2006 to:

4 Docket Control
5 Arizona Corporation Commission
6 1200 W. Washington St.
7 Phoenix, AZ 85007

8 Copy of the foregoing **hand delivered**
9 this 15th day of December, 2006 to:

10 Lyn Farmer
11 Chief Administrative Law Judge
12 Arizona Corporation Commission
13 1200 W. Washington Street
14 Phoenix, AZ 85007

15 Linda Jaress
16 Utilities Division
17 Arizona Corporation Commission
18 1200 W. Washington Street
19 Phoenix, AZ 85007

20 Maureen Scott
21 Legal Division
22 Arizona Corporation Commission
23 1200 W. Washington Street
24 Phoenix, AZ 85007

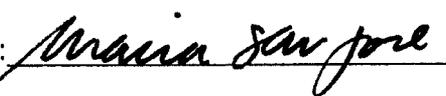
25 By: 
26 1866511.1/18332.007

Exhibit 1

RESOLUTION NO. R2006-29

A RESOLUTION OF THE MAYOR AND TOWN COUNCIL OF THE TOWN OF CAVE CREEK, MARICOPA COUNTY, ARIZONA, AUTHORIZING, RATIFYING, APPROVING AND AFFIRMING THE ASSET TRANSFER AGREEMENT BETWEEN DESERT HILLS WATER COMPANY AND THE TOWN OF CAVE CREEK, INCLUDING THE ENTITLEMENTS AND OBLIGATIONS CONTAINED WITHIN THE SCHEDULES ATTACHED TO THE AGREEMENT AND APPROVING THE ACCEPTANCE OF ALL ASSETS, INCLUDING REAL AND PERSONAL PROPERTY AND ALL OBLIGATIONS OF THE TRANSFER AGREEMENT

WHEREAS, On May 17, 2005 the Town of Cave Creek (the "*Town*") held a special election and authorized not to exceed \$50,000,000 of either Water and Sewer Revenue Bonds or loans from the Water Infrastructure Finance Authority of Arizona ("*WIFA*") for the following purpose:

To provide funds to expand, extend and enlarge the Town's sewer system, including the construction of a new sewer treatment plant and acquire, expand, extend and enlarge a water system; and to pay all legal, financial consultant, engineering and other necessary costs in connection therewith; and

WHEREAS, on September 12, 2006, the Town approved Resolution No. R2006-23 authorizing the Town of Cave Creek to purchase all of the assets, including real and personal property, and or all of the stock of the Desert Hills Water Company Inc. and assume the liabilities of the Company and to take all actions and to do all things necessary to acquire said assets or stock of the Company, and

WHEREAS, on September 12, 2006, the Town approved the Stock Purchase Agreement acquiring the Shares of the Desert Hills Water Company; and

WHEREAS, that A.R.S. § 9-511, et.seq. sets forth the powers of the Town to purchase, acquire, own and maintain real and personal property, both within and without the limits of the Town, for public utility purposes.

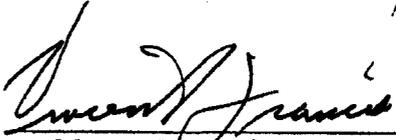
NOW, THEREFORE, BE IT RESOLVED BY THE COMMON COUNCIL OF THE TOWN OF CAVE CREEK, ARIZONA, that:

Section 1. That the Mayor and the Town Manager, acting on behalf of the Town of Cave Creek, Arizona are authorized to enter into and execute the Transfer Agreement and Schedules attached as Exhibit A, between Desert Hills Water Company and the Town of Cave Creek, and purchase all of the assets, including real and personal property and assume the liabilities of the Company and to take all actions and to do all things necessary to acquire said assets.

Section 2. That approval of the Transfer Agreement is contingent upon the Town's right to terminate the Transfer Agreement with twenty-four (24) hour written notice in the event that the Town, in its sole discretion, determines that unacceptable conditions might be or have been imposed on the transfer by any regulatory agency.

PASSED, ADOPTED AND APPROVED on December 4, 2006.

TOWN OF CAVE CREEK, ARIZONA



Mayor, Town of Cave Creek

ATTEST:



Clerk, Town of Cave Creek

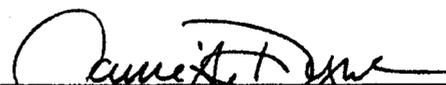
APPROVED AS TO FORM:

Attachments: Exhibit A – Transfer Agreement and Schedules

CERTIFICATION

I, Carrie Dyrek, the duly appointed and acting Town Clerk of the Town of Cave Creek, Arizona, do hereby certify that the above and foregoing Resolution No. R2006-29 was duly passed by the Common Council of the Town of Cave Creek, Arizona, at a regular meeting held on December 4, 2006, and the vote was 7 aye's, 0 nay's, — and — abstained, and — were absent and that the Mayor and 6 Council Members were present thereat.

DATED: December 4, 2006.



Clerk, Town of Cave Creek, Arizona

Exhibit 2

RESOLUTION NO. SHDH2006-02

A RESOLUTION OF THE SHAREHOLDERS OF THE DESERT HILLS WATER CO., INC., AUTHORIZING, RATIFYING, APPROVING AND AFFIRMING BY PROXY VOTE OF THE PRESIDENT, EXECUTION OF THE ASSET TRANSFER AGREEMENT BETWEEN DESERT HILLS WATER CO., INC. AND THE TOWN OF CAVE CREEK, INCLUDING THE ENTITLEMENTS AND OBLIGATIONS CONTAINED WITHIN THE SCHEDULES ATTACHED TO THE AGREEMENT AND APPROVING THE TRANSFER OF ALL ASSETS, INCLUDING REAL AND PERSONAL PROPERTY AND ALL OBLIGATIONS UNDER THE TERMS OF THE TRANSFER AGREEMENT

WHEREAS, On May 17, 2005 the Town of Cave Creek (the "*Town*") held a special election and authorized not to exceed \$50,000,000 of either Water and Sewer Revenue Bonds or loans from the Water Infrastructure Finance Authority of Arizona ("*WIFA*") for the following purpose:

To provide funds to expand, extend and enlarge the Town's sewer system, including the construction of a new sewer treatment plant and acquire, expand, extend and enlarge a water system; and to pay all legal, financial consultant, engineering and other necessary costs in connection therewith; and

WHEREAS, on September 12, 2006, the Town approved Resolution No. R2006-23 authorizing the Town of Cave Creek to purchase all of the assets, including real and personal property, and/or all of the stock of the Desert Hills Water Co., Inc. and assume the liabilities of the Company and to take all actions and to do all things necessary to acquire said assets or stock of the Company, and

WHEREAS, on September 12, 2006, the Town approved the Stock Purchase Agreement acquiring the Shares of the Desert Hills Water Co., Inc.;

WHEREAS, on or about September 12, 2006, the Shareholders of the Desert Hills Water Company executed and approved the Stock Purchase Agreement and sale of the Shares of the Desert Hills Water Company to the Town of Cave Creek.

WHEREAS, A.R.S. § 9-511, et.seq. sets forth the powers of the Town to purchase, acquire, own and maintain real and personal property, both within and without the limits of the Town, for public utility purposes; and

WHEREAS, on November 7, 2006, Usama Abujbarah, as President of Desert Hills Water Co., Inc. executed the Transfer Agreement attached as Exhibit A.

NOW, THEREFORE, BE IT RESOLVED BY THE SHAREHOLDERS OF THE DESERT HILLS WATER COMPANY AS FOLLOWS:

Section 1. That the authorization of the President, acting on behalf of the Desert Hills Water Co., Inc. to enter into and execute the Transfer Agreement and all Schedules attached, between Desert Hills Water Co. Inc. and the Town of Cave Creek, and transfer all of the assets, including real and personal property, the execution of the Transfer Agreement and Schedules on behalf of Desert Hills Water Co., Inc. is hereby ratified, and the President is authorized to take all actions and to do all things necessary to transfer said assets to the Town of Cave Creek .

Section 2. That the Desert Hills Water Co., Inc. recognizes the Town's right to terminate the Transfer Agreement with twenty-four (24) hour written notice in the event that the Town, in its sole discretion, determines that unacceptable conditions might be or have been imposed on the transfer by any regulatory agency.

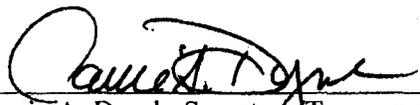
PASSED, ADOPTED AND APPROVED on December 4, 2006.

DESERT HILLS WATER CO., INC.



Usama Abujbarah, President

ATTEST:



Carrie A. Dyrek, Secretary/Treasurer

APPROVED AS TO FORM:

Attachments: Exhibit A – Transfer Agreement and Schedules

Exhibit 3

RESOLUTION NO. DH2006-02

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE DESERT HILLS WATER CO., INC., AUTHORIZING, RATIFYING, APPROVING AND AFFIRMING EXECUTION OF THE ASSET TRANSFER AGREEMENT BETWEEN DESERT HILLS WATER CO., INC. AND THE TOWN OF CAVE CREEK, INCLUDING THE ENTITLEMENTS AND OBLIGATIONS CONTAINED WITHIN THE SCHEDULES ATTACHED TO THE AGREEMENT AND APPROVING THE TRANSFER OF ALL ASSETS, INCLUDING REAL AND PERSONAL PROPERTY AND ALL OBLIGATIONS UNDER THE TERMS OF THE TRANSFER AGREEMENT

WHEREAS, On May 17, 2005 the Town of Cave Creek (the "*Town*") held a special election and authorized not to exceed \$50,000,000 of either Water and Sewer Revenue Bonds or loans from the Water Infrastructure Finance Authority of Arizona ("*WIFA*") for the following purpose:

To provide funds to expand, extend and enlarge the Town's sewer system, including the construction of a new sewer treatment plant and acquire, expand, extend and enlarge a water system; and to pay all legal, financial consultant, engineering and other necessary costs in connection therewith; and

WHEREAS, on September 12, 2006, the Town approved Resolution No. R2006-23 authorizing the Town of Cave Creek to purchase all of the assets, including real and personal property, and/or all of the stock of the Desert Hills Water Co., Inc. and assume the liabilities of the Company and to take all actions and to do all things necessary to acquire said assets or stock of the Company, and

WHEREAS, on September 12, 2006, the Town approved the Stock Purchase Agreement acquiring the Shares of the Desert Hills Water Co., Inc.;

WHEREAS, on or about September 12, 2006, the Shareholders of the Desert Hills Water Company executed and approved the Stock Purchase Agreement and sale of the Shares of the Desert Hills Water Company to the Town of Cave Creek.

WHEREAS, A.R.S. § 9-511, et.seq. sets forth the powers of the Town to purchase, acquire, own and maintain real and personal property, both within and without the limits of the Town, for public utility purposes; and

WHEREAS, on November 7, 2006, Usama Abujbarah, as President of Desert Hills Water Co., Inc. executed the Transfer Agreement attached as Exhibit A.

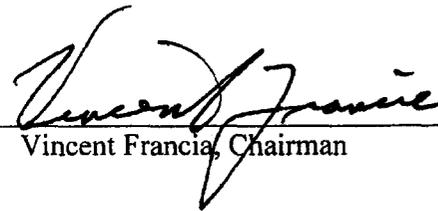
NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE DESERT HILLS WATER COMPANY AS FOLLOWS:

Section 1. That the authorization of the President, acting on behalf of the Desert Hills Water Co., Inc. to enter into and execute the Transfer Agreement and all Schedules attached, between Desert Hills Water Co. Inc. and the Town of Cave Creek, and transfer all of the assets, including real and personal property, the execution of the Transfer Agreement and Schedules on behalf of Desert Hills Water Co., Inc. is hereby ratified, and the President is authorized to take all actions and to do all things necessary to transfer said assets to the Town of Cave Creek .

Section 2. That the Desert Hills Water Co., Inc. recognizes the Town's right to terminate the Transfer Agreement with twenty-four (24) hour written notice in the event that the Town, in its sole discretion, determines that unacceptable conditions might be or have been imposed on the transfer by any regulatory agency.

PASSED, ADOPTED AND APPROVED on December 4, 2006.

DESERT HILLS WATER CO., INC.



Vincent Francia, Chairman

ATTEST:



Carrie A. Dyrek, Secretary/Treasurer

APPROVED AS TO FORM:

Attachments: Exhibit A – Transfer Agreement and Schedules

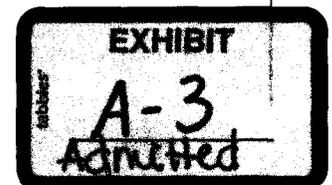
1 FENNEMORE CRAIG, P.C.
2 Jay L. Shapiro (No. 014650)
3 Patrick J. Black (No. 017141)
4 3003 N. Central Ave., Suite 2600
5 Phoenix, Arizona 85012
6 Attorneys for Desert Hills Water Company

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**



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 American Water Company
15 to negotiate a permanent connection between the Anthem System and DHWC
16 working to ensure short and long term water supplies, and authorizing needed
17 capital improvements for DHWC.

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

20 A. To identify an additional safeguard the Town intends to implement to protect
21 DHWC's current ratepayers once the assets have been transferred to the Town.

22 **Q. WOULD YOU PLEASE IDENTIFY THIS SAFEGUARD?**

23 A. Certainly. After the transfer, the Town will take no action to change the rates
24 charged to customers in the DHWC system until the Town has provided notice and
25 held public meetings providing the customers and opportunity to be heard. In
26 addition, in an effort to ensure that customers in the DHWC system are fairly

1 heard, at least one such meeting will be held in the current CC&N area for DHWC.

2 **Q. WHY IS THE TOWN AGREEING TO HOLD PUBLIC MEETINGS ON**
3 **RATES FOR CURRENT DHWC CUSTOMERS OUTSIDE OF THE**
4 **TOWN?**

5 A. We recognize that the customers of DHWC are not residents of the Town and we
6 wish to ensure that these customers have a fair and reasonable opportunity to voice
7 their concerns over any decision that would impact the charges for water utility
8 service. By agreeing to hold public meetings in their area, we feel that the Town
9 can better ensure that it hears from those customers who are currently on the
10 DHWC water system.

11 **Q. HOW WILL RATES FOR WATER UTILITY SERVICE BE SET BY THE**
12 **TOWN AFTER THE ACQUISITION IS COMPLETE?**

13 A. This is something we are still considering and something we have discussed with
14 Commission Staff. We must also consider that the Town is in the process of
15 acquiring the Cave Creek Water Company water system and that it will likely have
16 some impact on our ratemaking decisions in the future. For now, the Town has no
17 plans to increase the rates in the DHWC service area. In the meantime, I can
18 assure the Commission that the Town is committed to ensuring that DHWC's
19 ratepayers pay just and reasonable rates following the transfer of assets, and we
20 remain open to suggestions of the Commission and its Staff on additional
21 safeguards.

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

23 A. Yes.

24

25

1871383.2/18332.007

26

1 FENNEMORE CRAIG, P.C.
2 Jay L. Shapiro (No. 014650)
3 Patrick J. Black (No. 017141)
4 3003 N. Central Ave., Suite 2600
5 Phoenix, Arizona 85012
6 Attorneys for Desert Hills Water Company

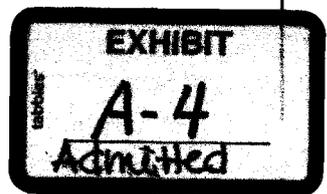
7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

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

DOCKET NO: W-02124A-06-0717

14 **TESTIMONY OF**
15 **USAMA ABUJBARAH**
16 **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).

Stipulated Settlement Agreement
Desert Hills Water Company
October 20, 2006

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.

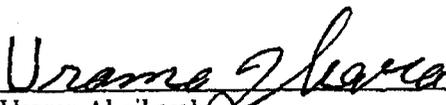
3. Town of Cave Creek admits to the jurisdiction of MCESD in the matter stated herein and waives all rights to a hearing of these matters and further, waives its right to judicial review of these matters.

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

Contents

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4. Planned Projects.....	4-1

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A	Pressure Recorder Data
B	Arizona American Water letter

Tables

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2	Maricopa County Planning and Development Research.....	4-1
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2	Water Distribution System Service Areas and Contours.....	2-2
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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.

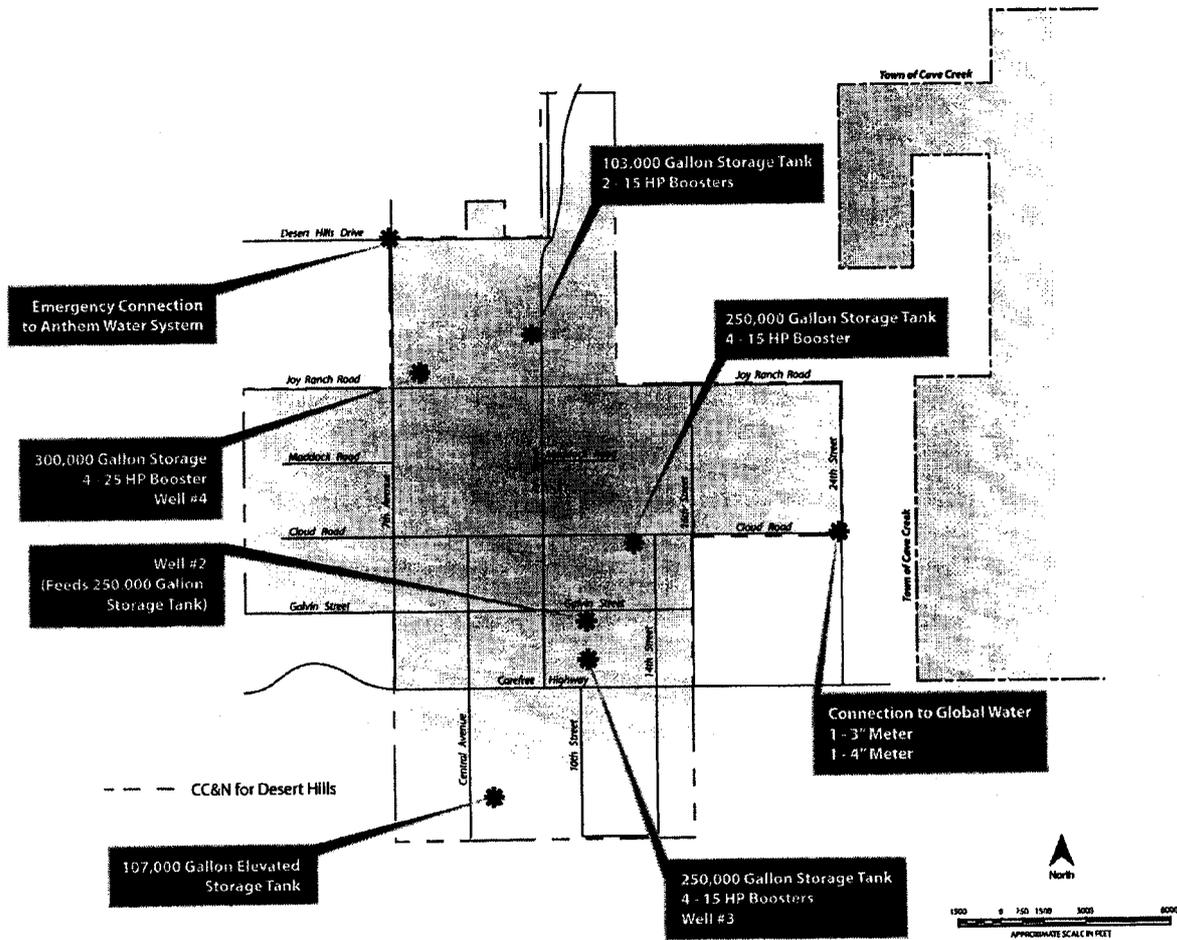
Subsequently, the Town has been proactive in managing the operations of the DHWC in a responsible and conscientious manner. The Town has moved forward on its own volition to conduct planning and engineering efforts with the intent to improve the short and long term integrity of the DHWC system. The Town 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.

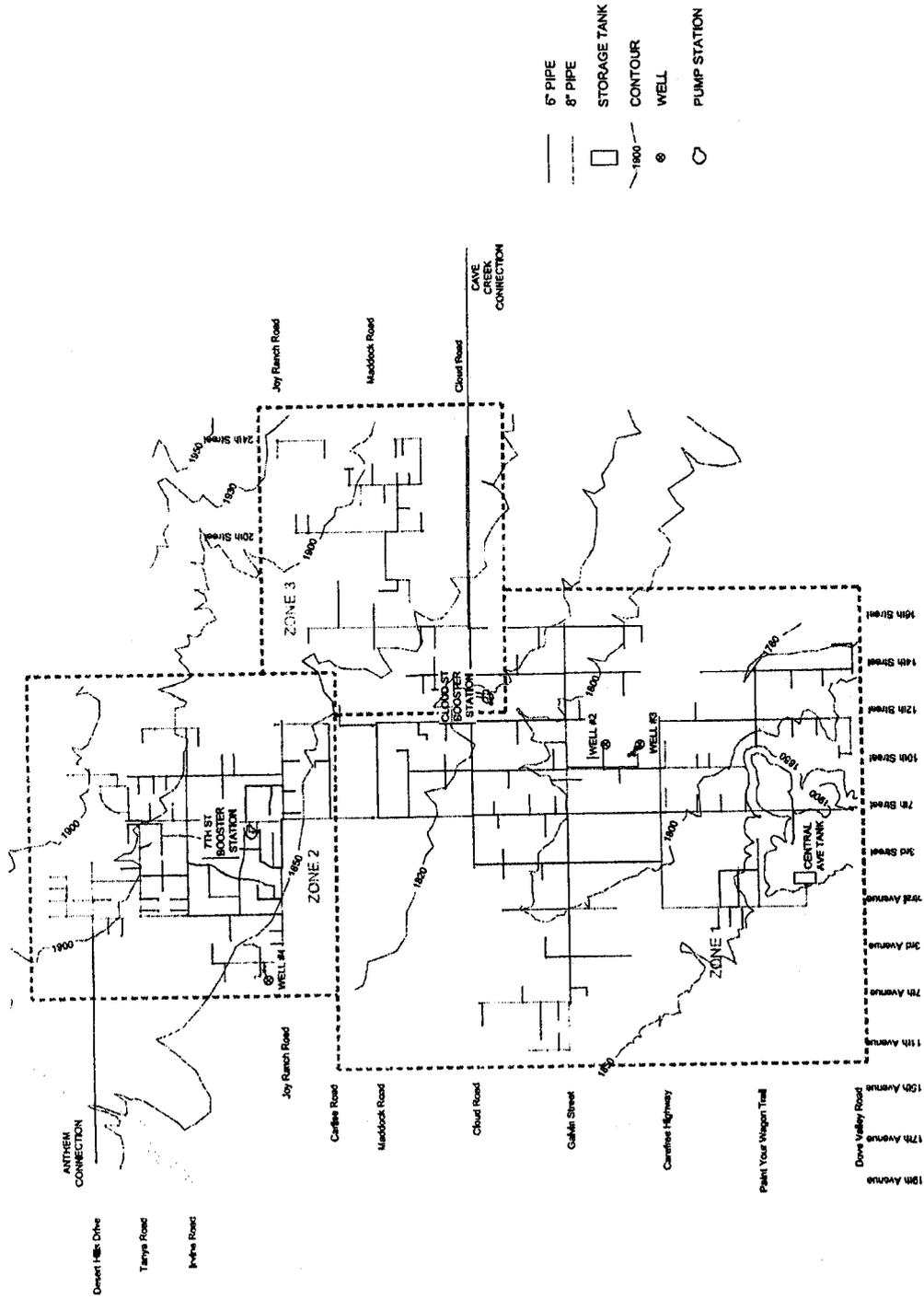
Zone 1—Central Avenue Zone

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.

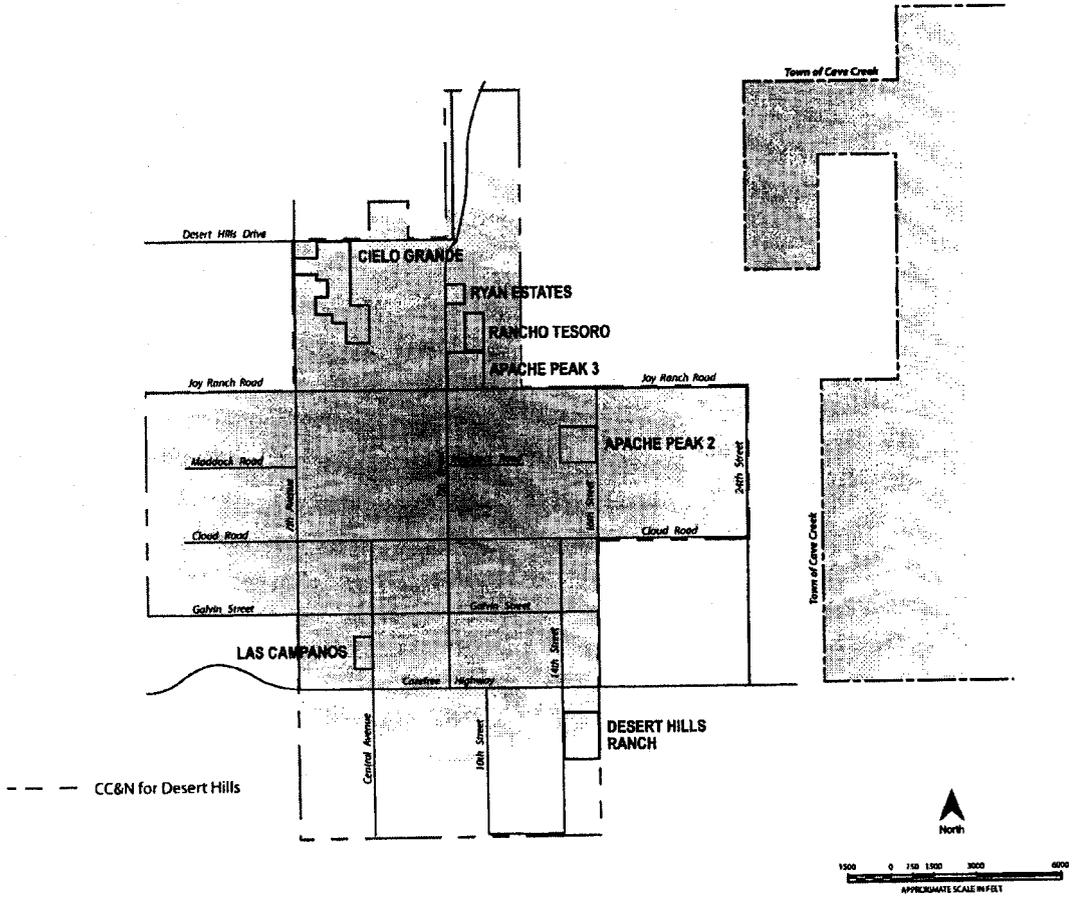
TABLE 2
 Maricopa County Planning and Development Research
Desert Hills Water Company Stipulated Settlement Agreement

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.

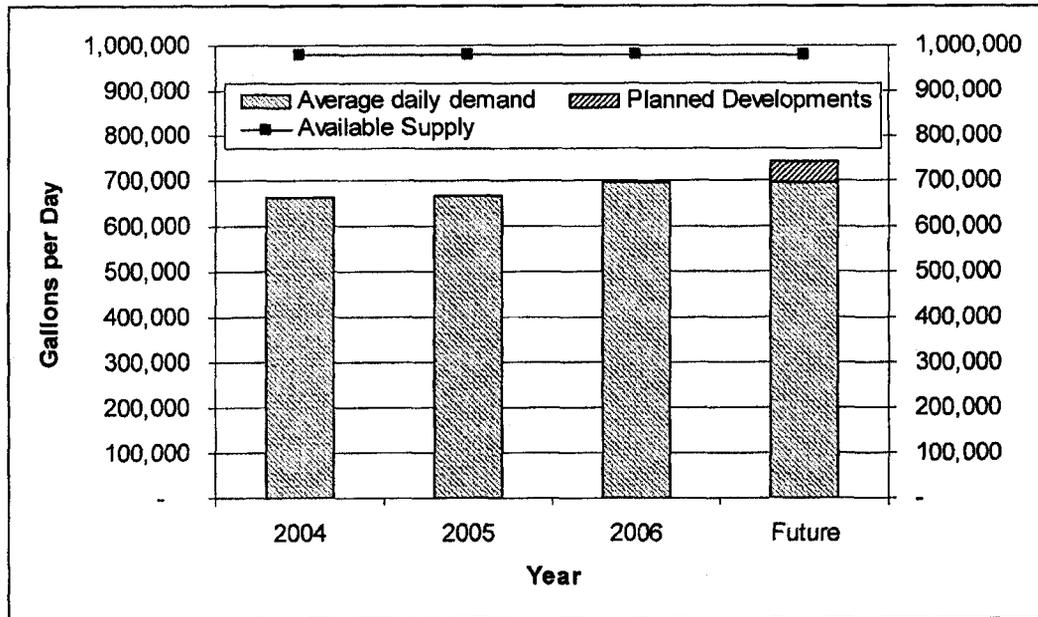
TABLE 4
Average Daily Demand
Desert Hills Water Company Stipulated Settlement Agreement

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.

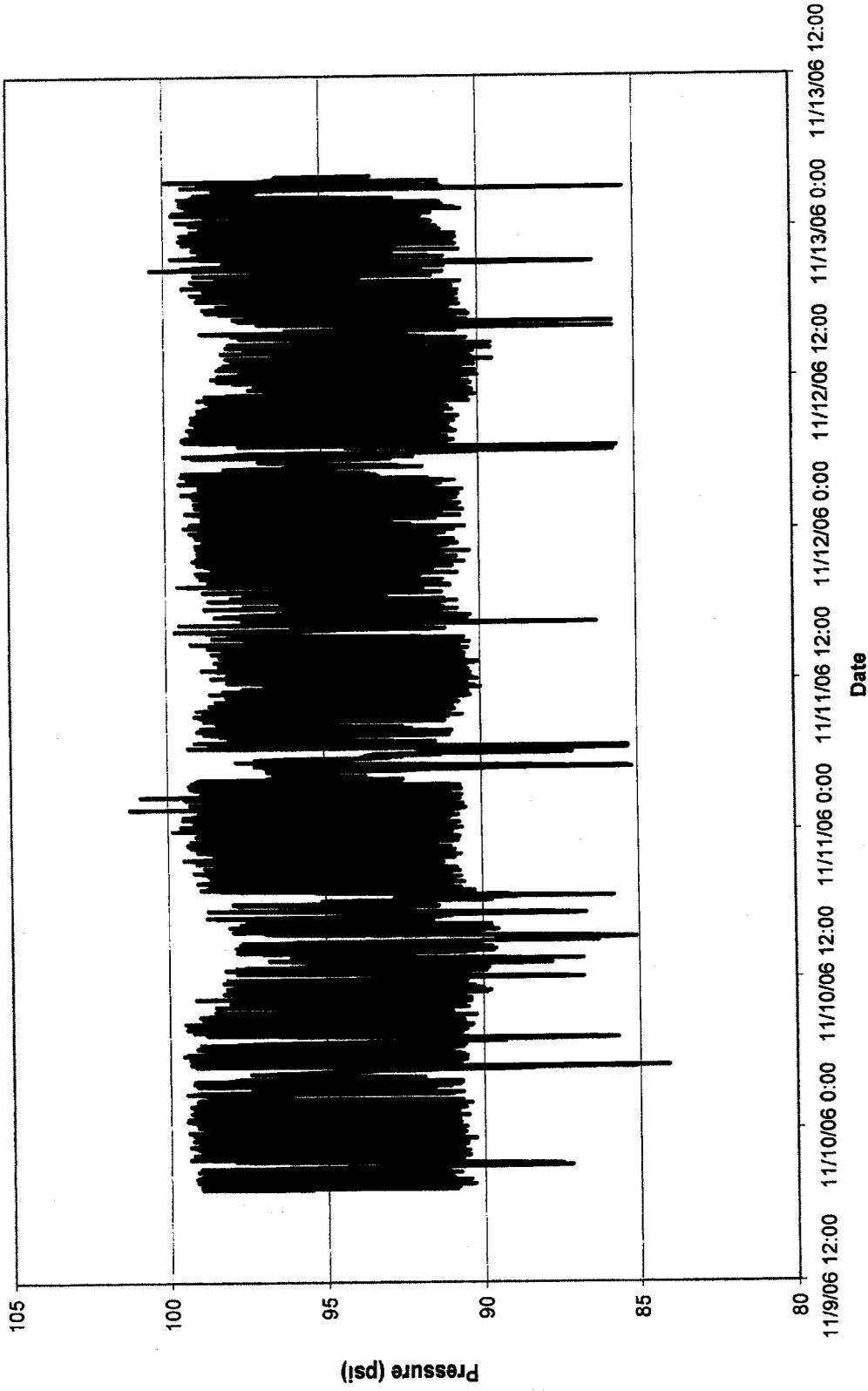
As previously referenced, the Town has an agreement in place through March 2007 with Arizona American Water to supply water from Anthem via an above-ground pipeline. The Town is currently negotiating with Arizona American Water to establish a longer-term, renewable agreement for emergency water supply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

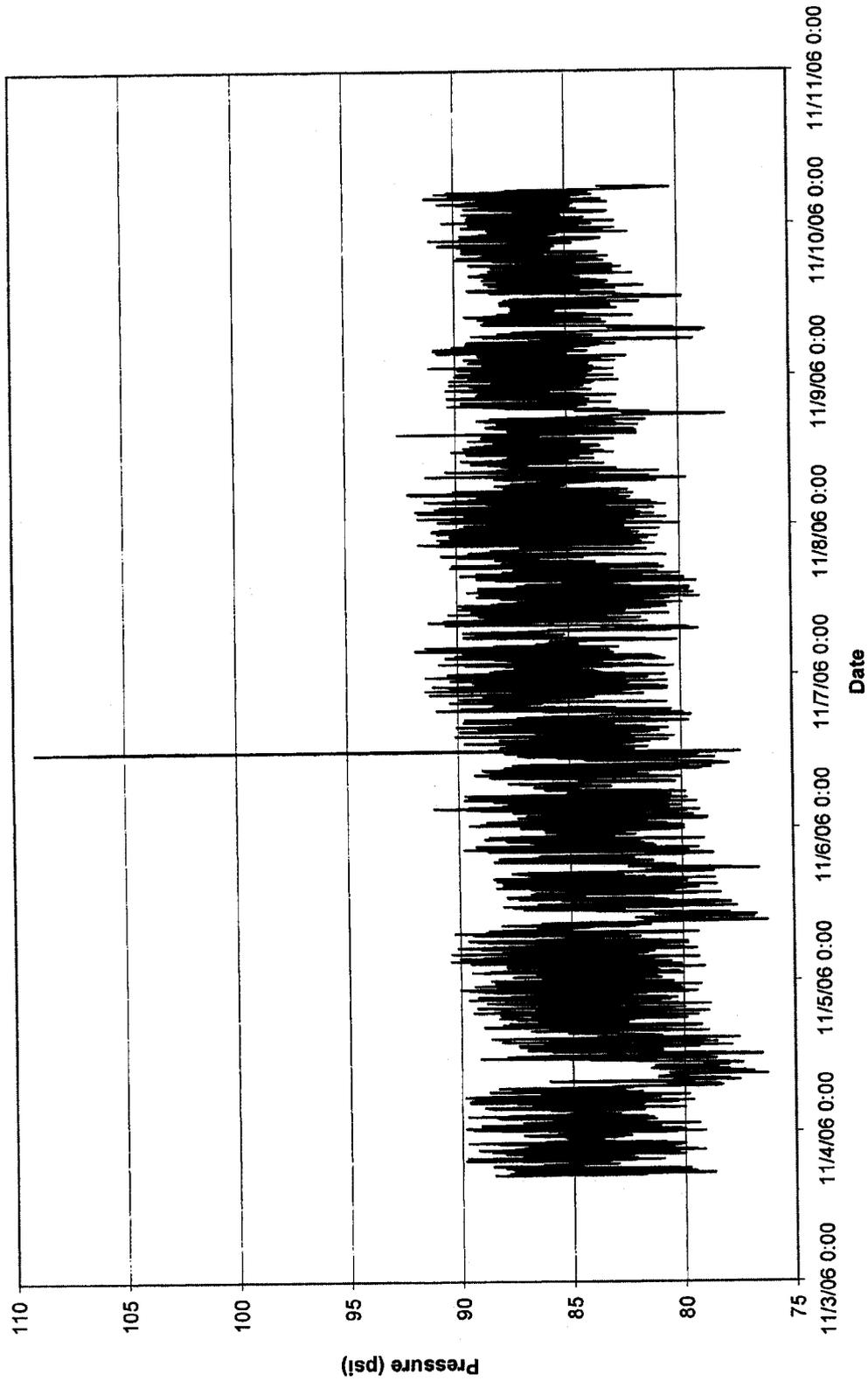
To further evaluate the existing operation of DHWC and develop a plan for needed capital improvements, CH2M HILL is also engaged in formulating a water master plan for the Town encompassing both water systems (DHWC and CCWC) and other areas that are under the purview of the Town. A water system model 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

101 Corporate Center
19820 N. 7th Street – Suite 201
Phoenix, Arizona 85024
USA

T +1 623 445 2400
F +1 623 445 2451
I www.amwater.com

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FENNEMORE CRAIG, P.C. 2007 JAN 22 P 4: 33
Jay L. Shapiro (No. 014650)
Patrick J. Black (No. 017141) AZ CORP COMMISSION
3003 N. Central Ave., Suite 2600 DOCUMENT CONTROL
Phoenix, Arizona 85012
Attorneys for Desert Hills Water Company

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
CERTIFICATION OF PUBLICATION
AND PROOF OF MAILING**

Pursuant to the Procedural Order dated December 27, 2006, Desert Hills Water Co., Inc. hereby submits this Notice of Filing Certification of Publication and Proof of Mailing in the above-captioned matter.

On January 11, 2007 legal public notice was published in *The Gila Bend Sun*. The affidavit of Glen Birchfield, editor and publisher of *The Gila Bend Sun*, is attached hereto as Exhibit 1.

On January 12, 2007 and January 16, 2007 Desert Hills mailed notification to property owners. The affidavit of Whitney A. Birk is attached hereto as Exhibit 2.

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Arizona Corporation Commission
DOCKETED
JAN 22 2007

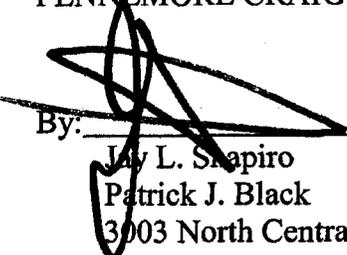
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DATED this 22nd day of January, 2007.

FENNEMORE CRAIG, P.C.

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 22nd day of January, 2007 to:

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

Copy of the foregoing was hand delivered this 22nd day of January, 2007 to:

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

1 Maureen Scott
2 Legal Division
3 Arizona Corporation Commission
4 1200 W. Washington Street
5 Phoenix, AZ 85007

6 Robin Mitchell
7 Legal Division
8 Arizona Corporation Commission
9 1200 W. Washington Street
10 Phoenix, AZ 85007

11 Copy of the foregoing was mailed
12 this 22nd day of January, 2007 to:

13 Court Rich Esq.
14 The Rose Law Group
15 6613 N. Scottsdale Road, Suite 200
16 Scottsdale, AZ 85250

17 By: Sandra Baker

18 1876630.1/18332.007

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EXHIBIT

1

PUBLIC NOTICE

PUBLIC NOTICE OF THE HEARING ON THE APPLICATION OF DESERT HILLS WATER COMPANY FOR APPROVAL OF TRANSFER OF ITS UTILITY ASSETS TO THE TOWN OF CAVE CREEK PURSUANT TO A.R.S. § 40-285 AND FOR CANCELLATION OF ITS CC&N, Docket No. W-02124A-06-0717

On November 8, 2006, Desert Hills Water company ("DHWC" or "Company") filed with the Arizona Corporation Commission ("Commission") an application to transfer its utility assets to the Town of Cave Creek, Arizona ("Town"), pursuant to A.R.S. § 40-285. The Commission will determine the appropriate relief to be granted based on the evidence of record in this proceeding. The Commission is not bound by the proposals made by the Company, the Commission's Staff, or any intervenors, and therefore the relief granted in this proceeding may differ from that requested by the Company. The application, report of the Commission's Utilities Division Staff, and any written comments to the staff report will be available for inspection during regular business hours at the offices of the Commission located at 1200 West Washington Street, Phoenix, Arizona, 85007; and at the offices of the Company, 34647 N. 10th Street, Phoenix, Arizona, 85027, and on the internet via the Commission website (www.azcc.gov) using the e-docket function.

The Commission will hold a public hearing on this matter on February 27, 2007, at 10:00 a.m. at the Commission's offices, at 1200 West Washington Street, Phoenix, Arizona. Public comment will be taken on the first day of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene in the proceedings and participate as a party. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission and send such motion to the Company or its counsel and to all parties of record, and which at the minimum, shall contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g. a customer of the Company, a shareholder of the Company, a competitor, etc.)
3. A statement certifying that a copy of the motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of motions to intervene must be governed by A.A.C. R14-3-105, except that all motions to intervene must be filed on or before February 9, 2007. The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. Failure to intervene will not preclude any interested person or entity from appearing at the hearing and making a statement on their own behalf. You will not, however, receive any further notice of the proceeding unless requested by you. Please check with the Commission for any changes to the scheduled hearing date.

If you have any comments, mail them to:
The Arizona Corporation Commission, Attention Docket Control
Re: Desert Hills Water Company, W-02124A-06-0717
1200 West Washington Street
Phoenix, Arizona 85007

If you have any questions about this application, you may contact the Company at 623-582-0219. If you wish to file written comments on the application or want further information on intervention you may contact the Consumer Services Section of the Commission at 1200 West Washington Street Phoenix Arizona, 85007, or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter as well as request this document in an alternative format, by contacting the ADA Coordinator, Linda Hogan at LHogan@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.

Number of publications: 1. Dates of publication: Jan. 11, 2007.

AFFIDAVIT OF PUBLICATION

State of Arizona

ss

County of Maricopa

I, Glen Birchfield, editor and publisher of

The Gila Bend Sun,

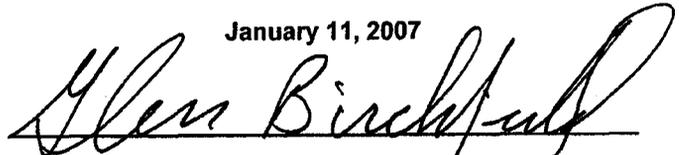
a newspaper in general circulation, printed and published in the Town of Gila Bend, County of Maricopa, State of Arizona, do solemnly swear that a copy of the above notice is the matter of

Public Notice
for

Desert Hills Water Company

as per clipping attached, was published weekly in the regular and entire edition of the said newspaper, and not in any supplement hereof, for a period of one consecutive week(s) as follows, to-wit

January 11, 2007



Glen Birchfield

Subscribed and sworn to before me,

this.....11.....day of.....January.....2007



Notary Public

My Commission expires:
May 29, 2009



DARAH B. MANN
NOTARY PUBLIC- ARIZONA
MARICOPA COUNTY
My Comm. Exp.: May 29, 2009

cc: Whitney Birk

EXHIBIT

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AFFIDAVIT OF WHITNEY A. BIRK

Whitney A. Birk, being duly sworn, deposes and says:

1. I am a resident of Maricopa County, over 18 years of age, and make this affidavit based on my own personal knowledge.

2. I am a paralegal at Fennemore Craig, P.C.

3. Pursuant to the December 27, 2006 Procedural Order issued by the Arizona Corporation Commission, on January 12, 2007 Desert Hills Water Co., Inc. ("Desert Hills") mailed to 1,762 property owners a copy of the public notice regarding the hearing set for February 27, 2007.

4. A telephonic procedural conference was held on January 12, 2007, during which Administrative Law Judge Farmer granted Desert Hills' request for an extension to mail any remaining notices. Therefore, on January 16, 2007 Desert Hills mailed the remaining 1,154 notices.

5. In further accordance with the Procedural Order, Desert Hills files this certification of mailing.

Whitney A Birk
Whitney A. Birk

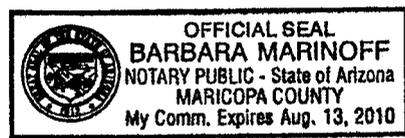
SUBSCRIBED and sworn to before me this 22nd day of January, 2007.

Barbara Marinoff
Notary Public

My Commission Expires:

August 13, 2010

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39E

1 FENNEMORE CRAIG, P.C.
2 Jay L. Shapiro (No. 014650)
3 Patrick J. Black (No. 017141)
4 3003 N. Central Ave., Suite 2600
5 Phoenix, Arizona 85012
6 Attorneys for Desert Hills Water Company

2007 FEB -9 P 4: 43

AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

7
8 IN THE MATTER OF DESERT HILLS
9 WATER COMPANY'S APPLICATION
10 FOR APPROVAL OF TRANSFER OF
11 ASSETS TO THE TOWN OF CAVE
12 CREEK, PURSUANT TO ARIZONA
13 REVISED STATUTES 40-285

DOCKET NO: W-02124A-06-0717

NOTICE OF ERRATA
CERTIFICATION OF PUBLICATION

12 On January 22, 2007, Desert Hills Water Co., Inc. ("Desert Hills") filed a Notice of
13 Filing Certification of Publication and Proof of Mailing as required by Procedural Order
14 dated December 27, 2006. The notice provided that the hearing in this matter is set for
15 February 27, 2007, and that the deadline to intervene was February 9, 2007. The filing
16 verified that on January 11, 2007, legal public notice was published in *The Gila Bend Sun*.
17 On February 1, 2007, it was discovered that the newspaper in which the public notice was
18 published is not a newspaper of general circulation in Desert Hills' service area. Desert
19 Hills and Staff concluded that Desert Hills should have the notice republished as soon as
20 possible in a newspaper of general circulation. Desert Hills has already mailed a copy of
21 the original notice to approximately 4,000 property owners within Desert Hills' service
22 area on January 12th and 16th, 2007.

23 On February 5, 2007 the Amended Notice was published in *The Arizona Republic*.
24 The affidavit of Karen Way, legal advertising representative of the *Arizona Business*
25 *Gazette*, is attached hereto as Exhibit 1.

Arizona Corporation Commission
DOCKETED

FEB 19 2007

EXHIBIT
A-6
Pending

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DATED this 9th day of February, 2007.

FENNEMORE CRAIG, P.C.

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 9th day of February, 2007 to:

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

Copy of the foregoing was hand delivered this 9th day of February, 2007 to:

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

1 Robin Mitchell
2 Legal Division
3 Arizona Corporation Commission
4 1200 W. Washington Street
Phoenix, AZ 85007

5 Copy of the foregoing was **mailed**
6 this 9th day of February, 2007 to:

7 Court Rich Esq.
8 The Rose Law Group
9 6613 N. Scottsdale Road, Suite 200
Scottsdale, AZ 85250

10 By: *Maria San Jose*

11 1882662.1/18332.007

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Exhibit 1

PUBLIC NOTICE OF THE HEARING ON THE APPLICATION OF DESERT HILLS WATER COMPANY FOR APPROVAL OF TRANSFER OF ITS UTILITY ASSETS TO THE TOWN OF CAVE CREEK, PURSUANT TO A.R.S. § 40-285 AND FOR CANCELLATION OF ITS CC&N. Docket No. W-02124A-06-0717

On November 8, 2006, Desert Hills Water Company ("DHWCo" or "Company") filed with the Arizona Corporation Commission ("Commission") an application to transfer its utility assets to the Town of Cave Creek, Arizona ("Town"), pursuant to A.R.S. § 40-285. The Commission will determine the appropriate relief to be granted based on the evidence of record in this proceeding. The Commission is not bound by the proposals made by the Company, the Commission's Staff, or any intervenors; and therefore, the relief granted in this proceeding may differ from that requested by the Company. The application, report of the Commission's Utilities Division Staff, and any written comments to the staff report will be available for inspection during regular business hours at the offices of the Commission located at 1200 West Washington Street, Phoenix, Arizona, 85007, and at the offices of the Company, 34647 N. 10th Street, Phoenix, Arizona, 85027, and on the Internet via the Commission website (www.azcc.gov) using the e-Docket function.

The Commission will hold a public hearing on this matter on February 27, 2007 at 10:00 a.m. at the Commission's offices, at 1200 West Washington Street, Phoenix, Arizona. Public comment will be taken on the first day of the hearing.

The law provides for an open public hearing at which, under appropriate circumstances, interested parties may intervene in the proceedings and participate as a party. Intervention shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. Persons desiring to intervene must file a written motion to intervene with the Commission and send such motion to the Company or its counsel and to all parties of record, and which at the minimum, shall contain the following:

1. The name, address, and telephone number of the proposed intervenor and of any party upon whom service of documents is to be made, if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g. a customer of the Company, a shareholder of the Company, a competitor, etc.)
3. A statement certifying that a copy of the motion to intervene has been mailed to the Company or its counsel and to all parties of record in the case.

The granting of motions to intervene must be governed by A.C.C. R14-3-105, except that all motions to intervene must be filed on or before February 27, 2007. The granting of intervention, among other things, entitles a party to present sworn evidence at the hearing and to cross-examine other witnesses. Failure to intervene will not preclude any interested person or entity from appearing at the hearing and making a statement on their own behalf. You will not, however, receive any further notice of the proceeding unless requested by you. Please check with the Commission for any changes to the scheduled hearing date.

If you have any comments, mail them to: The Arizona Corporation Commission, Attention Docket Control, Re: Desert Hills Water Company, W-02124A-06-0717, 1200 West Washington Street, Phoenix, Arizona 85007.

If you have any questions about this application, you may contact the Company at 623-582-0219, if you wish to file written comments on the application or want further information on intervention you may contact the Consumer Services Section of the Commission at 1200 West Washington Street, Phoenix, Arizona, 85007, or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Linda Hogan, at LHogan@azcc.gov, voice phone number 602-542-3931. Requests should be made as early as possible to allow time to arrange the accommodation. Published: February 5, 2007

THE ARIZONA REPUBLIC

STATE OF ARIZONA }
COUNTY OF MARICOPA } SS.

Karen Way, being first duly sworn, upon oath deposes and says: That she is a legal advertising representative of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

The Arizona Republic

February 5, 2007

Karen Way

Sworn to before me this
5TH day of
February A.D. 2007



Marilyn Greenwood
Notary Public

**TOWN OF CAVE CREEK, ARIZONA
DESERT HILLS WATER COMPANY
PROFESSIONAL OPERATIONS AND MAINTENANCE AGREEMENT**

THIS OPERATING AGREEMENT, (this "Agreement"), is entered into this 26th day of February, 2007, by and among:

- The Town of Cave Creek, an Arizona municipal corporation ("Town ");
- Desert Hills Water Company ("Company") and
- American Water Operations and Maintenance, Inc., a Texas corporation authorized to do business in Arizona, ("Operator").

(Town, Company, and Operator may be referred to collectively as the "Parties").

RECITALS

WHEREAS, Company, located at 34647 North 10th Street, Phoenix 85086, Maricopa County, Arizona, owns and operates a water utility system ("System") providing service to customers within the area of Company's existing Certificate of Convenience and Necessity ("CC&N"); and

WHEREAS, at the time of execution of this Agreement Town owns all of Company's stock; and

WHEREAS, Town intends to dissolve Company, and own and operate the System as a municipal water utility providing potable water service to customers within the area of Company's existing CC&N ("Town Service Area"); and

WHEREAS, Town may acquire other water utilities, including Cave Creek Water Company, that operate in service territories outside the existing Company CC&N with the intent of extending the Town Service Area to include these new service territories, operated as one integrated system within the Town Service Area; and

WHEREAS, Town is desirous that the System—as presently configured and as may be expanded to serve new customers within the Town Service Area—be operated and maintained in an efficient manner, complying with all Federal, State and County laws and regulations; and

WHEREAS, among other things, Operator provides professional operation and maintenance services for potable water utilities and water facilities;

AGREEMENT

NOW, THEREFORE, in consideration of the premises and terms contained herein, the Parties agree as follows:

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1.0 ENGAGEMENT. In consideration of payment as set forth herein, Town engages Operator to provide professional management, operation, maintenance, testing, reporting, and engineering necessary to the treatment and distribution of potable water; customer services; assistance in developing agreements for water system expansions including line extension agreements for new services; identification and coordination of additional surface and ground water sources. Operator shall exercise the same degree of diligence and care with respect to managing, operating, repairing and maintaining the System as its affiliate, Arizona-American Water Company, exercises in operating its Arizona water systems. Operator will appoint, and identify to the Town, a person who will be responsible for supervising and coordinating the services provided under this Agreement and maintaining communication with the Town concerning these services.

Until Town dissolves Company and directly acquires the System, the rights and obligations of "Town" under this Agreement are actually those of Company, with Town, as the sole owner of Company. Operator acknowledges that Town is the sole owner of Company and will act in that capacity until Company is dissolved. At the time Town dissolves the Company and acquires the System, this Agreement becomes, without further action, a two-party agreement between Town and Operator.

This Agreement is intended to cover Operator's professional services to Town, for the System as presently configured within the current extent of the Town Service Area, and for the System if it is expanded to serve a larger Town Service Area if it is added to through acquisitions or other means.

2.0 DOCUMENTS. This Agreement consists of this document and all other exhibits, specifications, supplementary conditions, addenda, and other documents presently attached or referenced, or added in the future as mutually agreed upon in writing by the Parties, unless otherwise specifically set forth herein.

3.0 TERM. The term of this Agreement begins on February 1, 2007; and expires twelve (12) months thereafter on January 31, 2008 (the "Term").

4.0 OPERATOR'S OBLIGATIONS. Operator will provide the following services:

4.1 Operator shall professionally operate and maintain the System in compliance with the Laws (as that term is defined in paragraphs 4.7 and 9.19), including, without limitation, all permit, certification and license requirements. Operator shall perform all required testing and complete and submit required forms, reports and applications to any and all regulatory agencies on behalf of Town. Operator shall do so in such a manner that the System will not deteriorate in appearance and mechanical condition beyond normal wear and tear, and that there will be no loss or suspension of any applicable permit, license or certificate applicable to the operation and maintenance of the System that is attributable to the operation or maintenance of the System by Operator. In the event that any existing permit expires or a new permit or license is required, the Operator shall, with the cooperation of the Town prepare and file, on behalf of the Town, any documentation required to obtain such permit or license.

4.2 Operator shall provide a sufficient number of qualified employees experienced in potable water treatment and distribution, customer services, equipment and system maintenance, and testing procedures. Operator shall at all times provide the necessary employees at the level of coverage needed to ensure monitoring of all routine water treatment and distribution operations called for in this Agreement. Operator shall provide certified operators possessing, at a minimum, the required certification level as required by the Arizona Department of Environmental Quality ("ADEQ" herein) and as required by Arizona Administrative Code. Operator shall provide technical and personnel support services to the System in the areas of water resources, water testing and regulatory compliance, process control and maintenance.

4.3 Within the scope of this Agreement and the services described herein, Operator shall provide ongoing backup expertise and experience in operation, testing, and engineering.

4.4 Operator's employees will maintain necessary professional certifications as may be required by governmental agencies for operation of the System.

4.5 Operator will provide or coordinate the routine, preventive maintenance and repair services for the System and conveyance system, including equipment, structure, and grounds consistent with good preventive practice and/or manufacturer's specification (as referenced by available operations and maintenance manuals). Operator shall provide or coordinate for flushing of the system lines, hydrants, and valves as needed. Operator shall maintain all existing and new equipment purchased after the effective date of this Agreement in accordance with manufacturer's warranty requirements, and as defined in the applicable operations and maintenance manual and any amendments thereto. Operator shall provide or have available at all times the equipment necessary to maintain the System and all water lines on a regular basis as well as on emergency basis.

4.6 Operator shall provide and pay for (a) all of its personnel costs, including, without limitation, applicable wages, training, taxes, benefits, and (b) insurance.

4.7 Operator shall perform its technical and professional services hereunder in a manner in accordance with all Federal, State, County and local statutes, permits, policies, rules, regulations and laws including, without limitation: (i) the provisions of the Federal Safe Drinking Water Act (42 U.S.C. §§ 300f et seq.); and (ii) all regulations and state statutes relating to drinking water, including but not limited to, the provisions of Article 9, Chapter 2 of Title 49 of the Arizona Revised Statutes (A.R.S. § 49 351 et. seq.) ("Law" or "Laws") and to the same professional standard as its affiliate, Arizona-American Water Company, exercises in operating its Arizona water systems. Town reserves the right to require performance in excess of such Laws relating to the operation or regulation of the System or the environment. Operator will cause the System to meet all permit requirements and will be liable for fines or civil penalties imposed by any regulatory agencies during the Term of this Agreement caused by Operator's operation of the System. Operator shall not be responsible for fines arising out of, related to, or in connection with any matters over which it has no ability to control, including, but not limited to, any penalties or fines caused by design deficiencies in the System or the design or structural inability of the System to provide adequate water treatment or supply.

Generally, Operator will have no obligation or responsibility for fines or civil penalties arising out of or resulting from events occurring after termination of this Agreement. ("Post Termination Fines.") However, Operator will be liable for Post Termination Fines if they were caused, directly or indirectly, in whole or in part, by Operator's operation of the System and such liability by Operator will continue until Town is able, through diligent and reasonable action, to correct the condition or events causing the Post Termination Fines. Operator has the obligation to defend and contest the validity of any penalties and fines for which Operator is alleged to be liable under this Section 4.7, and Town and Company shall cooperate fully with Operator in the defense of any penalty or fine proceeding. Operator shall pay all legal fees, expert fees and costs incurred in connection with the defense of a Post Termination Fine for which Operator was alleged to have been liable.

4.8 Operator shall annually submit to Town a list and estimate of capital items including required water resources, if any, which Operator requests Town to provide, and an explanation as to why these items are reasonably required to carry out the terms of this Agreement in accordance with Laws and professional engineering practices ("Requested Items"). Town shall retain the right to audit the Requested Items, and provide Operator with a written response stating its concerns within ten (10) days after receipt of such list. The Parties shall meet and confer within ten (10) days thereafter to finalize the Requested Items list, and make provision for the purchase of same. The Town may purchase or provide by direct purchase any or all of the Requested Items. Emergency items, which are identified and which are needed for the safety of the workers or to prevent harm or damage to human health or the environment, shall be purchased by Operator and reimbursed to Operator by Town without the requirement for prior approval by Town, up to the aggregate total amount of \$50,000 during the Term of this Agreement. If Town declines to purchase Requested Items, Operator may terminate this Agreement, with no further obligation to Town, upon 90 days written notice to provide for an orderly wind-up and handover of its obligations.

4.9 Operator will prepare all monthly operating reports for signature by a designated Town or Company official as required by Law. Operator shall prepare reports for any liquid and sludge disposal, if any, in accordance with Laws. Such reports shall be filed with Town and appropriate regulatory agencies. Operator shall supply Town a written report within forty-eight (48) hours of the violation or any alleged violation of any Law pertaining to the operation of the System and of all remedial action taken to correct the same.

4.10 If Operator's negligent or intentional acts or omissions arising out of, related to, or in connection with, Operator's operation of the System directly cause the System to fail to comply with all Laws, Operator shall immediately undertake all necessary remedial action to bring the System back into compliance with Laws. Such remedial action shall be at Operator's sole expense. If Town is not reasonably satisfied with Operator's remedial efforts taken pursuant to this Section 4.10, after written notice to Operator, Town shall have the right to either undertake its own remedial efforts or contract with a third party to undertake such remedial efforts as Town deems reasonably necessary under the circumstances to cause the System to comply with all Laws. The total cost of such remedial efforts by either Town or a third party pursuant to this Section 4.10 shall be borne wholly by Operator. In addition, Town has the right to exercise its remediation rights under this Section 4.10 without the approval of Operator.

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4.11 Operator will provide Town daily logs and monthly reports of operation and maintenance data in accordance with all Laws and with complete copies of all letters and other correspondence sent or received by Operator and a log of all labor hired and materials acquired showing complete names and addresses of laborers, construction and supplies service providers, telephone service providers, both local and long distance, and facsimile logs of all calls and faxes. In addition Operator will provide to Town copies of all correspondence, faxes and other correspondence received from or sent to ADWR, ADEQ, Maricopa County, local and federal jurisdictions or designated approval agencies by Operator. Operator shall also provide Town with an accident report in the event of any personal or property damage or injury in excess of Two Thousand Dollars (\$2,000).

4.12 If the Operator provides any equipment required for the performance of professional operations services it shall be listed on Exhibit A attached hereto, and shall remove the same from the premises upon the termination of this Agreement. Each quarter, Operator shall supply an updated inventory of items that are covered by Exhibit A, and an inventory of Town's property, said inventory showing the location of all such property. This inventory is subject to audit by Town.

4.13 The Town is entering into this Agreement in reliance upon Operator's stated professional skill, qualifications, experience and expertise. As a result, Operator may not subcontract with any third party to provide any of its services or obligations under this Agreement without the prior written consent of Town, which consent may be withheld for any or no reason. In addition, if Town consents to Operator's engagement of a subcontractor, as between the Town and the Operator, the Operator shall remain solely responsible for fulfilling the subcontractor's services and obligations under this Agreement.

4.13 Indemnification by Operator.

4.13.1 To the fullest extent permitted by law, Operator hereby agrees to and shall, defend, indemnify and hold harmless the Town and the Company, and the respective elective and appointive boards, officers, agents and employees of each (each an "Indemnified Party") from any and all judicial or administrative actions, claims, loss, demands, penalties, fines, (including without limitation, any Post Termination Fines), charges, sanctions, damages, injury, environmental damage or expenses, including attorney's fees, court costs and expert witness fees (hereinafter, collectively called "Damages and Costs") which arise from Operator's or any subcontractor's negligent, intentional, willful, or grossly negligent act or omission in the operation of the System or the performance of any other obligation of Operator under this Agreement, whether by Operator or by any subcontractor of Operator, to the extent not caused by the active and or passive negligence of an Indemnified Party. Insurance provisions set forth in this Agreement are separate and independent from the indemnification set forth in this Section 4.13.1 and shall not be construed in any way to limit the scope and magnitude of the indemnification of the Indemnified Parties (collectively "Claim"). The indemnification provisions set forth in this Section 4.13.1 shall not be construed in any way to limit the scope and magnitude and applicability of the insurance provisions.

4.13.2 If any Claim is brought against any Indemnified Party by reason of any event for which any Indemnified Party is entitled to indemnification pursuant to Section 4.13.1, upon written demand made by Town, Operator shall pay resist or defend, at its sole cost and expense, such Claim on behalf of the Indemnified Party. The Indemnified Party shall cooperate with all reasonable efforts in the handling and defense of such Claim. Any Indemnified Party may engage, at its sole cost and expense, its own attorney to defend or assist in its defense of a Claim. Any settlement of a Claim shall fully release and discharge the Indemnified Party from any further liability for that Claim. Any release and discharge of a Claim shall be in writing and shall be subject to the approval of Town, which approval shall not be unreasonably withheld or delayed. If Operator denies the request to, fails or refuses to defend the Indemnified Party for a Claim for which Operator is obligated to provide indemnification pursuant to Section 4.13.1: (i) Town may settle the Claim in good faith and Operator shall be liable for the amount of such settlements and all expenses connected to the defense, including reasonable attorney fees, and other investigative and expenses; and (ii) any judgment or settlement against or by Town shall conclusively establish Operator's liability to the Indemnified Party in connection with such Claim.

5.0 TOWN'S OBLIGATIONS.

5.1 On the first day of each month, Town will pay to Operator compensation for ongoing System operations and related services and emergency services, subject to receipt on a monthly basis by Town of invoice for such services from Operator. Compensation assumes normal operation with an annual expenditure for emergency operation of not more than forty-eight (48) man hours. The Parties agree that in the event Operator's costs for emergency operation at the System exceed forty-eight (48) man hours in a given year, due to causes other than Operator act, error or omission, Town shall reimburse Operator for the costs of the overtime emergency operation in excess of forty-eight hours (48) man hours. Late payments in excess of thirty (30) days from the date an invoice is received from Operator by Town will be subject to a service charge of one and one-half percent (1.5%) per month or part thereof.

5.2 Town will maintain in force existing permits, agreements, leases, easements, licenses, and warranties for the mutual benefit of both Parties related to the operation and maintenance of the System. The Town, however, has no obligation under this Section 5.2 if such existing permits, agreements, leases, easements, licenses and warranties are not in force as a direct result, of Operator's negligent or intentional acts or omissions arising in part or in whole out of, related to, or in connection with, Operator's operation of the System.

5.3 Town will provide office space and parking on the System site for the purpose of providing working office space for Operator's employees. Town shall pay all utility charges (gas, water, electric, telephone,) associated with the use of the office space. Operator releases Town from any liability as it relates to Operator's employees' use of the office space.

5.4 Except as otherwise stated herein, Town will pay or reimburse Operator for all reasonable expenses required for the normal operation and maintenance of the System including:

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- 5.4.1 all utility costs for the System;
- 5.4.2 chemicals for normal operation, though not those required for the purpose of correcting Operator errors;
- 5.4.3 fuels and lubricants for the System;
- 5.4.4 normal operating supplies;
- 5.4.5 routine maintenance and repairs and replacement of non-capital equipment;
- 5.4.6 all capital improvements necessary for proper operation of the System subject to the limitations set forth in sections 4.8 and 5.6; and
- 5.4.7 hauling and disposal of sludge and solid wastes, if any, from the System and distribution system.

Town will pay for any testing which is required by any regulatory agency or necessary for the proper operation of the System except that, the Town shall not be required to pay for any such testing that may be required by any regulatory authority as a result of failure of the Operator to comply with the Laws or the terms of this Agreement. . Operator will obtain Town approval before expenses for testing in excess of the indicated amounts in Section 5.10 below are incurred. The "reasonableness" of any cost or expense shall be determined in good faith solely by Town.

5.5 Town will purchase and ensure that the standard fire insurance and property damage (including extended coverage to the full insurable value of the System) and public liability insurance policies are maintained, naming Operator as an additional insured according to its insurable interest under these policies during the term of this Agreement.

5.6 Town will pay for all capital improvements. Capital improvements are defined, for the purpose of this Agreement, as non-routine expenditures for the purchase of new equipment, major repairs to existing equipment, items necessary to correct design deficiencies and omissions, or System items; usually preplanned, which significantly extend service life, as determined in accordance with generally accepted accounting principles. Town will purchase said capital improvement items where Operator provides reasonable justification subject to appropriate Town or voter approval and future budget allocations approved by Town. If Operator makes written recommendations to Town pertaining to the operation, engineering or planning, acquisition or construction of additional facilities necessary in the opinion of Operator to provide for the proper and adequate operation of the System, Operator shall include in the recommendation the extent to which the capital improvement will result in a Material Increase in Costs under Section 7.1, and Town shall have sixty (60) days from the date of receipt of such written recommendations to:

5.6.1 obtain and pay for the opinion of an independent professional engineer licensed in the State of Arizona to determine whether such recommendations of Operator relating to the timing and necessity of the improvements are necessary proper, timely and adequate for operation of the System;

5.6.2 determine that alternative solutions, including no action, may be available to address the underlying issue;

5.6.3 choose the solution it wishes to implement.

If Town and Operator cannot reach agreement on the necessity of the required improvement, Operator is not liable for any operational problems or regulatory fines resulting from Town's failure to pay for a capital improvement, and Town is responsible for all additional costs incurred by Operator as a result of Town's failure to follow such recommendation.

5.7 Town will provide the plans and specifications for capital projects.

5.8 Town is responsible for applying for and obtaining all easements required by regulatory agencies. Operator will cooperate with Town to the extent necessary in obtaining same.

5.9 Town shall pay for and provide all reasonable costs and expenses in connection with:

5.9.1 Maintenance contracts for all Town-owned computers and other equipment;

5.9.2 Costs of supplies for emergency maintenance and costs of labor for the same, except as otherwise provided herein (Operator to maintain an inventory at Town's expense of supplies for emergency repairs);

5.9.3 All laboratory supplies;

5.9.4 All sampling supplies;

5.9.5 All freight on shipment of Town equipment; parts or facilities for repair;
and

5.9.6 Fees associated with the permits licenses and certificates and approvals required by regulatory agencies.

The "reasonableness" of any cost or expense shall be determined in good faith solely by Town.

5.10 Town shall pay for all necessary parts for routine equipment repair up to \$1000 per month and any labor up to \$1000 contracted for other than that provided by Operator. If the cost of the work is expected to exceed \$2000 per month, the work must be pre-approved by the

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Town Manager before it commences. Such approval will not be unreasonably withheld. If the work is approved, Town shall pay for such repairs and labor. Town is responsible and will pay for any replacement items during the Term of this Agreement. Except as provided in Section 6.2 below, Operator will not enter into any contractual agreements in excess of \$5,000 without prior written consent of Town. Any contracts above \$5,000 shall comply with any and all applicable procurement procedures of Town.

5.11 Indemnification by Town. Town shall indemnify and hold harmless Operator, its directors, officers, shareholders, agents and employees for any damages or costs arising from design deficiencies of the System that prevent the proper and adequate treatment and supply of potable water.

6.0 LIMITATIONS

6.1 Operator shall not be liable or responsible for any wrongful, willful, or negligent acts of Town through its officers, agents or employees and wrongful, willful or negligent acts of third Parties, or acts of God.

6.2 Extraordinary or unusual occurrences associated with flood, fire or acts of God that increase Operator's costs or other expense are Town's responsibility. If costs exceed \$5,000, Town's approval will be necessary prior to repair by Operator, except for the remedy of events that may cause damage to human health, safety or the environment.

7.0 PAYMENT

7.1 The Town shall pay to Operator an annual professional management, operating, and maintenance fee for the services under this Agreement. which shall be invoiced in monthly increments at least thirty (30) days in advance of when payment is due. The fee shall be \$288,000 ("Fixed Fee"), which is based on 1650 initial connections on the System.

The Town shall also pay Operator for any increase in operating, Maintenance, Repair and Replacement or other costs or expenses attributable to a change in scope of the System. A Change in Scope of the System shall mean and include: (i) any change in System operations due to Capital Expenditures which results in a Material Increase in Cost; or (ii) Uncontrollable Circumstances. The increase in expense shall be added to the Fixed Fee effective upon the date of the Change in Scope.

7.2 Mid-year Fixed Fee Adjustment(s). If the cumulative number of new connections to the System during the first six months of the Term exceeds 85, the Fixed Fee will be adjusted upward by a fraction the numerator of which is the number of connections on the System as on July 30, 2006 and the denominator of which is 1,650. For example, if the number of connections on the System on June 30, 2006 is 1,750, the Fixed Fee for the remainder of the term will be: $1750/1650 = 1.06$, $1.06 \times \$288,000/12 = \$25,454.55$ per month.

7.3 The Town shall reimburse Operator for any additional services and materials required or requested by Town, not required under this Agreement, at a rate of cost including all overhead expenses plus a ten percent (10%) administration fee.

7.4 If Town disputes any portion of an invoice, Town shall pay to Operator the undisputed portion by the due date and shall provide Operator with written notice of such dispute within sixty (60) days from the date the invoice is received by Town. Operator shall provide Town with supporting documentation for any and all Additional Services submitted for reimbursement under Section above.

7.5 For any amounts due other than the annual Fixed Fee, Town on the next month's billing cycle shall pay Operator on or before the last day of the month in which the invoice is submitted. The total of all additional amounts paid or accumulated for payment in the Contract Year as the Mid-year Fixed Fee Adjustment under Section 7.2, Material Increase in Costs under Section 7 and the ten percent (10%) administrative fee under Section 7.3 shall not exceed \$210,000, provided, however, that any costs for additional materials that are passed through to the Town for direct payment shall not be subject to the limitation stated in this Section 7.5.

8.0 INSURANCE

8.1 General. Operator shall purchase and maintain, at its own expense, hereinafter stipulated minimum insurance with insurance companies duly licensed by the State of Arizona (admitted insurer) with an AM Best, Inc. rating of B ++ 6 or above with policies and forms satisfactory to Town. Failure to maintain insurance as specified may result in termination of this Agreement by Town.

8.2 No Representation of Coverage Adequacy. By requiring insurance herein, Town does not represent that coverage and limits will be adequate to protect Operator. Town reserves the right to review any and all of the insurance policies and endorsements cited in this Agreement but has no obligation to do so. Failure to demand such evidence of full compliance with the insurance requirements set forth in this agreement or failure to identify any insurance deficiency shall not relieve Operator from, nor be construed or deemed a waiver of, its obligation to maintain the required insurance at all times during the performance of this Agreement.

8.3 Additional Insured. All insurance coverage and self insured retention required by this Agreement shall name, to the fullest extent permitted by Law for claims arising out of the performance of this Agreement, Town and Company as Additional Insureds. Operator's insurance shall be primary insurance as respects performance of this Agreement and in the protection of Town and Company as additional insureds.

8.4 Coverage Term. All insurance required herein shall be maintained in full force and effect during the Term of this Agreement and for any claims made for a period of 1 year after the termination or expiration of this Agreement.

8.5 Waiver of Subrogation. All policies, including Workers' Compensation insurance, shall contain waiver of rights of recovery (subrogation) against Town, its agents,

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representatives, officials, directors, officers, and employees and Company for any claims arising out of the services of Operator under this Agreement. The Operator shall arrange to have such subrogation waivers incorporated into each policy via formal written endorsement thereto.

8.6 Use of Subcontractors. If any work under this Agreement is subcontracted in any way, Operator shall execute written agreement with subcontractor containing the identical provisions to Section 4.13 and Section 8 protecting Town, Company and Operator. Operator shall be responsible for executing the subcontract agreement with subcontractor and obtaining the Certificates of Insurance verifying the insurance requirements, naming the Town and Company as additional insureds and providing same to Town within a reasonable time period.

8.8 Evidence of Insurance. Prior to commencing any work or services under this Agreement, Operator shall furnish Town with Certificate(s) of Insurance, or formal endorsements as required by this Agreement, issued by Operator's insurer(s) in a form acceptable to Town, as evidence that policies are placed with acceptable insurers as specified herein and provide the required coverage, conditions, and limits of coverage specified in this Agreement and that such coverage and provisions are in full force and effect. If a Certificate of Insurance is submitted as verification of coverage, Town may reasonably rely upon the Certificate of Insurance as evidence of coverage but such acceptance and reliance shall not waive or alter in any way the insurance requirements or obligations of this Agreement. Such certificates shall identify this Agreement and be sent to the designated Town Contract Administrator. If any of the above-cited policies expire during the Term of this Agreement, it shall be Operator's responsibility to renew such policies without any lapse in coverage and forward renewal Certificates within ten (10) days after the renewal date containing all the aforementioned insurance provisions.

8.9 Required Coverage.

8.9.1 Commercial General Liability and Property Damage. Operator shall maintain Commercial General Liability and Property Damage insurance with a limit of not less than \$5,000,000 for each occurrence.

8.9.2 Automobile Liability. Operator shall maintain Business Automobile Liability insurance with a limit of \$1,000,000 each occurrence on Operator's owned, hired, and non-owned vehicles assigned to or used in the performance of Operator's services under this Agreement.

8.9.3 Worker's Compensation Insurance. Operator shall maintain Workers Compensation as required by Law.

8.9.4 Hazardous Waste. If hazardous materials or wastes are transported by Operator, Operator shall maintain a hazardous waste endorsement, CA 9948 with a limit of not less than \$5,000,000 per accident limits for bodily injury and property damage.

8.9.5 Errors and Omissions. Unless specifically covered under other insurance policies listed in this Article 8, Operator shall maintain Professional Liability coverage

for errors and omissions arising out of the work or services performed by Operator, its agents or employees, with a limit not less than \$2,000,000 each claim and \$5,000,000 all claims. The insurance policy must not exclude bodily injury; property damage; claims arising from pollution caused by environmental work; asbestos related claims; laboratory analysis; and treatment facility operations if it is required with the scope of work or services.

8.9.6 Pollution Liability. Operator shall maintain Pollution Liability coverage with project-specific limits of not less than \$2,000,000 per loss and a \$5,000,000 annual aggregate for losses caused by pollution conditions that arise from Operator's performance of work or service under this Agreement. The coverage must include bodily injury, illness, death, mental anguish or shock; property damage, including but not limited to physical injury or destruction, loss of use, and clean up costs; and all defense costs, including charges and expenses for investigation and claims adjustment.

9.0 GENERAL PROVISIONS

9.1 Compliance with Laws. Operator must comply with all Laws.

9.2 Restoration of Town Property. Operator agrees to restore the surface of any easements disturbed during or by Operator's actions in maintaining the System to the condition prior to the disturbance thereof. Town will only pay for the materials and costs used in such restoration.

9.3 Costs and Expenses. Operator shall separately maintain a log of all costs and expenses associated with any repairs to the System necessitated or caused by the acts, errors or omissions of the users, said log identifying liable users; if possible, so that Town may account for and bill for such costs separately.

9.4 Property Ownership; Capital Equipment. Any capital equipment provided by Operator during the Term of this Agreement shall remain the property of Operator. In the event Operator offers such equipment for sale, Town shall have first option to purchase the same at fair market value.

9.5 Termination.

9.5.1 Termination. Either party to this Agreement may terminate this Agreement with or without cause provided that such terminating party first provides written notice of termination to the other party at least ninety (90) days prior to the date of termination. If Town elects to terminate for any reason other than a material breach by Operator, prior to giving the written notice of termination, Town shall provide to Operator a written notice of the reasons for the proposed termination and allow Operator forty-five (45) days to respond to those reasons and cure the concerns raised. During such periods and following termination, Operator agrees that it shall take no action to negatively affect Town's relationship with ADWR or ADEQ.

9.5.2 Emergency Termination. The Town may also terminate this Agreement or any part thereof upon twenty-four (24) hours written notice for cause in the event of any material breach resulting in a threat of immediate harm to the public health, safety and welfare. In the event of Termination pursuant to this Section 9.5.2, Operator shall be liable to Town for any and all damages sustained to the extent resulting from Operator's default that gave rise to the Termination.

9.6 Attorney Fees and Costs. The Parties agree that the prevailing party in the resolution of any dispute, whether said resolution is had by litigation or other means, shall be entitled to recover all litigation, arbitration and collection expenses, including, but not limited to, its reasonable attorneys' fees, expert witness fees, court costs and all other reasonable costs incurred in the resolution of such dispute.

9.7 Successors and Assigns. This Agreement shall extend to and be binding upon Operator, its successors and assigns, including any individual, company, partnership or other entity with or into which Operator shall merge, consolidate or be liquidated, or any person, corporation, partnership or other entity to which Operator shall sell its assets.

9.8 Arizona Law and Venue. This Agreement shall be governed and interpreted according to the laws of the State of Arizona. Any action brought to interpret, enforce or construe any provision of this Agreement shall be commenced and maintained in the Maricopa County Superior Court (or, as may be appropriate, in the Justice Courts of Maricopa County or in the United States District Court for the District of Arizona, if, but only if, the Superior Court lacks or declines jurisdiction over such action).

9.9 Agency Contact. Operator shall provide prior notice of and permit the participation of Town in any and all meetings, inspections or discussions with the ADWR, ADEQ, the U.S. Environmental Protection Agency, Maricopa County or any other regulatory agency regarding the System.

9.10 Contract Administrator. The Contract Administrator for Town shall be the Town Engineer or designee. The Town's Contract Administrator shall oversee the execution of this Agreement, assist Operator in accessing the organization, audit billings, and approve payments. The Operator shall submit reports and special requests to Town's Contract Administrator.

9.11 Modifications. Any amendment, modification, or variation from the terms of this Agreement shall be in writing and shall be effective only after approval of all Parties signing the original Agreement.

9.12 Waiver. The failure on the part of either party to enforce its rights as to any provision of this Agreement shall not be construed as a waiver of its rights to enforce such provision in the future. No delay in exercising any right granted by this Agreement will constitute a waiver of that right. No waiver shall be effective unless it is in writing and is signed by the Party asserted to have granted the waiver.

9.13 Severability. If any term or provision of this Agreement shall be found to be illegal or unenforceable, then notwithstanding such illegality or unenforceability, this Agreement shall remain in full force and effect as long as the material terms of the Agreement are not violated by such severance.

9.14 Entire Agreement. This Agreement and all attached or referenced exhibits constitute the entire understanding of the Parties and supersede all previous representations, written or oral, with respect to the services specified herein.

9.15 Written Orders Required for Changes or Modifications. Operator shall make no changes in the scope, character, or complexity of work, or in the amount of compensation, without first receiving written approval from Town's Contract Administrator. It is understood and agreed that no claim for payment for extra work done or materials furnished, or any other increase in the payments to be made pursuant to this Agreement shall be paid by Town except as provided in this Agreement. Any such work or materials furnished by Operator without such written order shall be at the risk, cost, and expense of Operator.

9.16 No Assignment. Services covered by this Agreement shall not be assigned or sublet in whole or in part without the prior written consent of Town's Contract Administrator, which may withhold its consent for any or no reason.

9.17 Access and Audit Rights.

9.17.1 At all times, Town and Company officials and representatives will have access to the System covered by this Agreement. There shall be no other organizations or businesses allowed within the System without prior approval of Operator or Town.

9.17.2 Operator's records (hard copy, as well as computer readable data), and any other supporting evidence deemed necessary by Town to substantiate charges and claims related to this Agreement shall be open to inspection and subject to audit and/or reproduction by Town's authorized representative to the extent necessary to adequately permit evaluation and verification of cost of the work, and any invoices, change orders, payments or claims submitted by Operator or any of his payees pursuant to the execution of this Agreement. Town's authorized representative shall be afforded access, at reasonable times and places, to all of Operator's records and personnel pursuant to the provisions of this article throughout the Term of this Agreement and for a period of three (3) years after last or final payment pursuant to this Agreement.

9.17.3 Operator shall require all subcontractors, if any, insurance agents, and material suppliers (payees) to comply with the provisions of this Section 9.17.

9.17.4 If an audit in accordance with this Section 9.17 discloses overcharges, of any nature, by Operator to Town in excess of one percent (1%) of the total contract billings, the actual cost of Town's audit shall be reimbursed to Town by Operator. Any adjustments or payments made as a result of any such audit or inspection of Operator's

invoices or records shall be made within a reasonable amount of time (not to exceed 90 days) from presentation of Town's findings to Operator.

9.18 No Partnership; Independent Operator. The services Operator provides under the terms of this Agreement to Town are that of an Independent Operator, not an employee, or agent of Town or Company. Accordingly, the Parties acknowledge that Operator has no power or authority to contractually bind Town or Company to any contract, whether written or otherwise. The Town will report the value paid for these services each year to the Internal Revenue Service (I.R.S.) using Form 1099. The Town shall not withhold income tax as a deduction from contractual payments. As a result of this, Operator may be subject to I.R.S. provisions for payment of estimated income tax. Operator is responsible for consulting the local I.R.S. office for current information on estimated tax requirements.

9.19 Compliance with Law. Operator must comply with all Laws applicable to the performance of services under this Agreement. Operator will comply with the Americans with Disabilities Act (ADA) and will indemnify Town for any costs incurred by Town as a result of Operator's non-compliance, including but not limited to damages, attorney's fees, and staff time in any action or proceeding brought by any party, person, governmental agency, or entity alleging violation of the ADA. Operator will not discriminate against any person on the basis of race; religion, color, age, sex or national origin in the performance of this Agreement, and must comply with the terms and intent of Title VII of the Civil Rights Act of 1964, P.L. 88-354 (1964). Operator agrees not to participate in or cooperate with an international boycott, as defined in Section 999 (b)(3) and (4) of the Internal Revenue Code of 1954, as amended, or engage in conduct declared to be unlawful by Arizona state law. Operator agrees to comply with the Occupational Safety and Health Act (OSHA) Standard for Construction (Title 29, Code of Federal Regulations, Part 1926 as amended) and Town of Cave Creek's Safety Regulations as both are applicable to this Agreement. In accordance with 29 CFR Part 1926.650.652, Subpart P (OSHA) and Town Policy, the entry of confined spaces shall not be allowed until the air quality of these spaces has been tested and found to be of sufficient quality to support human life. Testing of these spaces will be undertaken by an employee of Operator, trained in the use of air quality testing equipment. Operator must include similar requirements as listed herein of all subcontractors in contracts entered for the performance of Operator's obligations under this Agreement.

9.20 Notices. All notices or demands required to be given pursuant to the terms of this Agreement shall be given to the other party in writing, delivered by hand or registered or certified mail, at the addresses set forth below, or to such other address as the Parties may substitute by written notice given in the manner prescribed in this Section 9.20.

To Operator: American Water Operations and Maintenance, Inc
 Attn: Manager, Contract Operations
 19820 N. 7th Street
 Phoenix, Arizona 85024
 (623) 445-2400
 (623) 445- 2451 (FAX)

To Town: Town Manager
 Town of Cave Creek
 37622 North Cave Creek Road
 Cave Creek, Arizona 85331
 (480) 488-6611
 (480) 488-2263 (FAX)

Notices shall be deemed received on date delivered, if delivered by hand, and on the delivery date indicated on receipt if delivered by certified or registered mail.

9.21 Recycling. To the extent possible, Operator agrees to use recycled paper and other recycled supplies.

9.22 Emergency Operations Plan. Town and Operator shall jointly prepare and maintain an Emergency Operations Plan, which includes Town's ability to both borrow and lend necessary supplies and maintenance. Operator needs to review the existing plan prior to confirmation of this Section 9.22.

9.23 Review of Performance. Operator and Town shall meet during the month of May to review the performance of Operator.

9.24 Force Majeure. Neither party shall be responsible for delays or failures in performance resulting from acts beyond their control. Such acts shall include, but not be limited to, acts of God, riots, acts of war, epidemics, governmental regulations imposed after the fact, fire, communication line failures, power failures, or earthquakes. The payment of any sum due and owing hereunder shall not be subject to the provisions of this Section 9.23.

9.25 Advertising. The Operator shall undertake no advertising or publicity concerning Town using Operator's services without prior written approval of such advertising or publicity by Town Contract Administrator.

9.26 Time of Essence. Time is of the essence in this Agreement. Unless otherwise specifically provided, any consent to delay in Operator's performance of its obligations hereunder is applicable only to the particular transaction to which such delay relates, and is not applicable to any other obligation or transaction hereunder.

9.27 Conflict of Interest. The Town may cancel any contract or agreement, without penalty or obligation, if any person significantly involved in initiating, negotiating, securing, drafting or creating this Agreement on behalf of Town's departments or agencies is, at any time while this Agreement or any extension of this Agreement is in effect, an employee of any other party to this Agreement in any capacity or a Operator to any other party to the contract with respect to the subject matter of this Agreement. The cancellation shall be effective when written notice from Town is received by all other Parties to this Agreement, unless the notice specifies a later time. This Agreement is subject to cancellation pursuant to A.R.S. §38-511.

636881.01

9.28 Counterparts. This Agreement may be executed in two or more counterparts, and each originally executed duplicate counterpart of this Agreement shall be deemed to possess the full force and effect of the original.

9.29 Captions. The captions used in this Agreement are solely for the convenience of the Parties, do not constitute a part of this Agreement, and are not to be used to construe or interpret this Agreement.

9.30 No Third Party Beneficiaries. Except as between Town and Company, this Agreement shall not be construed to create any rights in, or grant remedies to, any third party as a beneficiary to this Agreement or of any duty, obligation or undertaking established herein.

9.31 Insurance and Bonds. Nothing in this Agreement shall be construed to waive or satisfy any insurance, indemnification or bonds, which Town may require in connection with construction on the System.

9.32 Construction. The terms and provisions of this Agreement represent the results of negotiations between the Parties, each of which has been or has had the opportunity to be represented by counsel of its own choosing, and neither of which has acted under any duress or compulsion, whether legal, economic or otherwise. Consequently, the terms and provisions of this Agreement shall be interpreted and construed in accordance with their usual and customary meanings, and the Parties each hereby waive the application of any rule of law which would otherwise be applicable in connection with the interpretation and construction of this Agreement that ambiguous or conflicting terms or provisions contained in this Agreement shall be interpreted or construed against the Party whose attorney prepared the executed Agreement or any earlier draft of the same.

9.33 No Joint Venture. It is not intended by this Agreement to, and nothing contained in this Agreement shall, create any partnership, joint venture or other arrangement between the Operator and Town or Operator and Company.

[THIS SPACE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the Parties have hereunto subscribed their names this 26th day of January, 2007.

TOWN OF CAVE CREEK

AMERICAN WATER OPERATIONS AND MAINTENANCE, INC.

By: Vincent Francia
Vincent Francia, Mayor

By: [Signature]

(Or: Usama Abujbarah, Town Manager)

ATTEST:

APPROVED AS TO FORM:

[Signature]
Carrie Dyrek, Town Clerk

[Signature]
Clifford L. Mattice
Mariscal, Weeks, McIntyre & Friedlander
Town Attorneys

DESERT HILLS WATER COMPANY

By: Usama Abujbarah

Usama Abujbarah, President

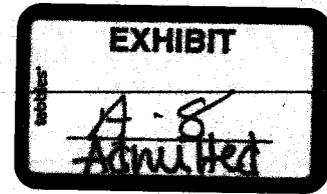
Approved by the Town Council
at their meeting held on:
February 20, 2007
[Signature]
Cave Creek Town Clerk

Attest:

[Signature]
Carrie Dyrek, Secretary

[Signature]
Marvin S. Cohen
Sacks Tierney
Attorneys for Desert Hills Water Co., Inc.

636881.01



SETTLED 1870 · INCORPORATED 1986

February 23, 2007

Ms. Aimee Upton, MAOM, RS
Enforcement Manager
Maricopa County Environmental Services
1001 N. Central Ave, Ste 200
Phoenix, AZ 85604

Dear Ms. Upton:

In reference to our letter of February 13, 2007, responding to your Desert Hills Water Company notice regarding the Anthem Connection, we have gained new information that will negate our commitment to remove the temporary connection by April 1, 2007. We will be taking possession of the Cave Creek water Company by March 31, 2007. We were planning to supply water to DHWC through the interconnect from CCWC to DHWC, through the summer, to keep DHWC supplied during this critical supply period. We are working with American Water, Inc. to immediately takeover operation of CCWC when the sale is consumated. They presently operate DHWC for the Town. In working with Global Water operations staff on transition planning and operations transfer, it has become quite apparent that CCWC cannot provide a reliable supply to DHWC in the summer peak water demand season. They have a very difficult time just supplying CCWC customers during peak demand. This is due to barely adequate treatment capacity of 3.0 Mgd versus last years peak demand of 2.7 Mgd. This requires running all three treatment units almost 24 hrs per day with barely time to back flush during the off peak hours of 12:00 am to 4:00 am. The other shortcoming is lack of adequate carryover storage. The total storage for the CCWC is 660,000 gals. It should be about 3,000,000 gallons. Global Water has been planning to add another 2.0 Mgd of treatment capacity and 2,000,000 gallons of additional storage, but it will not happen for at least a year or more.

If we disconnect the temporary Anthem connection prior to having a permanent connection in place, one or both water companies' will run out of water this coming summer. For this reason we are requesting to maintain the temporary Anthem connection at the new location until we can complete a permanent connection. Once we have our Master Plan Reports, which are due

37622 NORTH CAVE CREEK ROAD ★ CAVE CREEK, ARIZONA 85331

ADMINISTRATION 480/488-1400
COURT 480/488-1409
ENGINEERING 480/595-1935

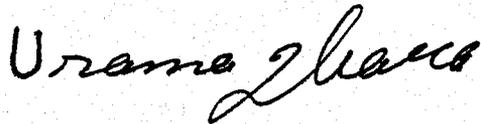
BUILDING / SAFETY 480/488-1414
PLANNING & ZONING 480/595-1930
FAX 480/488-2263

MARSHAL 480/488-6636

as finals on April 1, 2007, we will begin the process of application for permits and design for the permanent Anthem Connection.

We respectfully request that your Agency work with the Town through this critical transition time in order to assure supply to all the customers of DHWC and CCWC while we work to resolve capacity, treatment, and storage short comings in both companies. To this end please complete the permit process for the relocated temporary Anthem connection.

Sincerely,

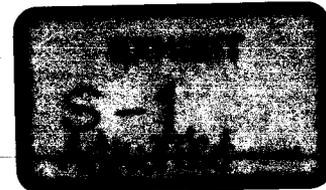
A handwritten signature in black ink, appearing to read "Usama Abujbarah". The signature is fluid and cursive, written in a professional style.

Usama Abujbarah
Town Manager

CC: Town Engineer
Assistant Town Engineer
Marvin Cohen
Troy Day

FENNEMORE CRAIG, P.C.

3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913
(602) 916-5000



Jay L. Shapiro
Direct Phone: (602) 916-5366
Direct Fax: (602) 916-5566
jshapiro@fclaw.com

RECEIVED

DEC 12 2006

LEGAL DIV.
ARIZ. CORPORATION COMMISSION

December 12, 2006

Law Offices
Phoenix (602)
Tucson (520) 879-6800
Nogales (520) 281-3480
Las Vegas (702) 692-8000
Denver (303) 291-3200

**BY HAND DELIVERY
AND VIA E-MAIL**

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

**Re: Desert Hills Water Company: Response to Staff's First Set of Data
Requests; Docket No. W-02124A-06-0717**

Dear Ms. Mitchell:

Enclosed please find Desert Hills Water Company's ("Desert Hills") response to Staff's First Set of Data Requests. Notably, Desert Hills is in the final stages of negotiating agreements concerning the subject matter of certain of Staff's data requests. Additionally, as Staff is aware, the Town of Cave Creek ("Town") acquired Desert Hills as part of its long-term plans in becoming a municipal water provider. Such plans also include the Town's efforts to acquire Cave Creek Water Company ("CCWC"). Regarding the latter, we are informed that the Town's acquisition of CCWC may soon be resolved. The removal of uncertainty in the timing of the acquisition will make long-term planning for Desert Hills customers less difficult. Should any of this alter the subject matter of these responses, Desert Hills' responses will be seasonably supplemented.

Should you have any questions concerning the enclosed data request responses, please do not hesitate to contact me at your earliest convenience.

Very truly yours,

Jay L. Shapiro

Enclosure

cc: Usama Abujbarah
Marvin Cohen
Clifford Mattice

DESERT HILLS WATER CO., INC.
APPROVAL OF TRANSFER OF ASSETS
DOCKET NO. W-02124A-06-0717
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS
December 11, 2006

Response provided by: Usama Abujbarah
Company Name: Desert Hills Water Company
Title: President
Company Response Number: STF 1.1

- Q. Provide a copy of any contract between the Town of Cave Creek and Arizona-American for the operation of the Desert Hills water system.
- A. The Town of Cave Creek ("Town") and Desert Hills Water Company ("DHWC") are in the final stages of negotiating an Operations and Maintenance Agreement with American Water Operations and Maintenance, Inc. (an affiliate of Arizona-American Water Company). DHWC will supplement this response by providing a copy of the final agreement once executed by all parties.

DESERT HILLS WATER CO., INC.
APPROVAL OF TRANSFER OF ASSETS
DOCKET NO. W-02124A-06-0717
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS
December 11, 2006

Response provided by: Usama Abujbarah
Company Name: Desert Hills Water Company
Title: President
Company Response Number: STF 1.2

- Q. Describe any arrangement with Cave Creek Water Company for emergency service.
- A. There is a connection between a DHWC valve box and a meter connected to the Cave Creek Water Company ("CCWC") system which is not currently being utilized. Although DHWC's contract with CCWC has expired, CCWC is under order by the Commission to provide emergency water as needed. *See*, Decision No. 68592 (September 15, 2006). The Town intends to use this connection once it acquires CCWC and both systems can be combined. There is a temporary connection to the Arizona-American Water Company's Anthem system, which is currently DHWC's source of water in an emergency.

DESERT HILLS WATER CO., INC.
APPROVAL OF TRANSFER OF ASSETS
DOCKET NO. W-02124A-06-0717
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS
December 11, 2006

Response provided by: Usama Abujbarah
Company Name: Desert Hills Water Company
Title: President
Company Response Number: STF 1.3

- Q. Provide any contracts entered or relied upon related to service of any kind for any length of time from Cave Creek Water Company including, but not limited to, interconnection agreements.
- A. The contract with Cave Creek Water Company expired prior to the Town's acquisition of DHWC. *See* response to STF 1.1.

DESERT HILLS WATER CO., INC.
APPROVAL OF TRANSFER OF ASSETS
DOCKET NO. W-02124A-06-0717
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS
December 11, 2006

Response provided by: Usama Abujbarah
Company Name: Desert Hills Water Company
Title: President
Company Response Number: STF 1.4

- Q. Provide the Town of Cave Creek's long-range plans for arsenic treatment of the water served in the Desert Hills system.
- A. The Town intends to develop a long-range plan for arsenic treatment once the operating agreement with American Water Operations and Maintenance, Inc. is finalized. This first task is to identify any wells within the DHWC system that may be producing water with arsenic levels above the minimum contaminant levels established by federal law. This plan is being addressed in conjunction with, and as a supplement to, the Town's Capital Improvement Program currently being developed by its engineering consultants if necessary.

DESERT HILLS WATER CO., INC.
APPROVAL OF TRANSFER OF ASSETS
DOCKET NO. W-02124A-06-0717
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS
December 11, 2006

Response provided by: Usama Abujbarah
Company Name: Desert Hills Water Company
Title: President
Company Response Number: STF 1.5

- Q. Describe the customer complaint and inquiry resolution process to be used by the Town of Cave Creek for the Desert Hills customers after the transfer.
- A. Any complaints regarding the quality of water service to customers currently connected to the DHWC system will first be addressed by the system operator, American Water Operations and Maintenance, Inc. The Town Manager and Administrative office will be notified of all complaints, and if not resolved to a customers satisfaction by the system operator, any complaint shall be processed via the Town's administrative resolution process, including ultimate resolution by the Town Council, if necessary.

DESERT HILLS WATER CO., INC.
APPROVAL OF TRANSFER OF ASSETS
DOCKET NO. W-02124A-06-0717
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS
December 11, 2006

Response provided by: Usama Abujbarah
Company Name: Desert Hills Water Company
Title: President
Company Response Number: STF 1.6

- Q. Provide the sales contract between Desert Hills Water Company (under the Rowland ownership) and the Town of Cave Creek.
- A. The Stock Purchase Agreement is attached hereto as Exhibit 1.

DESERT HILLS WATER CO., INC.
APPROVAL OF TRANSFER OF ASSETS
DOCKET NO. W-02124A-06-0717
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS
December 11, 2006

Response provided by: Usama Abujbarah
Company Name: Desert Hills Water Company
Title: President
Company Response Number: STF 1.7

- Q. How long does the Town of Cave Creek expect to acquire water from Arizona American? Provide the Town of Cave Creek's long-range plan for water sources.
- A. The Town is in the final stages of negotiating a long term water acquisition agreement with Arizona-American Water Company. The Town is also preparing, through its engineering consultants, long-range plans for water sources that will include the incorporation of the CCWC system. The timing of access to CCWC water supplies and its eventual connection to the DHWC system will in large part drive the Town's long-range plans to provide adequate water to all customers in one integrated system.

DESERT HILLS WATER CO., INC.
APPROVAL OF TRANSFER OF ASSETS
DOCKET NO. W-02124A-06-0717
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS
December 11, 2006

Response provided by: Usama Abujbarah
Company Name: Desert Hills Water Company
Title: President
Company Response Number: STF 1.8

- Q. Will the Town continue charging the Desert Hills Water Company hook-up fee? If not, what is the hook-up fee to be charged?
- A. Yes - The Town will continue to charge the same hook-up fee amount as authorized in DHWC's Commission approved tariff.

DESERT HILLS WATER CO., INC.
APPROVAL OF TRANSFER OF ASSETS
DOCKET NO. W-02124A-06-0717
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS
December 11, 2006

Response provided by: Usama Abujbarah
Company Name: Desert Hills Water Company
Title: President
Company Response Number: STF 1.9

- Q. Provide the Town of Cave Creek's construction plans for water plant to serve the Desert Hills customers. Include and describe the Cloud Road booster station and estimate the cost and installation date of any other utility plant expected to be installed.
- A. Attached as Exhibit 2 are pages 5-1, 5-2 and 5-3 from a report/study prepared by CH2M Hill, the Town's Engineering Consultant, regarding a Capital Improvement Program for the DHWC water system. The information includes a description of the Cloud Road Booster Station.

DESERT HILLS WATER CO., INC.
APPROVAL OF TRANSFER OF ASSETS
DOCKET NO. W-02124A-06-0717
RESPONSE TO STAFF'S FIRST SET OF DATA REQUESTS
December 11, 2006

Response provided by: Usama Abujbarah
Company Name: Desert Hills Water Company
Title: President
Company Response Number: STF 1.10

- Q. Regarding the hook-up fees collected under the previous ownership, provide the balance of hook-up fees included in the transfer.
- A. Attached hereto as Exhibit 3 is a copy of the Hook-Up Fee Status Report filed with the Commission covering the first, second and third quarters of 2006.

EXHIBIT 1

STOCK PURCHASE AGREEMENT

BY AND AMONG THE TOWN OF CAVE CREEK,

MARY L. RIPPLINGER, INDIVIDUALLY, AND AS TRUSTEE OF THE TRUST

DATED JANUARY 22, 1998,

MARY BETH ROWLAND

AND

MELANIE COAHRAN

DATED

SEPTEMBER 12, 2006

STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT ("Agreement"), dated as of September 12, 2006, by and among the TOWN OF CAVE CREEK, an Arizona municipal corporation, ("Acquiror"), Mary L. Ripplinger, individually and as Trustee under the trust dated January 22, 1998, Mary Beth Rowland, wife of Larry Rowland in her sole and separate right, and Melanie Coahran, wife of William Coahran in her sole and separate right, the shareholders of Desert Hills Water Co., Inc. (the "Shareholders"),

WITNESSETH:

WHEREAS, the Shareholders desire to sell, and Acquiror desires to purchase, all of the issued and outstanding shares of capital stock of Desert Hills Water Co., Inc. ("the Company") (the "Shares"), for the consideration, on the terms and subject to the conditions set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual promises, representations, and warranties herein contained, and on the terms and subject to the conditions herein set forth, the parties hereto agree as follows:

ARTICLE I DEFINITIONS

The terms defined in this Article I, whenever used in this Agreement (including in the Schedules) shall have the respective meanings indicated below for all purposes of this Agreement. All references herein to a Section, Article or Schedule are to a Section, Article or Schedule of or to this Agreement, unless otherwise indicated.

AAA: means the American Arbitration Association.

ACC: means the Arizona Corporation Commission.

ACC Investigation: means the ACC investigation of "the failure of Desert Hills Water Co., Inc. to comply with commission rules and regulations", Docket No. W-02124A-06-0379.

Acquiror: as defined in the first paragraph of this Agreement.

Acquiror Indemnitees: as defined in Section 6.1.

ADWR: means the Arizona Department of Water Resources.

Affiliate: of a Person means a Person that directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the first Person. "Control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or credit arrangement, as trustee or executor, or otherwise.

Agreement: means this Stock Purchase Agreement, including the Schedules and Exhibits hereto.

AIAC: means advance in aid of construction.

Applicable Law: means all applicable provisions of all (i) constitutions, treaties, statutes, laws (including the common law), rules, regulations, ordinances, codes or orders of any Governmental Authority, (ii) Governmental Approvals, and (iii) orders, decisions, injunctions, judgments, awards and decrees of or agreements with any Governmental Authority.

Arbitration Rules: as defined in Section 8.2.

Business: means all of the business operations of the Company as currently conducted.

CC&N: means the Certificate of Convenience and Necessity granted by the ACC to the Company, as heretofore amended.

CIAC: means contribution in aid of construction.

Closing: as defined in Section 2.2.

Closing Balance Sheet: means the balance sheet prepared in respect of the Company in accordance with past practices consistently applied reflecting the respective assets and liabilities of the Company as at the Closing and reflecting the best estimate, in the opinion of Shareholders, acting reasonably, for those current assets and liabilities of the Company that are not capable of actual determination as of the Closing.

Closing Date: as defined in Section 2.2.

Code: means the Internal Revenue Code of 1986.

Company: as defined in the first recital to this Agreement.

Consent: means any consent, approval, authorization, waiver, permit, grant, franchise, concession, agreement, license, exemption or order of, registration, certificate, declaration or filing with, or report or notice to, any Person, including any Governmental Authority.

Contracts: as defined in Section 3.1.9(a).

Dispute: as defined in Section 7.1.

Effective Date: The Effective Date of this agreement shall be September 12, 2006.

Environmental Laws: mean all Applicable Laws, Permits or directives, or parts thereof, pertaining to environmental or occupational health and safety matters, in effect as at the date hereof.

ERISA: means the Employee Retirement Income Security Act of 1974.

Existing Service Area: means the area covered by the CC&N and certain other areas as to which, as of the Effective Date, the Company either has applied, or has entered into agreements obligating the Company to apply, to the ACC to extend the CC&N, which Existing Service Area is depicted on Schedule IA attached hereto.

Financial Statements: as defined in Section 3.1.4.

GAAP: means generally accepted accounting principles as in effect in the United States of America as determined by the Financial Accounting Standards Board from time to time applied on a consistent basis as of the date of any application thereof.

Governmental Approval: means any Consent of, with, or from any Governmental Authority.

Governmental Authority: means any nation or government, any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including any government authority, agency, department, board, commission or instrumentality of the United States, any State of the United States or any political subdivision thereof, and any tribunal or arbitrator(s) of competent jurisdiction, and any self-regulatory organization.

Hazardous Substance: means any substance, material or waste which is regulated by Environmental Law, including petroleum, petroleum products, asbestos, presumed asbestos-containing material or asbestos-containing material, urea formaldehyde and polychlorinated biphenyls.

Indemnified Party: as defined in Section 6.3.

Indemnifying Party: as defined in Section 6.3.

Knowledge: with respect to any Person means the actual knowledge of such Person.

Leased Property: as defined in Section 3.1.11(a).

Leases: means the real property leases, subleases, licenses and occupancy agreements pursuant to which the Company is the lessee, sublessee, licensee or occupant and which are described in Section 3.1.11(a). Without limiting the foregoing, the term "Lease" does not include easements.

Lien: means any mortgage, deed of trust, pledge, hypothecation, right of others, claim, security interest, encumbrance, lease, sublease, license, occupancy agreement, adverse claim or interest, easement, covenant, encroachment, burden, title defect, title retention agreement, voting trust agreement, interest, equity, option, lien, right of first refusal, charge or other restrictions or limitations of any nature whatsoever, including such as may arise under any Contracts.

Line Extension Agreements: means main extension agreements as described in A.A.C. R14-2-406

Losses: as defined in Section 6.1.

Material Adverse Effect: with regard to the Company means any event, occurrence, fact, condition, change or effect that individually or in the aggregate with similar events, occurrences, facts, conditions, changes or effects will or can reasonably be expected to result in a cost, expense, charge, liability, loss of revenue or diminution in value equal to or greater than \$100,000; provided, however that in no event shall any of the same arising out of or related to the ACC Investigation or the MCESD NOV be considered in determining whether there has been a Material Adverse Effect.

MCESD: the Maricopa County Environmental Services Department.

MCESD NOV: means the June 2006 Letter of Outstanding Violations from MCESD to the Company alleging violations of regulation R18-5-502B and MCEHC Chapter V §1, Regulation 1 (a).

Owned Property: as defined in Section 3.1.11.

Permit: means any consent, license, permission, authorization, approval, registration, permit or right-of-way issued, granted, given or otherwise made available by or under the authority of any Governmental Authority or pursuant to any Applicable Law.

Person: means any natural person, firm, partnership, association, corporation, company, limited liability company, limited partnership, trust, business trust, Governmental Authority, or other entity.

Pro-Rata: equal on a per share basis.

Purchase Price: as defined in Section 2.3.

Real Property Interests: as defined in Section 3.1.11(a).

Schedules: means each of the schedules and exhibits attached to and made a part of this Agreement.

Securities Act: means the Securities Act of 1933.

Shareholder Indemnities: as defined in Section 6.2.

Shareholders: as defined in the first paragraph of this Agreement.

Shares: as defined in the first recital to this Agreement.

Tax or Taxes: means any federal, state, provincial, local, foreign or other income, alternative, minimum, accumulated earnings, personal holding company, franchise, capital stock, net worth, capital, profits, windfall profits, gross receipts, value added, privilege, sales, use, goods and services, excise, customs duties, transfer, conveyance, mortgage, registration, stamp, documentary, recording, premium, severance, environmental (including taxes under Section 59A

of the Code), real property, personal property, transfer ad valorem, intangibles, rent, occupancy, license, occupational, employment, unemployment insurance, social security, disability, workers' compensation, payroll, health care, registration, withholding, estimated or other similar tax, duty or other governmental charge or assessment or deficiencies thereof (including all interest and penalties thereon and additions thereto whether disputed or not).

Tax Return: means any return, report, declaration, form, report, claim for refund or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

Transaction Expenses: as defined in Section 8.1.

ARTICLE 2 PURCHASE AND SALE OF THE SHARES; CLOSING

2.1 Sale and Purchase of Shares. The Shareholders hereby agree to sell the Shares to Acquiror, and Acquiror agrees to purchase the Shares from the Shareholders.

2.2 Place and Date. The closing of the sale and purchase of the Shares (the "Closing") will take place on or before the 15th day of September, 2006, at 3:00 P.M. local time, at the Town Hall of the Town, or at such other time and place as the parties may agree. Either party may terminate this Agreement if the Closing has not occurred by September 30, 2006. The Closing shall be deemed effective as of 12:01 a.m. on the day of Closing and the "Closing Date" shall mean the day of the Closing.

2.3 Purchase Price. The total purchase price (the "Purchase Price") to be paid for the Shares shall be and consist of the following:

2.3.1 Purchase Price for the Shares. The total purchase price payable hereunder for all of the Shares shall be \$2,500,000 paid by way of immediately available cash. \$2,200,000 of such purchase price shall be paid to Shareholders at Closing. \$300,000 shall be held in escrow for 90 days to secure the Shareholders' indemnification obligations under Article 6, pursuant to the escrow instructions to the Arizona Escrow & Financial Corp. set forth in Schedule 2.3.1.

2.3.2 AIAC and Other Obligations. Acquiror acknowledges that the Company will, after closing, continue to have AIAC and other obligations that are in existence at closing.

2.4 Determination of Closing Balance Sheets. The determination of the Closing Balance Sheets shall be made by Shareholders as of September 12, 2006 in accordance with the Companies' past practices consistently applied. The Closing Balance Sheets shall state in reasonable detail the nature and extent of each item contained therein. Acquiror and Shareholders and their respective representatives shall have the right to review such determination.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

3.1 Representations and Warranties to Acquiror. As of the date hereof and as of the Closing Date, Shareholders hereby represent and warrant to Acquiror as follows:

3.1.1 Authorization, etc. Each of the Shareholders has duly executed and delivered this Agreement and that this Agreement and any agreements executed by the Shareholders in connection herewith constitute the legal, valid, and binding obligations of Shareholders enforceable against Shareholders in accordance with their terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer and conveyance, receivership, moratorium, and similar laws affecting creditors' rights generally, and to the availability of equitable remedies (whether asserted at law or in equity).

3.1.2 Corporate Status. The Company is a corporation duly organized, validly existing, and in good standing under the Applicable Law with full corporate power and authority to carry on its business and to own or lease and to operate its properties as and in the places where such business is conducted and such properties are owned, leased, or operated; it has delivered to Acquiror complete, up to date and correct copies of the Company's articles of incorporation, bylaws, minute books or other organizational documents, as amended and in effect on the date hereof; the Company is not in violation of any of the provisions of its articles of incorporation or bylaws or any other organizational documents; the Company has no subsidiary and does not own, directly or indirectly, any equity interest or investment in any other Person except as shown on the Financial Statements; all of the issued and outstanding shares of capital stock of the Company are owned of record and beneficially by Shareholders, with no other Person owning or having any rights (including any voting rights, whether as proxy, attorney-in-fact, assignee, transferee or otherwise) in or with respect thereto.

3.1.3 No Conflicts, etc. The execution, delivery, and performance by Shareholders of this Agreement and the consummation of the transactions contemplated hereby do not and will not conflict with or result in a violation of or a default under (with or without the giving of notice or the lapse of time or both) (i) any Applicable Law applicable to the Company, Shareholders or any Affiliate of the Company or Shareholders, or any of the properties or assets of the Company, (ii) the articles of incorporation or bylaws or other organizational documents of the Company, (iii) the CC&N or (iv) subject to obtaining the Consents referenced on Schedule 3.1.3, any Contract to which any Shareholder or the Company is a party or by which any Shareholder or the Company or any of its properties or assets, may be bound or affected; and except as specified in Schedule 3.1.3, no Governmental Approval or other Consent is required to be obtained or made by Shareholders or the Company in connection with the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

3.1.4 Financial Statements. Shareholders have delivered to Acquiror financial statements of the Company as at and for the periods of the Company ended on December 31 of 2005, 2004, 2003, 2002 and 2001 (collectively, the "Financial Statements"), including in each case a balance sheet- and a statement of income and retained earnings and that the Financial Statements are complete and correct in all material respects, accurately reflect in all material respects the assets, liabilities, results of operations and financial condition of the Company as of

their respective dates and have been prepared consistently with past practices, except in each case as set forth on Schedule 3.1.4.

3.1.5 Absence of Undisclosed Liabilities. The Company has no material (i.e., in excess of \$1000 for any individual item) liabilities, guarantees or obligations of any nature, whether known or unknown, absolute, accrued, contingent, or otherwise and whether due or to become due except (a) as set forth in Schedule 3.1.5; or (b) as and to the extent disclosed or reserved against in the Financial Statements; and except to the extent specifically disclosed in Schedule 3.1.5, no employee of the Company is now or will by the passage of time hereinafter be entitled to receive any vacation time, vacation pay, or severance pay attributable to service rendered prior to the Closing Date that is not reflected as an accrued liability on the Financial Statements. Without limiting the foregoing, except to the extent specifically disclosed in Schedule 3.1.5:

- (a) no overcharges to customers under tariffs or other parties under contracts have been collected by the Company;
- (b) there are no unapproved Line Extension Agreements for which approval is necessary;
- (c) no AIAC refunds are currently due and unpaid under any Line Extension Agreement;
- (d) there are no unrefunded security deposits which are due; and
- (e) there are no unrefunded meter deposits which are due.

3.1.6 Taxes. Shareholders have delivered to Acquiror complete and correct copies of all Tax Returns and supporting schedules filed by the Company for each of the fiscal years ended on December 31 of 2005, 2004 and 2003. Except for current filings which are the subject of extensions under applicable procedures and which are identified in Schedule 3.1.6, the Company has filed all Tax Returns that the Company was required to file prior to the date hereof. Except as set forth in Schedule 3.1.6, all such Tax Returns were correct and complete in all material respects. The Company has not been a member of any affiliated group filing a consolidated federal income Tax Return; and except as set forth in on Schedule 3.1.6:

- (a) all Taxes owed by the Company (whether or not shown on any Tax Return) with respect to Tax Returns the due date of which preceded the date hereof have been paid;
- (b) all other Taxes due and payable by the Company with respect to periods ending on or as of December 31, 2005 (whether or not a Tax Return is due on such date) have been paid or are accrued in a manner customarily applied by the Company on the applicable Financial Statements;
- (c) there are no outstanding requests, agreements, consents or waivers to extend the statutory period of limitations applicable to the assessment or collection of any Taxes or deficiencies against the Company, and there are no pending or, to the Knowledge of the Shareholders, threatened audits, disputes or other proceedings concerning the Company's

liability for any Taxes and no issues have been raised with the Shareholders or the Company in any examination by any taxing authority which could reasonably be expected to result in a proposed deficiency for any tax period prior to or following the Closing Date;

(d) no power of attorney relating to the Taxes or Tax Returns of the Company has been executed or filed with any Person including any taxing authority;

(e) the Company has no liability for Taxes of any other Person as a transferee or successor by operation of law, by contract or otherwise;

(f) there are no Liens on the assets of the Company or on any of the Shares relating or attributable to Taxes (other than Liens on assets of the Company for sales, use and payroll Taxes not yet due and payable), and the Shareholders have no Knowledge of any reasonable basis for the assertion of any claim relating or attributable to Taxes which, if adversely determined, would result in any Lien on any asset of the Company or on any of the Shares.;

(g) the Company has withheld and paid all Taxes required to have been withheld and paid in connection with any amounts paid or owing to any employee, independent contractor, creditor, stockholder or other Person; and

(h) there have been, and there are proposed or threatened, no accounting method changes of the Company that could reasonably be expected to give rise to an adjustment to any Taxes after the Closing Date.

Notwithstanding the foregoing, Acquiror acknowledges and agrees that Shareholders shall not be responsible for any Tax resulting from the restatement following the Closing of any portion of the Company's CIAC reserves as income.

3.1.7 Litigation. Except as set forth in this Section 3.1.7 or on Schedule 3.1.7, (i) there is no action, claim, demand, lawsuit, proceeding, arbitration, grievance, citation, summons, subpoena, inquiry, or investigation of any nature, civil, criminal, regulatory (including any ACC complaint proceeding), or otherwise, in law or in equity, which has been served upon the Company or of which the Shareholders or any of them have Knowledge or, to the Knowledge of the Shareholders, overtly threatened against the Shareholders or the Company which materially affects any Shareholder or the Company, the Shares (or any of them), the Company's assets and/or business, or relating to the transactions contemplated by this Agreement, and there is no valid basis for the same, (ii) the Company (and its assets) are not a party to, subject to or bound by, any decree, judgment, order, injunction, settlement agreement or arbitration decision or award (or agreement entered into in any administrative, judicial or arbitration proceeding with any Governmental Authority) with respect to or affecting the properties, assets, personnel or business activities of the Company, and (iii) no citation, fee, or penalty has been levied or asserted against Shareholders or the Company under any Environmental Law or by the ACC or any other Governmental Authority. Acquiror hereby acknowledges that the Shareholders have disclosed to Acquiror the existence of the ACC Investigation and the MCESD NOV.

3.1.8 Capitalization. The authorized capital stock of the Company, and the number of shares issued and outstanding, as well as the name and address of each shareholder of the Corporation, are fully and accurately set forth on Schedule 3.1.8; the Company has no other

issued or outstanding securities; all of the Company's outstanding capital stock is owned beneficially and of record by Shareholders, is owned free and clear of all Liens, is validly issued, fully paid, non-assessable, and has not been issued in violation of any pre-emptive rights of any other Person (including other Shareholders); except for this Agreement, there are no outstanding subscriptions, options, rights, warrants, convertible securities, or other agreements or commitments (contingent or otherwise) obligating any Shareholder to sell or transfer any of the capital stock of the Company owned by such Shareholder or obligating the Company to issue or to transfer from treasury any additional shares of, or any securities convertible or exchangeable into, the capital stock of the Company; there are no stock transfer restrictions or shareholder agreements operating or in effect relating to the capital stock of the Company (or any such restrictions are hereby waived by the Shareholders) with respect to the transactions provided for in this Agreement; there are no restrictions or qualifications of any kind on the sale or transfer of such stock (other than those imposed by applicable securities laws); and, except as set forth in Schedule 3.1.8, none of the Shareholders nor any of their Affiliates are creditors of the Company.

3.1.9 Contracts. Except as set forth in Section 3.1.9:

(a) Schedule 3.1.9 contains a complete and accurate description of all agreements, contracts, commitments, and other instruments and arrangements (whether written or oral) of the types described below by which the Company or any of its assets, businesses, or operations receive benefits or to which the Company is a party or by which the Company is bound, other than insignificant contracts entered into in the ordinary course of business consistent with past practice (the "Contracts"), including:

(i) leases, licenses, permits, franchises, insurance policies, warranties, guarantees, Governmental Approvals, and other contracts concerning or relating to the Company's real property;

(ii) contracts for capital expenditures in excess of \$50,000 each;

(iii) performance bonds, completion bonds, bid bonds, suretyship agreements and similar instruments;

(iv) joint venture, partnership, and similar contracts involving a sharing of profits and/or expenses;

(v) agreements providing for the leasing to or by the Company of personal property;

(vi) Line Extension Agreements; and

(vii) agreements or instruments under which the Company has acquired or holds its Water Rights.

(b) The Shareholders have delivered or provided (or prior to Closing will provide) access to Acquiror to complete and correct copies of all written Contracts, together with all amendments thereto, and accurate descriptions of all material terms of all oral Contracts, set forth or required to be set forth in Schedule 3.1.9.

(c) To Shareholders' Knowledge, all Contracts are in full force and effect and enforceable against each party thereto. There does not exist under any Contract any event of default or event or condition that, after notice or lapse of time or both, would constitute a violation, breach, or event of default thereunder on the part of either Company or, to the Knowledge of the Shareholders, any other party thereto. Except as set forth on Schedule 3.1.9, no consent of any third party is required under any Contract as a result of or in connection with, and the enforceability of any Contract will not be affected in any manner by, the execution, delivery and performance of this Agreement or the consummation of the transactions contemplated hereby.

(d) The Company has no outstanding powers of attorney. The Company is not a member of any property owner's association.

3.1.10 Insurance. Schedule 3.1.10 contains a complete and correct list of all insurance policies maintained by or for the benefit of the Company; the Shareholders have delivered to Acquiror complete and correct copies of all such policies together with all riders and amendments thereto; such policies are in full force and effect, and all premiums due thereon have been paid; the Company has complied in all material respects with the terms and provisions of such policies; Schedule 3.1.10 sets out all claims made by the Company (excluding any claims by employees under health, dental, life, or similar insurance) under any policy of insurance during the past two years; and the Shareholders have no Knowledge of any basis on which a claim should or could be made under any such policy.

3.1.11 Certain Real and Personal Property. To the Knowledge of Shareholders:

(a) All real property owned by the Company (the "Owned Property") is listed and legally described in Part I of Schedule 3.1.11(a). All real property leased by the Company (the "Leased Property") is listed and legally described in Part II of Schedule 3.1.11(a). All other interests in real property of any kind held by the Company, including licenses, easements or other rights or interests, are listed and legally described in Part III of Schedule 3.1.11(a) (and, together with the Owned Property and the Leased Property, are herein referred to as the "Real Property Interests"). The Company holds the Real Property Interests free of all Liens, except as set forth in the Title Report (to be furnished to Acquiror within 30 days after closing) or disclosed in Schedule 3.1.11(a).

(b) All water facilities, tanks, surface water treatment equipment, pump stations, wells, water distribution systems, general intangibles and all ancillary/auxiliary equipment, including pipes, pumps and water treatment facilities used in the Business, including all fixtures and facilities associated with water treatment, storage or transmission (the "Water Facilities") are listed in Schedule 3.1.11(6) and the Company owns title to the Water Facilities free of all Liens, except as set forth in the Title Report (to be furnished to Acquiror within 30 days after closing) or disclosed in Schedule 3.1.11(b).

(c) Without limiting the foregoing, except for the ACC Investigation and the MCESD NOV or as set forth in the Title Report or in Schedule 3.1.11(a) or Schedule 3.1.11(b): there are no outstanding and enforceable unrecorded or oral, arrangements, agreements, understandings, options, contracts, or rights of first refusal affecting or relating to the Real Property Interests (or

any part thereof) or the Water Facilities; all line easements and licenses utilized by the Company are valid and enforceable; permanent, legally enforceable access, whether by easement, license, dedicated public street access or prescriptive easement, is available to each part of the Owned Real Property and the Leased Real Property; none of the Shareholders or the Company has received, or is aware of, any notifications, restrictions, or stipulations from a Governmental Authority requiring any work to be done on the Owned Real Property or the Leased Real Property (or any part thereof) or threatening the Company's current use of the Owned Real Property or the Leased Real Property (or any part thereof); there are no pending or threatened condemnation proceedings or investigations by Governmental Authorities affecting any portion of the Real Property Interests or the Water Facilities; all improvements located within the Owned Real Property are located within the boundary lines of the Owned Real Property and do not encroach in any material manner upon the land of any adjacent owner; no improvements of any third Person encroach in any material manner upon the Owned Real Property; no Person has any material unrecorded right, title or interest in the Owned Real Property, whether by right of adverse possession, prescriptive easement or otherwise; no work has been performed on or about the Real Property Interests or to any improvements located thereon within the last six (6) months that has not been paid for and could create or cause any mechanics' or materialmen's liens.

(d) Except as set forth in Schedule 3.1.11(d): there is no tax assessment (in addition to the normal, annual general real estate tax assessment) pending or threatened with respect to any Owned Real Property; there is no challenge or appeal brought by the Company that is pending regarding the amount of real estate taxes on, or the assessed valuation of, any Real Property Interest for which either Company is responsible for the payment of taxes in respect thereof; and there has been no special arrangement or agreement entered into by either Company with any Governmental Authority with respect thereto.

(e) Schedule 3.1.11(e) contains a complete and correct list of all Leases, setting forth the address, landlord, tenant, lease term and current rent for each Lease. The Shareholders have delivered to Acquiror correct and complete copies of the Leases. Except as set forth in Schedule 3.1.11(e): each Lease is legal, valid, binding, enforceable, and in full force and effect; neither the Company nor any other party thereto is in default, violation, or breach in any material respect under any Lease, and no event has occurred and is continuing that constitutes or, with notice or the lapse of time or both, would constitute a default, violation, or breach in any respect under any Lease; the Company enjoys peaceful and undisturbed possession under its Leases; and none of the Leased Real Property is subject to any sublease, assignment, or license.

(f) Except as set forth in Schedule 3.1.11(f), the facilities, plants, machinery and equipment of the Company are, in the aggregate, in good working order and condition, ordinary wear and tear excepted, and have been maintained generally in accordance with prescribed operating instructions (if any) necessary to ensure the effectiveness of equipment warranties and/or service plans.

3.1.12 Water Rights. Subject to Schedule 3.1.12, the only Water Rights claimed by the Company as a basis to withdraw and deliver water to existing and future customers of Cave Creek are (i) the Company's service area rights (as "service area" is defined in paragraph 31 of A.R.S. § 45-402 (2002 edition)), (ii) the Company's rights to withdraw ground water, and (iii) the rights set forth in the CC&N.

3.1.13 Permits. Except as set forth in Schedule 3.1.13: the Company possesses all Permits that are required in order for the Company to lawfully own their properties and assets and conduct its business as presently conducted; all Permits issued to the Company are described on Schedule 3.1.13 and copies thereof, including copies of all related, material correspondence with the issuing or administering Governmental Authorities, have been delivered to Acquiror; the Company is in full compliance with the provisions of each Permit; no Permit will be terminated, cancelled or revoked or become terminable, cancelable or revocable or otherwise impaired in any respect as a result of the execution and delivery by the parties hereto of this Agreement or the consummation of the transaction contemplated hereby; any notice, other filing or other registration required to be made by the Company, Shareholders or Acquiror with any Governmental Authority in connection with Acquiror's acquisition of the Shares in order to protect and maintain the effectiveness of any Permit is described on Schedule 3.1.13.

3.1.14 Environmental Matters. To the Knowledge of Shareholders:

(a) Except as alleged in the MCESD NOV or as set forth in Schedule 3.1.14: (i) the Company has complied and is in compliance in all material respects with all applicable Environmental Laws pertaining to the Owned Real Property, the Leased Real Property, the ownership and operation of their equipment and the conduct of their business; the Company has received no written communication alleging that the Company is not in compliance with any applicable Environmental Law, and (ii) there is no claim pending or threatened, against the Company relating to any alleged or actual violation of Environmental Law; and no Owned Real Property is currently listed on the National Priorities List or the Comprehensive Environmental Response, Compensation and Liability Information System, both promulgated under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, ("CERCLA") or any comparable state list.

(b) Except as alleged in the MCESD NOV or as set forth in Schedule 3.1.14(b), neither the Company nor any other Person acting under the Company's direction or on its behalf, has caused or taken any action or is aware of any action that could reasonably result in, and neither Company is subject to, any material liability or obligation relating to (i) the environmental conditions on, under, or about any of the Owned Real Property or the Leased Real Property at the present time or in the past, including the air, soil, and ground water conditions of such properties, or (ii) the past or present use, management, handling, transport, treatment, generation, storage, disposal or release of any Hazardous Substance.

(c) The Shareholders have made available to Acquiror all (and not withheld from Acquiror any) information, including all studies, analyses, and test results, in the possession, custody, or control of or otherwise known to the Shareholders or the Company relating to (i) the environmental conditions on, under, or about any of the Owned Real Property or the Leased Real Property, or other properties or assets owned, leased, operated, or used by the Company or any predecessor in interest thereto at the present time or in the past, (ii) environmental conditions or requirements relating to the operation of the Business at the present time or in the past, and (iii) any Hazardous Substances used, managed, handled, transported, treated, generated, stored, disposed of, or released by the Company or any other Person on, under, about, or from any of the Owned Real Property or the Leased Real Property, or otherwise in connection with the use or operation of any of the properties and assets of the Company, or the Business. There are no

above-ground or underground fuel or chlorine storage tanks, located on any of the Owned Real Property or the Leased Real Property.

3.1.15 No Class A Utility. None of the Shareholders, the Company or any Affiliate acting on any of their behalf has ever consented to the Company being a Class A Utility (as that term is defined in A.A.C.R14-2-103), received notice from any Person that the Company is a Class A Utility or satisfied the requirements in effect at any applicable time for the Company to be a Class A Utility.

3.1.16 Brokers, Finders, etc. All negotiations relating to this Agreement and the transactions contemplated hereby have been carried on without the participation of any Person acting on behalf of either the Company or any of the Shareholders in such manner as to give rise to any valid claim against the Company or Acquiror, or any of their Affiliates for any brokerage or finder's commission, fee, or similar compensation, or for any bonus payable to any officer, director, shareholder, employee, agent, or sales representative of or consultant to either Company, any of the Shareholders or any Affiliate of the Company or Shareholders upon consummation of the transactions contemplated hereby or thereby or otherwise.

3.1.17 [Intentionally Omitted]

3.1.18 All Assets. Except as set forth in Schedule 3.1.18, the assets of the Company include all assets, rights, properties and contracts which are currently used by the Company to carry on the Business.

3.1.19 Accounts Receivable. Except as set forth in Schedule 3.1.19, all accounts receivable of the Company have arisen only from bona fide transactions in the ordinary course of the Business; a current summary of the accounts receivable has been delivered to Acquiror; and to the Knowledge of the Shareholders, there are no facts or circumstances (other than general economic conditions) which would result in any material increase in the uncollectability of such receivables in excess of the reserves therefore set forth in the Financial Statements.

3.1.20 Accounts Payable. The Company has satisfied, paid and discharged its accounts payable and other current liabilities and obligations in a timely manner.

3.1.21 Intellectual Property. To the Knowledge of Shareholders, the Company has not used, sold or supplied any goods or services in any manner that would constitute an infringement of the intellectual property rights of any other Person; and none of the Shareholders or the Company has received any notification, warning, threat of legal action or proceeding or other written notice that either Company has violated or is violating the intellectual property rights of any Person.

3.1.22 Employees. All of the current employees of the Company together with their current salaries and benefits are listed on Schedule 3.1.22. The Company has no written employment agreements with any of the current employees of the Company.

3.1.23 Employee Benefit Plans. The Company has no employee benefit plans, including plans relating to retirement or insurance, other than those listed on Schedule 3.1.23.

3.1.24 Compliance with Applicable Law. Except as set forth on Schedule 3.1.24, the Company is in material compliance with all Applicable Laws governing, affecting or relating to equal employment opportunities, fair employment practices, occupational health and safety, wages and hours, and discrimination and, to the Knowledge of the Shareholders, all other Applicable Laws; and without limiting the generality of the foregoing, the Company has satisfied all of its obligations to date with respect to the filing of annual reports with the ACC and ADWR.

3.1.25 No Guarantees. Except as set forth on Schedule 3.1.25: the Company has not guaranteed or become subject to a similar contingent obligation in respect of the obligations or liabilities of any other Person; and there are no outstanding letters of credit, surety bonds, or similar instruments relating to the Company.

3.1.26 Payments to Shareholders. Except as disclosed on Schedule 3.1.26, since December 31, 2005, neither the Company nor any other Person acting on behalf of or for the benefit of the Company has, directly or indirectly, made any distributions, or paid any dividends or made any other payments of any kind or nature to the Shareholders.

3.1.27 Absence of Certain Business Practices. Neither the Company nor any manager, member, employee, or agent of the Company, nor any other Person acting on their behalf, have, directly or indirectly, within the past two (2) years, given or agreed to give any gift, bribe, rebate, or kickback or otherwise provided any similar benefit to any customer, Governmental Authority employee or other Person who is or may be in a position to help or hinder the Company (or assist the Company in connection with any actual or proposed transaction) (i) which subjected or might have subjected the Company to any damage or penalty in any civil, criminal, or governmental litigation or proceeding, (ii) which if not given in the past, or if not continued in the future, may adversely affect the Company or its business or subject the Company to legal action, fine or penalty in any private or governmental litigation or proceeding, (iii) for any of the purposes described in Section 162(9) of the Code, or (iv) for the purpose of establishing or maintaining any concealed fund or concealed bank account; and, except as set forth in Schedule 3.1.27, the Company has complied with all applicable tariffs in providing service to their customers.

3.1.28 Solvency. Neither the Shareholders nor the Company, nor any of them, is insolvent, nor has any Shareholder or the Company committed an act of bankruptcy, proposed a compromise or arrangement to its creditors generally, had any petition in bankruptcy filed against it, filed a petition or undertaken any action proceeding to be declared bankrupt, to liquidate its assets or to be dissolved; and the transactions contemplated by this Agreement will not cause any Shareholder to become insolvent or to be unable to satisfy and pay its debts and obligations generally as they come due.

3.1.29 Title to Shares. The Shareholders own the Shares free of any Liens.

3.2 Representations and Warranties of Acquiror. Acquiror represents and warrants to Shareholders as follows:

3.2.1 Corporate Status; Authorization, etc. Acquiror is a town (municipal property corporation) duly organized, validly existing, and in good standing under the laws of

the State of Arizona with full corporate power and authority to execute and deliver this Agreement, to perform its obligations hereunder, and to consummate the transactions contemplated hereby. The execution and delivery by Acquiror of this Agreement, and the consummation of the transactions contemplated hereby, have been duly authorized by all requisite action of Acquiror. Acquiror has duly executed and delivered this Agreement. This Agreement is a valid and legally binding obligation of Acquiror enforceable against Acquiror in accordance with its terms, subject to bankruptcy, insolvency, reorganization, fraudulent transfer and conveyance, receivership, moratorium, and similar laws affecting creditors' rights generally, and to the availability of equitable remedies (whether asserted at law or in equity).

3.2.2 No Conflicts, etc. The execution, delivery, and performance by Acquiror of this Agreement and the consummation of the transactions contemplated hereby do not and will not conflict with or result in a violation of or under (with or without the giving of notice or the lapse of time or both) (i) any Applicable Law applicable to Acquiror or any of its properties or assets or (ii) any contract to which Acquiror is a party or by which it or any of its respective properties or assets may be bound or affected.

3.2.3 Litigation. There is no action, claim, suit, or proceeding pending, or to the knowledge of Acquiror, threatened, by or against or affecting Acquiror in connection with or relating to the transactions contemplated by this Agreement or of any action taken or to be taken in connection herewith or the consummation of the transactions contemplated hereby.

3.2.4 Brokers, Finders, etc. All negotiations relating to this Agreement and the transactions contemplated hereby have been carried on without the participation of any Person acting on behalf of Acquiror who would be entitled to make a valid claim against Shareholders for any brokerage commission, finder's fee or similar compensation.

3.2.5 Investment Representations. Acquiror is a sophisticated investor and is acquiring the Shares pursuant to this Agreement for its own account for investment and not with a view to, or for resale in connection with, any "distribution" thereof within the meaning of the Securities Act. Without in any way limiting, affecting or waiving the representations and warranties of Shareholders hereunder, Acquiror acknowledges that it has conducted an independent investigation of the Company and its business and assets and has had access to the Company's personnel and to any and all environmental and other Permit documents and information and has inspected the Company and its business and assets (including the Owned Property and the Leased Property) and any and all water rights, environmental, financial, operational and other documents and information that Acquiror has requested or otherwise determined is necessary as part of Acquiror's due diligence review. Acquiror has been provided all information and documentation it has requested and has received answers to all questions asked of Shareholders and the Company's representatives and personnel.

3.3 General Provisions regarding Representations and Warranties. The following provisions shall apply to all representations and warranties of any of the parties to this Agreement:

3.3.1 No Other Representations or Warranties. Each party to this Agreement hereby expressly acknowledges and agrees that it has not relied on, and no other party has made,

any representation or warranty, expressed or implied (all such warranties being hereby expressly disclaimed, including any implied or expressed warranty of merchantability or fitness for a particular purpose), except for those representations and warranties that are expressly set forth in this Agreement.

3.3.2 One Disclosure Suffices. Anything that is duly disclosed to Acquiror pursuant to this Agreement, including on any Schedule hereto, shall be deemed to have been disclosed on all applicable schedules to this Agreement. For example, and without limiting the foregoing, if the Shareholders disclose a Lease on Schedule 3.1.11(e), they shall not be deemed to be in violation of this Agreement in the event that they fail to also disclose the same Lease in Schedule 3.1.9(a).

ARTICLE 4 COVENANTS

4.1 Conduct of Business. From the date hereof to the Closing Date (and thereafter with respect to any covenant or agreement extending beyond the Closing Date), as otherwise expressly permitted or required by this Agreement or as otherwise consented to by Acquiror in writing, Shareholders will cause the Company to carry on the Business in, and only in, the ordinary course, in substantially the same manner as heretofore conducted, and use commercially reasonable efforts to preserve intact its present business organization, maintain its properties in the same operating condition and repair as at the date of this Agreement (ordinary wear and tear excepted), keep available the services of its present officers and employees, and preserve its relationship with customers and others having business dealings with it.

4.2 No Solicitation. Prior to the Closing Date or termination of this Agreement: neither Shareholder nor any Affiliate thereof (including the Company), nor any Person acting on behalf of any of such parties shall (i) solicit or encourage any inquiries or proposals for, or enter into any discussions-with respect to, the acquisition of any properties and assets held for use in connection with, necessary for the conduct of, or otherwise material to, the Business (whether by asset purchase, stock purchase, merger or other form of transaction or series of related transactions), or (ii) furnish or cause to be furnished any information concerning the Company to any Person (other than Acquiror and its agents and representatives), other than in the ordinary course of business or as required by Applicable Law; no Shareholder nor any Affiliate of any Shareholder (including the Company) shall sell, transfer, or otherwise dispose of, grant any option or proxy to any Person with respect to, create any Lien upon, or transfer any interest in, any of the Company's assets, other than in the ordinary course of business and consistent with this Agreement; and no Shareholder nor any Affiliate of any Shareholder (including the Company) shall transfer or otherwise dispose of, grant any option or proxy to any Person with respect to, create any Lien upon, or transfer any interest in, any of the capital stock of the Company other than pursuant to the provisions of this Agreement.

4.3 Further Actions.

4.3.1 Acquiror and each Shareholder agrees to use reasonable good faith efforts to take all actions and to do all things necessary, proper or advisable to consummate the transactions contemplated hereby by the Closing Date.

4.3.2 Subject to Acquiror providing any required or requested application or other information pertinent to Acquiror, Acquiror and each Shareholder, as promptly as practicable, will use all reasonable efforts to obtain, or cause to be obtained, all Consents (including all Governmental Approvals and any Consents required under any Contract) necessary to be obtained by them in order to consummate the transactions contemplated hereby.

4.3.3 Acquiror and each Shareholder will, and will cause each Affiliate to, coordinate and cooperate with one another in exchanging such information and supplying such assistance as may be reasonably requested by any party to this Agreement in connection with the filings and other actions contemplated by this Agreement.

4.3.4 At all times prior to the Closing Date, Acquiror and each Shareholder shall promptly notify one another in writing of any fact, condition, event, or occurrence that will or may result in the failure of any of the conditions precedent contained in Article 5, promptly upon becoming aware of the same.

4.4 Access to Company. Unless and until this Agreement is terminated pursuant to Section 2.2, Shareholders shall provide, and shall cause the Company to provide, to Acquiror complete access to the Company's facilities, books, and records and shall cause the directors, officers, attorneys, accountants, consultants, advisers, and other pertinent agents and representatives of the Company to cooperate fully with Acquiror and its directors, officers, attorneys, accountants, consultants, advisers, and other pertinent agents and representatives in connection with Acquiror's due diligence review of the Company and their assets, contracts, liabilities, operations, records, and other aspects of their businesses; provided, however, that Acquiror shall conduct all inspections within normal business hours unless prior arrangements have been made between the parties hereto.

4.5 Further Assurances. Following the Closing Date, Acquiror and each Shareholder shall, and shall cause each of its Affiliates to, from time to time, execute and deliver such additional instruments, documents, conveyances, or assurances consistent with the terms of this Agreement and take such other actions consistent with the terms of this Agreement as shall be necessary, or otherwise reasonably requested by any other party, to confirm and assure the rights and obligations provided for in this Agreement and render effective the consummation of the transactions contemplated hereby. All reasonable expenses incurred by any party or Affiliate at the request of any party shall be paid or reimbursed promptly by the requesting party upon receipt of reasonable documentation evidencing the amount and purpose of each such expense.

ARTICLE 5 CLOSING CONDITIONS

5.1 Conditions to Obligations of Shareholders. The obligation of Acquiror to consummate the transactions contemplated hereby shall be subject to the fulfillment (or waiver by Acquiror in its sole discretion), on or prior to the Closing, of the following additional conditions:

5.1.1 Representations, Performance. The representations and warranties of Shareholders contained in this Agreement (i) shall be true and correct in all material respects at

and as of the date hereof, and (ii) shall be repeated and shall be true and correct in all material respects on and as of the Closing Date with the same effect as though made on and as of the Closing Date. Shareholders shall have duly performed and complied in all material respects with all covenants and agreements and conditions required by this Agreement to be performed or complied with by Shareholders prior to or on the Closing Date.

5.1.2 Companies' Ownership of Assets. As of the Closing Date, there shall have been no material change in the title to any of the Real Property Interests, the Water Facilities or the Water Rights.

5.1.3 Financial Statements. The Closing Balance Sheets shall not be materially different from the respective balance sheets of the Company as of December 31, 2005.

5.1.4 No Material Adverse Effect. No event, occurrence, fact, condition, change, development, or effect shall have occurred, exist or come to exist after September 12, 2006 that, individually or in the aggregate, has constituted or resulted in, or could reasonably be expected to constitute or result, in the reasonable opinion of Acquiror, in a Material Adverse Effect on the Company, unless Shareholders, in their sole and unfettered discretion, elect to reduce the Purchase Price by the amount of such Material Adverse Effect but in no event to exceed \$300,000.

5.1.5 Other Documents. Shareholders will have delivered to Acquiror on or before the Closing Date:

(a) certificates representing the Shares held by them, duly endorsed (or accompanied by duly executed stock powers), for transfer to Acquiror, and

(b) such other evidence of the performance of all covenants and satisfaction of all conditions required of Shareholders by this Agreement, at or prior to the Closing Date, as Acquiror or its counsel may reasonably require.

5.1.6 Property Taxes. The Company shall have satisfied and paid in full all outstanding property and ad valorem taxes which are due and payable prior to the Closing Date, and shall have provided to Acquiror reasonable evidence of such payments.

5.1.7 Approval of Schedules. Each of the parties hereby acknowledges and agrees that, at the time of execution of this Agreement, none of the Schedules referred to herein has been prepared. Accordingly, the obligations of Acquiror are conditional upon the applicable Shareholders preparing and presenting to Acquiror, and Acquiror approving, in each case in the applicable parties' sole discretion exercised in good faith, each and every Schedule provided for in this Agreement on or prior to the Closing.

5.1.8 AIAC Payments. The Company shall have paid the entire 2005 AIAC refund and the entire 2006 AIAC refund prior to closing. Any other monetary obligations of the Company that are not reflected in the Closing Balance Sheet or disclosed in any Schedule to this Agreement shall have been paid in full on or before the Closing.

5.2 Conditions to Obligations of Shareholders. The obligation of Shareholders to consummate the transactions contemplated hereby shall be subject to the fulfillment (or waiver by each Shareholder in her sole discretion), on or prior to the Closing, of the following additional conditions:

5.2.1 Representations, Performance. The representations and warranties of Acquiror contained in this Agreement (i) shall be true and correct in all material respects at and as of the date hereof, and (ii) shall be repeated and shall be true and correct in all material respects on and as of the Closing Date with the same effect as though made on and as of the Closing Date. Acquiror shall have duly performed and complied in all material respects with all covenants and agreements and conditions required by this Agreement to be performed or complied with by Acquiror prior to or on the Closing Date.

5.2.2 Purchase Price. Acquiror will have delivered to Shareholders on or before the Closing Date \$2,200,000 of the Purchase Price and will have delivered to the escrow agent \$300,000.

5.3 No Waiver of Rights. Any waiver by Acquiror or Shareholders of a closing condition shall not constitute a waiver of any rights under any provision of this Agreement.

ARTICLE 6 INDEMNIFICATION

6.1 Indemnification By Shareholders. To the extent permitted by Applicable Law, but subject to the limitations set forth in Sections 6.4 and 6.5, Shareholders covenant and agree to defend, indemnify and hold harmless Acquiror, and its officers, directors, employees, agents, advisers, representatives and Affiliates which, following the Closing, shall include the Company (collectively, the "Acquiror Indemnitees") from and against, and to pay or reimburse Acquiror Indemnitees for, any and all claims, amounts paid in settlement of claims, liabilities, obligations, losses, fines, costs, royalties, proceedings, deficiencies or damages (whether absolute, accrued, conditional, or otherwise and whether or not resulting from third party claims), including any out-of-pocket expenses and reasonable attorneys' and accountants' fees incurred in the investigation or defense of any of the same or in asserting any of their respective rights hereunder but excluding any consequential damages (collectively, "Losses"), resulting from or arising out of:

(a) any material inaccuracy of any representation or warranty by any Shareholder made by or contained in this Agreement; or

(b) any failure of any Shareholder to perform any covenant or agreement hereunder or to fulfill any other obligation in respect hereof, including any failure to pay Taxes due prior to the Closing Date.

6.2 Indemnification by Acquiror. To the extent permitted by Applicable Law, but subject to the limitations set forth in Sections 6.4 and 6.5, Acquiror covenants and agrees to defend, indemnify and hold harmless each Shareholder and Affiliates (collectively, the "Shareholder Indemnitees") from and against, and to pay or reimburse Shareholder Indemnitees for, any and all Losses resulting from or arising out of:

(a) any material inaccuracy in any representation or warranty by Acquiror made or contained in this Agreement; or

(b) any failure of Acquiror to perform any covenant or agreement hereunder or to fulfill any other obligation in respect hereof.

6.3 Indemnification Procedures. In the case of any claim by an Acquiror Indemnitee or a Shareholder Indemnitee (any of which, an "Indemnified Party") for indemnification under this Article 6, notice shall be given by the Indemnified Party to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and the Indemnified Party shall permit the Indemnifying Party (at the expense of such Indemnifying Party) to assume the defense of any claim or any litigation resulting therefrom; provided that (i) the counsel for the Indemnifying Party who shall conduct the defense of such claim or litigation shall be reasonably satisfactory to the Indemnified Party, (ii) the Indemnified Party may participate in such defense at such Indemnified Party's expense, and (iii) the failure by any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its indemnification obligation under this Agreement except to the extent that such omission results in a failure of actual notice to the Indemnifying Party and such Indemnifying Party is materially prejudiced as a result of such failure to give notice. Except with the prior written consent of the Indemnified Party, no Indemnifying Party, in the defense of any such claim or litigation, shall consent to entry of any judgment or enter into any settlement that provides for injunctive or other nonmonetary relief affecting the Indemnified Party or that does not include as an unconditional term thereof the giving by each claimant or plaintiff to such Indemnified Party of a release from all liability with respect to such claim or litigation. In the event that the Indemnifying Party does not accept the defense of any matter as above provided, the Indemnified Party shall have the full right to defend against any such claim or demand and shall be entitled, with the written consent of the Indemnifying party (such consent not to be unreasonably withheld), to settle or agree to pay in full such claim or demand. In any event, the Indemnifying Party and the Indemnified Party shall cooperate in the defense of any claim or litigation subject to this Section 6.3, including tax audits and claims, and the records of each shall be available to the other with respect to such defense.

6.4 Time Limitations. If the Closing occurs, Shareholders will have liability with respect to Section 6.1(a) (other than with respect to claims under Sections 3.1.1, 3.1.6, 3.1.8, which shall not be subject to any time limitation) only if on or before the date which is six (6) months after the Closing Date, or twelve (12) months after the Closing Date, in the case of any claim under Section 3.1.14, Acquiror notifies the Shareholder or Shareholders from which it is seeking indemnification in writing of the claim, specifying the factual basis of the claim in reasonable detail to the extent then known by Acquiror. If the Closing occurs, Acquiror will have liability with respect to Section 6.2(a) only if on or before the date which is six (6) months after the Closing Date, the Shareholder or Shareholders' seeking indemnification notify Acquiror in writing of the claim, specifying the factual basis of the claim in reasonable detail to the extent then known by such Shareholder. Notwithstanding the foregoing, if any claim is timely made as provided above and such claim has not been finally resolved or disposed of as of such date, then such claim shall continue to survive and shall remain a basis for indemnity hereunder until such claim is finally resolved or disposed of in accordance with the terms of this Agreement.

6.5 Limitations on Indemnification. Shareholders shall not be liable to Acquiror for any Loss or series of related Losses arising under Section 6.1(a), and Acquiror shall not be liable to Seller for any Loss or series of related Losses arising under Section 6.2(a): (A) in respect of any individual Loss of less than \$10,000; (B) unless the aggregate amount of all such Losses exceeds \$100,000 in the aggregate, in which case Shareholders or Acquiror shall be liable only for those Losses in excess of \$100,000; or (C) for the portion of all such Losses indemnified by Shareholders or Acquiror that is in excess of \$300,000. The amount of Losses required to be paid by Shareholders will be reduced to the extent of any amounts an Acquiror Indemnitee actually receives pursuant to the terms of the insurance policies (if any) covering an indemnification claim. The foregoing limitations shall not apply to claims (i) arising with respect to any of Sections 3.1.1, 3.1.6, or 3.1.8; (ii) for any breach of any representations and warranties for which the applicable party had actual knowledge at any time prior to the date on which such representation and warranty was made; or (iii) resulting from any intentional breach by any Shareholder of any representation, warranty, covenant or obligation contained in this Agreement.

6.6 Exclusive Remedy. The right to indemnification provided in this Article 6 is intended to be the sole and exclusive remedy of Acquiror or the Shareholders following the Closing. Until the Closing, the only remedies of the parties for any breach of this Agreement shall be for the non-breaching party to terminate the Agreement in the event of a material breach.

ARTICLE 7 DISPUTE RESOLUTION,

7.1 Disputes. Any claim, dispute, or other matter in controversy (herein called "Dispute"), whether based on contract, tort, statute, or other legal theory (including but not limited to any claim of fraud or misrepresentation), arising out of or related to the Agreement or the breach thereof shall be settled according to the procedures set forth in this Article 7 exclusively; provided, however, that either party may seek preliminary judicial relief if such remedy is otherwise available and such party, in its judgment, considers such action necessary to avoid irreparable damage during the pendency of such procedures.

7.2 Arbitration. If the parties have first attempted in good faith to resolve the Dispute by direct negotiations and the Dispute remains unresolved thirty (30) days after good faith negotiations are attempted by any party, then the Dispute shall be settled by arbitration in Phoenix, Arizona in accordance with the then current Commercial Rules of Arbitration ("Arbitration Rules") of the AAA in effect on the date of this Agreement, as supplemented or modified by the following. Within seven (7) days after any party receives notice of the identity of the arbitrator(s) appointed for such proceeding, such party shall submit to the arbitrator(s) its last, best settlement offer. The arbitrator(s) shall keep such offers confidential until they have received such offers from all of the parties, and then the arbitrator(s) shall disclose all such offers to all of the parties. The parties may settle the Dispute by mutual agreement at any time, but the arbitrator(s) may award relief only in accordance with the settlement offer of one of the disputing parties, without any compromise or adjustment, and the disputing party whose offer was not accepted shall pay all costs of such proceeding and the reasonable attorneys fees of the prevailing party incurred in connection therewith.

*ARTICLE 8
MISCELLANEOUS*

8.1 Expenses. Shareholders and Acquiror shall bear their respective expenses, costs and fees (including attorneys' fees) in connection with the transactions contemplated hereby, including the preparation, execution, and delivery of this Agreement and compliance herewith (the "Transaction Expenses"), whether or not the transactions contemplated hereby shall be consummated. The prevailing party in any action or proceeding arising out of or related to this Agreement shall be entitled to recover, in addition to such other relief as may be awarded to it, its reasonable attorneys' fees and costs, expert witness fees, litigation related expenses, and court or other costs incurred in such litigation or proceeding. For purposes of this clause, the term "prevailing party" means the net winner of the dispute, taking into account the claims pursued, the claims on which the pursuing party was successful, the amount of money sought, the amount of money awarded, and offsets or counterclaims pursued (successfully or unsuccessfully) by the other party. If a written settlement offer is rejected and the judgment or award finally obtained is equal to or more favorable to the offeror than an offer made in writing to settle, the offeror is deemed to be the prevailing party from the date of the offer forward.

8.2 Severability. If any provision of this Agreement, including any phrase, sentence, clause, section or subsection is inoperative or unenforceable for any reason, such circumstances shall not have the effect of rendering the provision in question inoperative or unenforceable in any other case or circumstance, or of rendering any other provision or provisions herein contained invalid, inoperative, or unenforceable to any extent whatsoever.

8.3 Notices. All notices, demands, and other communications provided for hereunder shall be in writing (including facsimile or similar transmission) and mailed (by U.S. certified mail, return receipt requested, postage prepaid), sent, or delivered (including by way of overnight courier service);

(a) If to Acquiror, addressed to:

Town Manager
Town of Cave Creek
37622 North Cave Creek Road
Cave Creek, Arizona 85331
Phone: (480) 488-6611
Facsimile: (480) 488-2263

with a copy to:

Sacks Tierney P.A.
4250 N. Drinkwater Boulevard, 4th Floor
Scottsdale, Arizona 85251
Phone: 480-425-2633
Facsimile: 480-425-4933
Attention: Marvin S. Cohen

(b) If to any of the Shareholders, addressed to:

Mary Beth Rowland
37209 N. 33rd Avenue
Phoenix, Arizona 85086
Phone: 623-780-5748

with a copy to:

Fennemore Craig PC
3003 N. Central Avenue, Suite 2600
Phoenix, Arizona
Phone: 602-916-5400
Facsimile: 602-916-5600
Attention: Jay Shapiro

or, as to each party, to such other Person and/or at such other address or number as shall be designated by such party in a written notice to the other party. All such notices, demands, and communications, if mailed, shall be effective upon the earlier of (i) actual receipt by the addressee, (ii) the date shown on the return receipt of such mailing, or (iii) three (3) days after deposit in the mail. All such notices, demands, and communications, if not mailed, shall be effective upon the earlier of (i) actual receipt by the addressee, (ii) with respect to facsimile and similar electronic transmission, the earlier of (x) the time that electronic confirmation of a successful transmission is received, or (y) the date of transmission, if a confirming copy of the transmission is also mailed as described above on the date of transmission, and (iii) with respect to delivery by overnight courier service, the day after deposit with the courier service, if delivery on such day by such courier is confirmed with the courier or the recipient orally or in writing.

8.4 Headings. The headings contained in this Agreement are for purposes of convenience only and shall not affect the meaning or interpretation of this Agreement.

8.5 Entire Agreement. This Agreement (including the Schedules hereto) constitutes the entire agreement among the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter hereof.

8.6 Counterparts. This Agreement may be executed in several counterparts, in original form or by electronic facsimile, each of which shall be deemed an original and all of which shall together constitute one and the same instrument. This Agreement shall not be effective as between any parties unless and until one or more counterparts have been executed by each and all of the Shareholders and Acquiror.

8.7 Governing Law. This Agreement shall be governed in all respects, including as to validity, interpretation and effect, by the internal laws of the State of Arizona, without giving effect to the conflict of laws rules thereof.

8.8 Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, personal representatives, successors and permitted assigns.

8.9 Assignment. This Agreement shall not be assignable or otherwise transferable by any party hereto without the prior written consent of the other parties hereto. Notwithstanding the foregoing, Acquiror has the one-time right without the consent of, but with prior notice to, Shareholders to assign all (but not less than all) of its rights under this Agreement to a separate corporation of which the original Acquiror owns the outstanding shares or other securities, provided that the original Acquiror shall not be released from any obligation hereunder as a result of such assignment.

8.10 No Third Party Beneficiaries. Except as provided in Article 6 with respect to indemnification of Indemnified Parties hereunder, nothing in this Agreement shall confer any rights upon any Person or entity other than the parties hereto and their respective, successors, and permitted assigns.

8.11 Amendment; Waivers, etc. No amendment, modification, or discharge of this Agreement, and no waiver hereunder, shall be valid or binding unless set forth in writing and duly executed by the party against whom enforcement of the amendment, modification, discharge, or waiver is sought. Any such waiver shall constitute a waiver only with respect to the specific matter described in such writing and shall in no way impair the rights of the party granting such waiver in any other respect or at any other time. Neither the waiver by any of the parties hereto of a breach of or a default under any of the provisions of this Agreement, nor the failure by any of the parties, on one or more occasions, to enforce any of the provisions of this Agreement or to exercise any right or privilege hereunder, shall be construed as a waiver of any other breach or default of a similar nature, or as a waiver of any of such provisions, rights, or privileges hereunder. The representations and warranties of Shareholders shall not be affected or deemed waived by reason of any investigation made by or on behalf of Acquiror (including by any of its advisors, consultants or representatives) except to the extent that Acquiror or any of such advisors, consultants or representatives knew that any such representation or warranty is or might be inaccurate.

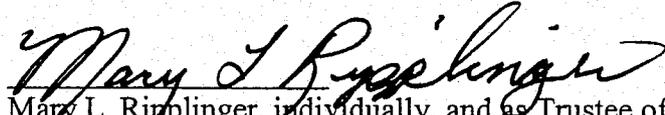
8.12 Risk of Loss. The risk of loss or damage to any of the assets of the Companies, the Owned Real Property or the Leased Real Property shall not in any event be borne by Acquiror prior to the Closing Date.

8.13 Interest. Any sums not paid when due pursuant to this Agreement shall bear interest from the due date thereof until paid at a per annum rate equal to the lesser of: (i) the maximum rate, if any, allowed by applicable law; or (ii) the greater of: (a) 10%; or (b) the "prime rate" as from time to time published in the Wall Street Journal as the "base rate or corporate loans posted by at least 75% of the nation's 30 largest banks" (or equivalent) plus 2%.

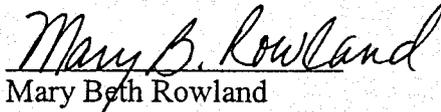
8.14 Conflict of Interest. This Agreement is subject to the provisions of A.R.S. § 38-511.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the date first above written.

SHAREHOLDERS:



Mary L. Ripplinger, individually, and as Trustee of the trust dated January 22, 1998.



Mary Beth Rowland



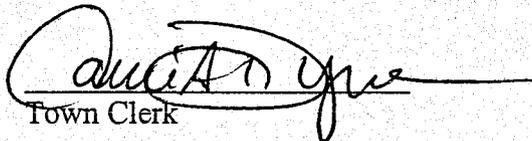
Melanie Coahran

TOWN OF CAVE CREEK



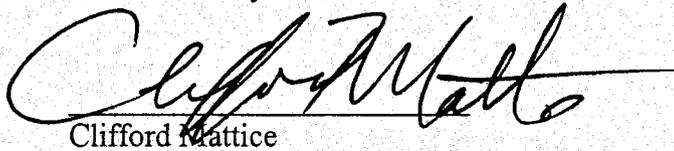
Mayor

Attest:

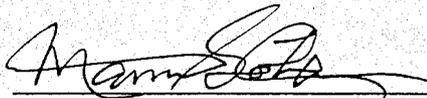


Town Clerk

Approved as to form:
Town Attorneys



Clifford Mattice



Marvin S. Cohen

EXHIBIT 2

5. Capital Improvement Program

The following summarizes major components of the DHWC that require upgrades to support the growing needs of the system. The major components are storage and booster facilities, mainline upgrades and mainline extensions for new customers.

The estimates were prepared in accordance with the guidelines of the Association for the Advancement of Cost Engineering (AACE) International. According to the definitions of AACE International, the Class 5 Estimate is defined as the following:

Class 5 Estimate. This estimate is prepared based on limited information, where little more than proposed plant type, its location, and the capacity are known. Strategic planning purposes include but are not limited to, market studies, assessment of viability, evaluation of alternate schemes, project screening, location and evaluation of resource needs and budgeting, and long-range capital planning. Examples of estimating methods used would include cost/capacity curves and factors, scale-up factors, and parametric and modeling techniques. Typically, little time is expended in the development of this estimate. The expected accuracy ranges for this class estimate are -20 to -50 percent on the low side and +30 to +100 percent on the high side.

The cost estimates shown, which include any resulting conclusions on project financial or economic feasibility or funding requirements, have been prepared for guidance in project evaluation and implementation from the information available at the time of the estimate. The final costs of the project and resulting feasibility will depend on actual labor and material costs, competitive market conditions, actual site conditions, final project scope, implementation schedule, continuity of personnel and engineering, and other variable factors. Therefore, the final project costs will vary from the estimate presented here. Because of these factors, project feasibility, benefit/cost ratios, risks, and funding needs must be carefully reviewed prior to making specific financial decisions or establishing project budgets to help ensure proper project evaluation and adequate funding.

To improve existing system deficiencies, DHWC is currently constructing a project that includes a 250,000 gal. steel storage tank, four 15 horsepower (hp) booster pumps and a 5,000 gal. hydropneumatic tank that is expected to be completed by the end of September 2006. This new facility is located on the south side of Cloud Road between 12th and 14th Streets. The facility will be used to boost pressure to the area of the system that is the subject of numerous customer complaints located in a 1-square mile area bounded by 16th Street, Cloud Road, 24th Street and Joy Ranch Road. Customers located very close to the facility may require pressure reducing valves on their service lines; the costs for these valves are not included. Photos of the site are shown in Figures 5-1 and 5-2.

FIGURE 5-1
Cloud Road Tank/Booster Construction Site
Desert Hills Water Company System Acquisition Evaluation

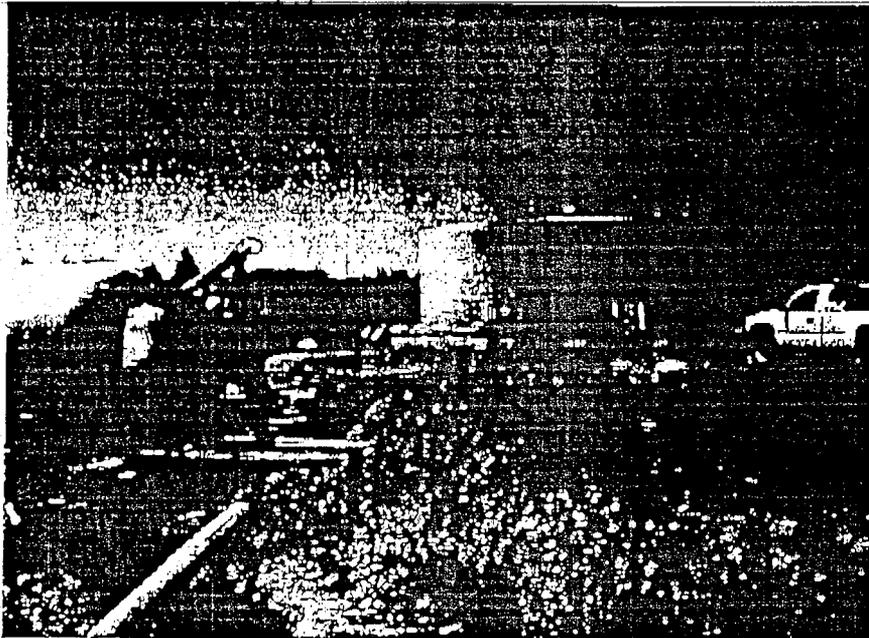
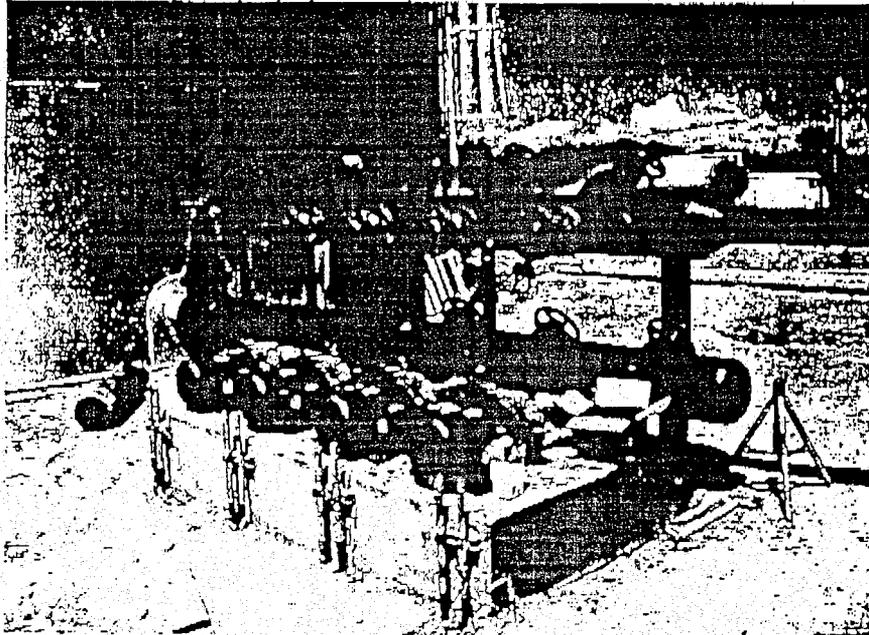


FIGURE 5-2
Cloud Road Construction Site: New Boosters
Desert Hills Water Company System Acquisition Evaluation



The estimated cost for this facility is \$340,000 developed from vendor quotes and industry standards.

TABLE 5-1

Cloud Road Tank and Booster Station (Under Construction)
Desert Hills Water Company System Acquisition Evaluation

	Quantity	Size	Unit	Unit Cost	Total Cost
Tank	1	250,000 gal.	Lump Sum	\$160,000	\$160,000
Booster Station	4	15 hp	\$/hp	\$3,000	\$180,000
Total					\$340,000

Additional improvement projects include constructing main lines to loop the water system within the 1-square mile problem area. These pipelines are planned to be located along 24th Street from Cloud Road to Joy Ranch Road and along Joy Ranch Road between 20th Street and 24th Street. This looping will provide additional system reliability in the area as well as convert customers currently connected to Global within DHWC's CC&N boundary. Table 5-2 summarizes the location and the estimated cost of installation with a 25 percent contingency for the improvements.

TABLE 5-2

Ductile Iron Pipeline (DIP)
Desert Hills Water Company System Acquisition Evaluation

Location	Linear Feet	Pipe Size (Inches)	Unit Cost (\$/in/lf)	Cost of Install
24th St. between Cloud Rd. & Joy Ranch Rd.	3,900	8	\$9	\$44,000
Joy Ranch Rd. between 20 th St. & 24 th St.	2,550	8	\$9	\$29,000

Note: Cost of Install includes 25 percent Contingency.
\$/in/lf = dollars per inch per linear foot

To improve system redundancy and reliability, CH2M HILL recommends the addition of a new water source, such as a groundwater well, and storage facilities. Table 5-3 summarizes the estimated costs for these facilities, which exclude piping and boosters due to their site specific nature.

TABLE 5-3

Additional Supply and Storage for System Redundancy and Reliability
Desert Hills Water Company System Acquisition Evaluation

	Quantity	Size	Unit	Unit Cost	Total Cost
Well	1	10-inch casing, 1,000 ft deep	\$/ft	\$300	\$300,000
Storage Tank	2	250,000 gal.	Lump Sum	\$160,000	\$320,000
Total					\$620,000

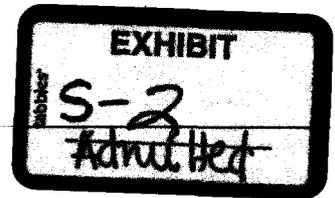
EXHIBIT 3

DESERT HILLS WATER CO., INC.
 OFFSITE FACILITIES HOOK-UP FEE TARIFF
 QUARTERLY STATUS REPORT - 2006

TRANS. DATE	DESCRIPTION	AMOUNT DEPOSITED	AMOUNT SPENT	FACILITIES INSTALLED	ACCOUNT BALANCE
12-31-05	Year End Balance				176,974.32
1-31-06	Interest	359.57			177,333.89
2-28-06	Interest	364.43			177,698.32
3-27-06			45,952.09	Ariz. Welding Services, Inc. for Cloud Road Booster Station	
3-27-06			3750.00	Refund to AJF Custom Homes (5)	
3-31-06	Hammer (2), Bellinger, Harris, Pritchett, Firecreek, B & J (4), Westby (2), Kraft (2), Wright (2), NBI (2), Barrington, and Didier (2)	15750.00			
3-31-06	Interest	411.71			144,157.94
4-1-06	Ortiz	750.00			
4-7-06	Correction of pymt. To Ariz. Welding Services dated 3-27-06	3000.00			
4-30-06	Interest	360.13			148268.07
5-23-06	Sutherland, Forbes, Gilman, Harper and Southwind (3)	5250.00			
5-23-06			750.00	Refund to AFJ Custom Homes	
5-23-06			11235.47	K & H Electric for Well No. 5	
5-23-06			52001.00	APS for Tank Site - 36108 N. 13 th Pl.	
5-25-06			750.00	Refund to Ortiz - Cancelled Hook Up	

TRANS. DATE	DESCRIPTION	AMOUNT DEPOSITED	AMOUNT SPENT	FACILITIES INSTALLED	ACCOUNT BALANCE
5-26-06	Mayberry, Murray, Maffatt and Grote (3)	4500.00			
5-31-06	Interest	394.98			93,676.58
6-16-06	RDC, 10 th & Irvine LLC and Crossroads	2250.00			
6-19-06	Jensen, Aldebaran and Houze (5)	5250.00			
6-30-06	Tovar, Owens and Penrod	2250.00			
6-30-06	Interest	259.98			103,686.56
7-7-06	Haines	750.00			
7-28-06	Hernandez	750.00			
7-31-06	Interest	169.76			105,356.32
8-31-06			4810.00	Reed Supply – Cloud Road Booster	
8-31-06			10317.70	Hughes Supply – Cloud Road Booster	
8-31-06	Interest	169.09			
8-31-06	Aguilar	750.00			91,147.71
9-12-06	Dorsher, Ellis, LaFave & White	3000.00			
9-12-06			42518.64	Rain for Rent – Emergency Water Line from Anthem	
9-31-06	Interest	97.17			51,726.24

Desert Hills Water Co., Inc.
Balance Sheet
 As of September 12, 2006



3:20 PM
 09/12/06
 Cash Basis

	Sep 12, 06
ASSETS	
Current Assets	
Checking/Savings	
181 - Bank of America Checking	46,531.02
182 - DHWC - General Savings	10,556.73
183 - Hook-Up Tariff Account	47,709.98
Total Checking/Savings	104,797.73
Other Current Assets	
174 - WIFA Debt Reserve	41,211.90
Total Other Current Assets	41,211.90
Total Current Assets	146,009.63
Fixed Assets	
Accumulated Depreciation	
140 - Accum Depreciation	-2,272,178.53
140.1 - Book Value Retired Plan	1,038.22
Total Accumulated Depreciation	-2,271,140.31
Plant in Service	
303 - Intangible Plant	6,524.00
310 - Land & Land Rights	157,147.15
311 - Supply Plant - Structures	29,852.03
314 - Wells & Springs	327,821.48
325 - Pumping Plant/Elec Pumps	505,485.92
332 - Water Treatment Equip	8,226.14
342 - T & D Plant - Dist Reserv	702,110.27
343 - T & D Plant - Dist Mains	3,912,662.17
345 - T&D - Services	132,834.19
346 - T&D - Meters	216,089.74
348 - T&D - Hydrants	8,229.32
391 - Gen Plant - Office Equip	147,883.46
392 - Transportation Equip	69,237.84
394 - Gen Plant - Tools & Equip	116,988.45
Total Plant in Service	6,341,092.16
Total Fixed Assets	4,069,951.85
TOTAL ASSETS	4,215,961.48
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
220 - Accounts Payable	245.57
235 - Customer Deposits	105,577.43
242.01 - Abandoned Deposits	5,107.61
Payroll Liabilities	1,801.48
Total Other Current Liabilities	112,732.09
Total Current Liabilities	112,732.09
Long Term Liabilities	
252 - Advances in Aid of Constr	2,698,854.22
252.01 - GrossUp Tax Refundable	122,752.21
252.02 - Meter Dep. Refundable	186,380.00
Total Long Term Liabilities	3,007,986.43
Total Liabilities	3,120,718.52
Equity	
201 - Common Stock	53,620.00
215 - Retained Earnings	483,338.77
217 - Dividends to Shareholders	-509,207.28
CIAC	

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Desert Hills Water Co., Inc.

09/12/06

Balance Sheet

Cash Basis

As of September 12, 2006

	<u>Sep 12, 06</u>
271 - Contrib In Aid of Constr	1,304,675.36
271.0 - Accum Amort of CIAC	<u>-350,662.22</u>
Total CIAC	954,013.14
Net Income	<u>113,478.33</u>
Total Equity	<u>1,095,242.96</u>
TOTAL LIABILITIES & EQUITY	<u>4,215,961.48</u>

LEGAL

MEMORANDUM

RECEIVED

TO: Docket Control

2007 FEB -11 A 8: 38

FROM: Ernest G. Johnson
Director
Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

Date: February 1, 2007

RE: STAFF REPORT FOR THE APPLICATION OF DESERT HILLS WATER COMPANY TO TRANSFER ASSETS TO THE TOWN OF CAVE CREEK AND CANCEL ITS CERTIFICATE OF CONVENIENCE AND NECESSITY.
DOCKET NO: W-02124A-06-0717

Attached is the Staff Report for the transfer of Desert Hills Water Company to the Town of Cave Creek and cancellation of its certificate of convenience and necessity. Staff recommends approval.

EGJ:LAJ:tdp

Originator: Linda A. Jaress

RECEIVED
FEB 01 2007
LEGAL DIV.
ARIZ CORPORATION COMMISSION



SERVICE LIST FOR: Desert Hills Water Company
DOCKET NO. W-02124A-06-0717

Mr. Jay Shapiro
Mr. Patrick J. Black
FENNEMORE CRAIG
303 North Central Avenue, Suite 2600
Phoenix, Arizona 85012

Court S. Rich
ROSE LAW GROUP, INC.
6613 North Scottsdale Road, Suite 200
Scottsdale, Arizona 85250

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Christopher C. Kempley
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

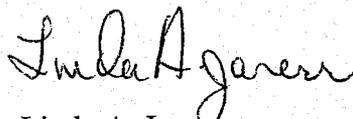
DESERT HILLS WATER COMPANY
DOCKET NO. W-02124A-06-0717

TRANSFER OF DESERT HILLS WATER COMPANY TO
THE TOWN OF CAVE CREEK

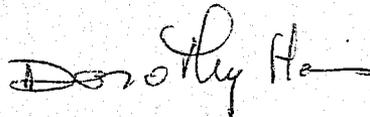
FEBRUARY 1, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Desert Hills Water Company, Docket No. W-02124A-06-0717 was prepared by the Staff members shown below.



Linda A. Jares
Executive Consultant III



Dorothy Hains
Utilities Engineer

EXECUTIVE SUMMARY
DESERT HILLS WATER COMPANY
DOCKET NO. W-02124A-06-0717

On May 17, 2005, the Town of Cave Creek ("Cave Creek" or "the Town") held a special election which authorized up to \$50,000,000 of water and sewer bonds or loans from the Water Infrastructure finance Authority of Arizona to provide funds to expand, extend and enlarge the Town's sewer system and acquire, expand, extend and enlarge a water system. On September 12, 2006, the Town Council approved a resolution which authorized the Town to purchase Desert Hills Water Company ("Desert Hills" or "the Company") and on that day, the Town acquired the stock of Desert Hills and began operating the Desert Hills system.

On November 8, 2006, Desert Hills (under the Town's ownership) filed an application with the Arizona Corporation Commission ("the Commission") for approval to transfer the ownership of the assets from Desert Hills to the Town and to cancel the Certificate of Convenience and Necessity ("CC&N") of Desert Hills.

The Town has experience working with a contractor to operate a wastewater company. This experience will be relevant to the operation of the water company. The Town has the ability to make loans to acquire water companies through its voters' approval. The stock of Desert Hills already belongs to the Town and the Town has owned the Company since September, 2006. The only immediate impact approval of this application will have is to cancel the stock and CC&N of Desert Hills and transfer the assets to the Town.

The Town has shown its intentions to maintain Desert Hills' current rates for at least one year and to credit 189 customers for basic service charges paid during a period of outages. The Town also expects to contract with an affiliate of a large water company with several years of experience operating and maintaining water companies in Arizona. The Town has also described a system for responding to customer complaints or inquiries. Staff believes the Town is a fit and proper entity to receive and operate the assets of Desert Hills.

Staff recommends approval of the transfer of the assets of Desert Hills to the Town.

Staff further recommends the Commission cancel the CC&N of Desert Hills thereby extinguishing any compliance matters. However, Staff notes that if the assets are transferred and the CC&N cancelled, there will not be a holder of the CC&N against which the Commission could enforce the pending Order to Show Cause in Docket No. W-02124A-06-0379.

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THE DESERT HILLS WATER SYSTEM.....	2
RATES AND CUSTOMER SERVICE.....	2
COMPLIANCE	3
SEWER SERVICE.....	4
CONCLUSIONS AND RECOMMENDATIONS	4

EXHIBITS

ENGINEERING REPORT.....	1
ENGINEERING MAP.....	2

INTRODUCTION

On May 17, 2005, the Town of Cave Creek ("the Town") held a special election which ultimately authorized up to \$50,000,000 of water and sewer bonds or loans from the Water Infrastructure Finance Authority of Arizona to provide funds to expand, extend and enlarge the Town's sewer system and acquire, expand, extend and enlarge a water system. On September 12, 2006, the Town Council approved a resolution which authorized the Town to purchase all of the common stock of Desert Hills Water Company ("Desert Hills" or "the Company") for \$2.5 million and on that day, the Town acquired and began operating the Desert Hills system.

On November 8, 2006, Desert Hills (under the Town's ownership) filed an application with the Arizona Corporation Commission ("the Commission") for approval to transfer the ownership of the assets from Desert Hills to the Town and to cancel the Certificate of Convenience and Necessity ("CC&N") of Desert Hills. On December 4, 2006, the Town authorized Mr. Abujbarah, the President of Desert Hills and the Town Manager, to transfer all of the assets of Desert Hills to the Town. Section 2 of the December 4th resolution gives the Town the right to terminate the Transfer Agreement "in the event that the Town, in its sole discretion, determines that unacceptable conditions might be or have been imposed on the transfer by any regulatory agency."

If the application for approval to transfer the Desert Hills assets to the Town is approved, Desert Hills will no longer be regulated by the Commission.

BACKGROUND

The recent history of Desert Hills is fraught with water shortages, outages, poor customer service and customer complaints resulting in expensive, prolonged reviews, status updates, negotiations, and hearings involving the Commission, Global Water Resources ("Cave Creek Water Company") and Arizona American Water Company ("Arizona-American"). Docket No. W-02124A-06-058 et al. addressed an interconnection with Cave Creek Water Company and Arizona-American Water Company. Docket No. W-02124A-06-0379 is an Order to Show Cause proceeding regarding Desert Hills' failure to comply with Commission rules and regulations.

THE TRANSFER AGREEMENT

The November 7, 2006 Transfer Agreement between Desert Hills and the Town, would change the Company from a public service corporation into a municipal utility. In Section 3.5 of the Agreement, the Town agrees to fulfill several "obligations" including the following:

1. Provide 189 customers credit for monthly minimum charges for water service paid from June through September, 2006 due to service interruptions during that time.
2. Charge Desert Hills' current rates and charges for a period of one year from closing.

3. Continue efforts to bring the water distribution system into compliance with Maricopa County Environmental Services Department and Arizona Department of Environmental Quality rules and regulations.
4. Continue efforts to address long-term water supply needs for customers previously served by Desert Hills.
5. Ensure that the Town's website will give water customers access to important information in the provision of water service.

Although the Town's agreement to fulfill the obligations listed may be reassuring, it should be noted that the agreement is between the Town and itself, and will be self-enforced.

THE DESERT HILLS WATER SYSTEM

The Desert Hills water system is comprised of three wells having a combined production rate of 640 gallons per minute, five storage tanks having a combined capacity of 1.01 million gallons and a distribution system serving approximately 1,630 customers. According to the Staff Engineering Report attached as Exhibit 1, the Desert Hills' wells do not produce enough water to serve existing customers. To supplement its well production, Desert Hills has interconnected with the Anthem District system of Arizona-American and also has an emergency interconnection with neighboring Cave Creek Water Company. The connection to Arizona-American is not currently provided for in a contract. However, Desert Hills has represented that it is in the final stages of negotiating a long term water acquisition agreement with Arizona-American. At December 11, 2006, the Town was also in the final stages of negotiating an Operations and Maintenance Agreement with American Water Operations and Maintenance, Inc., an affiliate of Arizona-American Water Company, to operate the Desert Hills system.

The Town is also finalizing an agreement to settle a condemnation proceeding against Cave Creek Water Company (owned by Global Water Resources) and to acquire it. According to the Town, the acquisition of Cave Creek Water Company will drive the Town's long-term plans to provide water to all customers with one integrated system.

A map of the Desert Hills service territory is attached as Exhibit 2. It can be seen that the Cave Creek Water Company service territory is contiguous to the Desert Hills service territory. Thus, if the Town acquires Cave Creek Water Company, and ultimately integrates the systems, it would likely experience economies of scale.

RATES AND CUSTOMER SERVICE

According to the testimony of Town Manager Usama Abujbarah, filed on January 5, 2007, "For now, the Town has no plans to increase the rates in the DHWC service area." He also commits to providing notice to customers, holding public meetings and allowing the customers an opportunity to be heard before changing the rates charged to customers. In addition, as

previously mentioned, the Transfer Agreement includes a section whereby the Town agrees to charge current rates for a period of one year from the date of the transfer.

Staff asked the Town to describe the customer complaint resolution process it will use after the transfer. The Town responded that:

“Any complaints regarding the quality of water service to customers currently connected to the DHWC system will first be addressed by the system operator, American Water Operations and Maintenance, Inc. The Town Manager and Administrative office will be notified of all complaints, and if not resolved to a customers satisfaction by the system operator, any complaint shall be processed via the Town’s administrative resolution process, including ultimate resolution by the Town Council, if necessary.”

The Town has retained two of the former Desert Hills’ employees and is able to provide its own billing and collection services.

The Commission’s Consumer Services Section reports that 7 customer complaints, inquiries and opinions were logged regarding Desert Hills in 2004; 16 in 2005; 150 from January 1, 2006 to September 11, 2006; and 12 since the acquisition of Desert Hills by the Town on September 12, 2006.

COMPLIANCE

On September 11, 2006, Maricopa County Environmental Services Department (“MCESD”) issued a Notice of Violation and Demand for Compliance to Ms. Mary Beth Rowland, then owner of Desert Hills, demanding the water system be brought into compliance with the Maricopa County Environmental Health Code and the Arizona Administrative Code. Upon acquisition of Desert Hills, the Town took responsibility for all open enforcement actions. Without admitting to any of the allegations, the Town expressed its desire to MCESD to settle all matters without further enforcement action. On November 27, 2006, the Town and MCESD signed a Stipulated Settlement Agreement whereby the Town would pay a penalty of \$12,000. The Town also agreed to submit an engineering report demonstrating adequate pressure, storage and water supply within 30 days of the agreement.

On December 4, 2006, MCESD stated that Desert Hills was delivering water that met water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. MCESD also determined that a pressure problem had been rectified, after the new Cloud Road booster station was placed in service and the Company was able to purchase water from Arizona-American.

The Company is located in the Phoenix Active Management Area. The Arizona Department of Water Resources has indicated that the Company is in compliance with its reporting requirements.

The U.S. Environmental Protection Agency reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. Arsenic levels in one of the Company's existing wells exceed the new MCL. The Company must comply with the new arsenic standard no later than December 31, 2007. The Town intends to develop a long-range plan for arsenic treatment once the operating agreement is finalized with Arizona-American Water Company.

SEWER SERVICE

Cave Creek has been providing sewer service to its businesses and residents since 1999. According to the Town, the monthly rate for residential sewer service is \$35. It has never raised the sewer rates. An affiliate of Arizona-American operates the sewer system. Cave Creek Water Company provides billing and collection services for the sewer operations.

CONCLUSIONS AND RECOMMENDATIONS

The Town has experience owning a public utility and working with a contractor to operate it. The Town has the ability to make loans to acquire water companies through its voters' approval. The stock of Desert Hills already belongs to the Town and the Town has owned the Company since September, 2006. The only immediate impact approval of this application will have is to cancel the stock and CC&N of Desert Hills and transfer the assets to the Town.

The Town has shown its intentions to maintain Desert Hills' current rates for at least one year and to credit 189 customers for basic service charges paid during a period of outages. The Town also expects to contract with an affiliate of a large water company with several years of experience operating and maintaining water companies in Arizona. The Town has also described a system for responding to customer complaints or inquiries. Staff believes the Town is a fit and proper entity to receive and operate the assets of Desert Hills.

Staff recommends approval of the transfer of the assets of Desert Hills to the Town.

Staff recommends the Commission cancel the CC&N of Desert Hills thereby extinguishing any compliance matters. However, Staff notes that if the assets are transferred and the CC&N cancelled, there will not be a holder of the CC&N against which the Commission could enforce the pending Order to Show Cause in Docket No. W-02124A-06-0379.

MEMORANDUM

DATE: January 22, 2007

TO: Linda Jaress
Executive Consultant III

FROM: Dorothy Hains, P. E. *DH*
Utilities Engineer

RE: **Application For Approval of Desert Hills Water Transfer of Utility Assets To Town of Cave Creek, Pursuant To A.R.S. 40-285 Docket No. W-02124A-06-0717**

I. Introduction

Desert Hills Water Co. ("Desert Hills" or "the Company"), has submitted to the Arizona Corporation Commission ("ACC") an application for Approval of Transfer of Utility Assets to Town of Cave Creek ("the Town"), Pursuant to ARS 40-285. Desert Hills also requested the Commission cancel its existing Certificate of Convenience and Necessity (CC&N). At present the Company serves approximately 1,630 metered customers who live within the nine and half square mile Desert Hills' CC&N area. The CC&N area, bound by Rockway Hills Road, 19th Ave., Dove Valley Road and 24th Street, is located in an unincorporated area north of the City of Phoenix and west of the Town of Cave Creek in Maricopa County.

II. Desert Hills Water System

Desert Hills operates a water system that consists of three drinking water wells (having a combined production rate of 640 gallons per minute) and five storage tanks (having a combined capacity of 1.01 million gallons). Desert Hills has a temporary interconnection with the Anthem District system of Arizona American Water Company ("Arizona American") and also has an emergency interconnection with Cave Creek Water Company ("Cave Creek"). If the Company had to depend only on its existing three wells, then it would not have adequate water production to serve existing customers; however, the Company does have the option of providing water from other sources, such as, purchasing water from another water company. The Company is in the final stages of negotiating a long term water acquisition agreement with Arizona American.¹

¹ See Company's December 11 response to Staff's Data Request.

III. Town of Cave Creek Water System prior to the Desert Hills acquisition

The Town has never owned or operated a water system prior to its November 2006 Desert Hills asset purchase. After Desert Hills entered into an Asset Transfer Agreement with the Town, the Town contracted with Arizona American to operate the Desert Hills water system.

IV. Maricopa County Environmental Services Department ("MCESD") Compliance Status

Staff received a compliance status report for Desert Hills from MCESD in which MCESD stated that it has determined that Desert Hills is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.²

MCESD also determined that a pressure problem had been rectified, after the Cloud Road booster station was placed in service and the Company was able to purchase water from Arizona American. However, the interconnection between Arizona American and the Company is a temporary, above ground connection; MCESD has cited this violation. A Stipulated Settlement Agreement between the Company and MCESD was signed on November 27, 2006.

V. Arizona Department of Water Resources ("ADWR") Compliance Status

The Company is located in the Phoenix Active Management Area ("AMA"), as designated by ADWR. ADWR has indicated that the Company is in compliance with its reporting requirements.

VI. ACC Compliance Status

There is a pending Order To Show Cause in Docket No. W-02124A-06-0379.

VII. Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 micrograms per liter (" $\mu\text{g/l}$ ") or parts per billion ("ppb") to 10 $\mu\text{g/l}$. Arsenic levels in one of the Company's existing wells exceed the new MCL. The Company must comply with the new arsenic standard no later than December 31, 2007.

² Staff received the compliance status report from MCESD on December 5, 2006.

The Town intends to develop a long-range plan for arsenic treatment once the operating agreement is finalized with Arizona American.³

VIII. Curtailment Tariff

The Company has an approved curtailment tariff on file with the Commission.

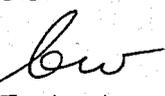
XI. Summary

1. Staff concludes that Desert Hills does not have adequate production to serve its customers in its service area without the interconnection with the Anthem District system of Arizona American.
2. Desert Hills is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
3. ADWR has determined that Desert Hills is in compliance with its monitoring and reporting requirements.
4. There is a pending Order To Show Cause in Docket No. W-02124A-06-0379.

³ See Company's December 11 response to Staff's Data Request.

MEMORANDUM

TO: Linda Jaress
Executive Consultant III
Utilities Division

FROM: Barb Wells 
Information Technology Specialist
Utilities Division

THRU: Del Smith 
Engineering Supervisor
Utilities Division

DATE: January 31, 2007

RE: **DESERT HILLS WATER COMPANY (DOCKET NO. W-02124A-06-0717)**
TOWN OF CAVE CREEK

Desert Hills has filed an application to transfer its CC#N to the Town of Cave Creek.

Attached are copies of the maps for your files.

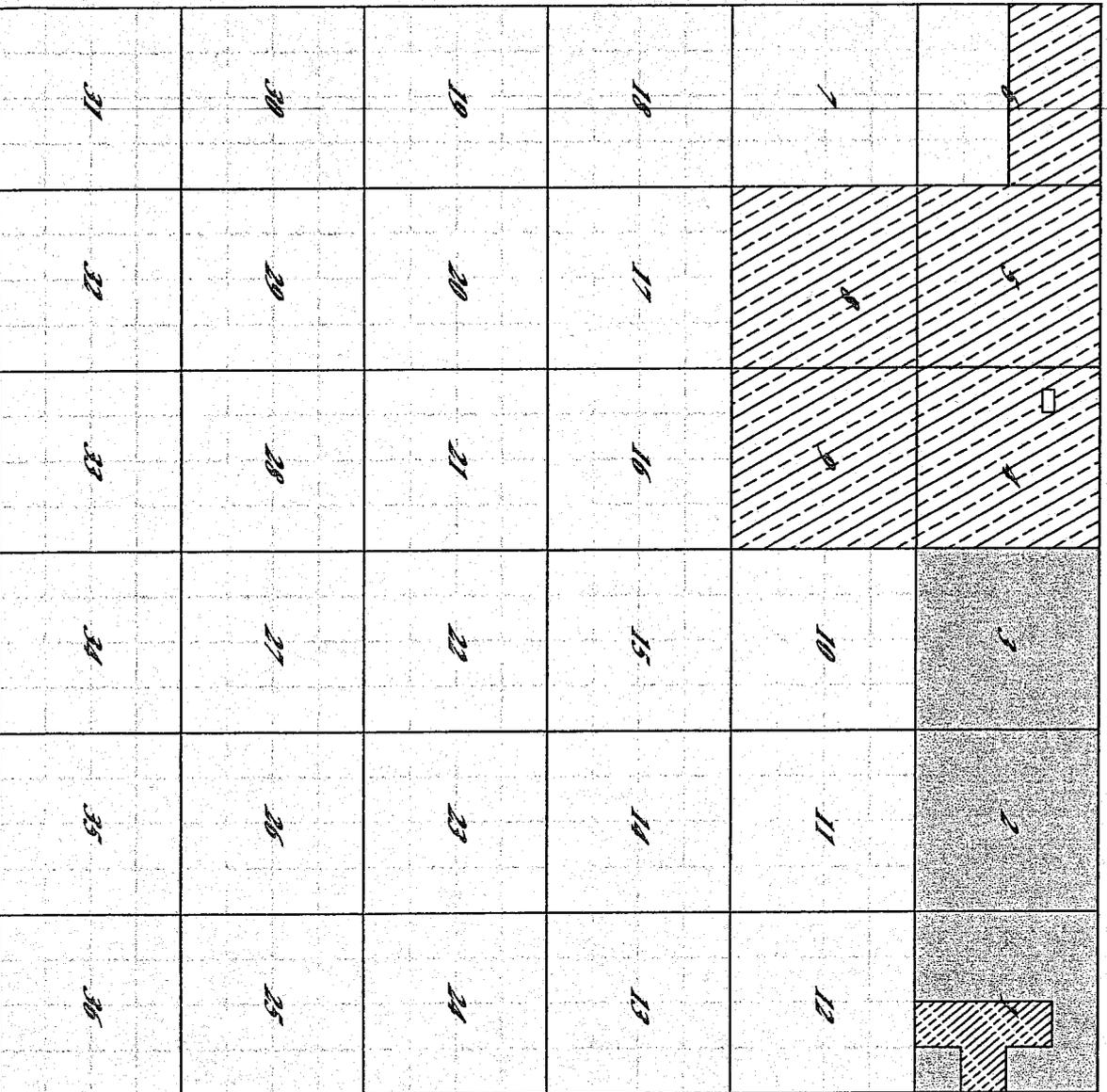
:bsw

Attachment

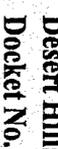
cc: Mr. Jay Shapiro
Ms. Deb Person (Hand Carried)
File

COUNTY OF Maricopa

RANGE 3 East

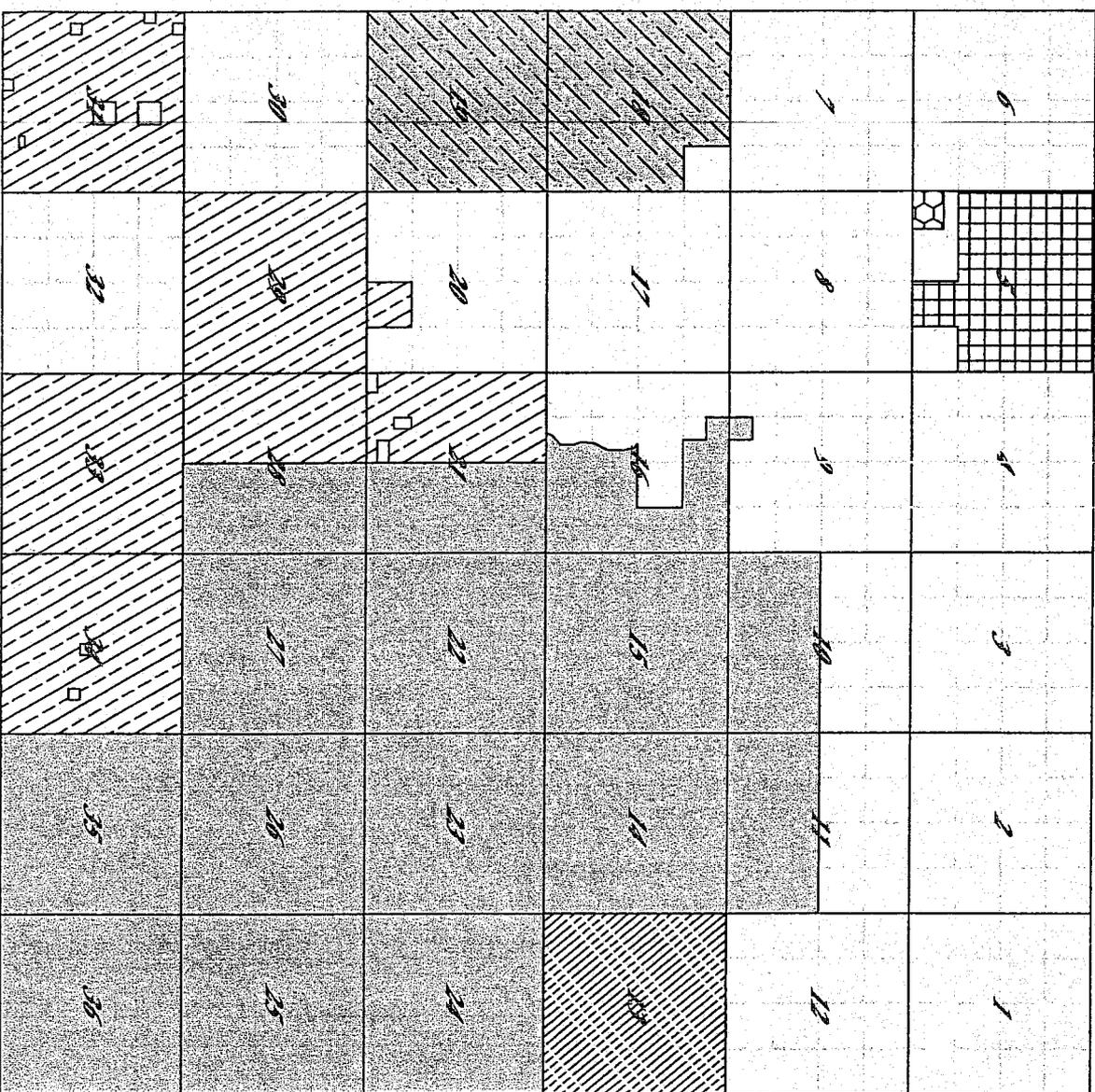


TOWNSHIP 5 North

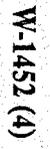
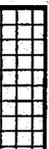
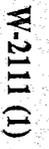
-  W-1452 (4)
Cave Creek Water Company
-  W-2124 (2)
Desert Hills Water Company, Inc.
- 
Cave Creek Water Company
Docket No. W-01452A-06-0449
Application for Extension
- 
Desert Hills Water Company, Inc.
Docket No. W-02124A-06-0717
Application for Cancellation
(To Town of Cave Creek)

COUNTY OF Maricopa

RANGE 3 East



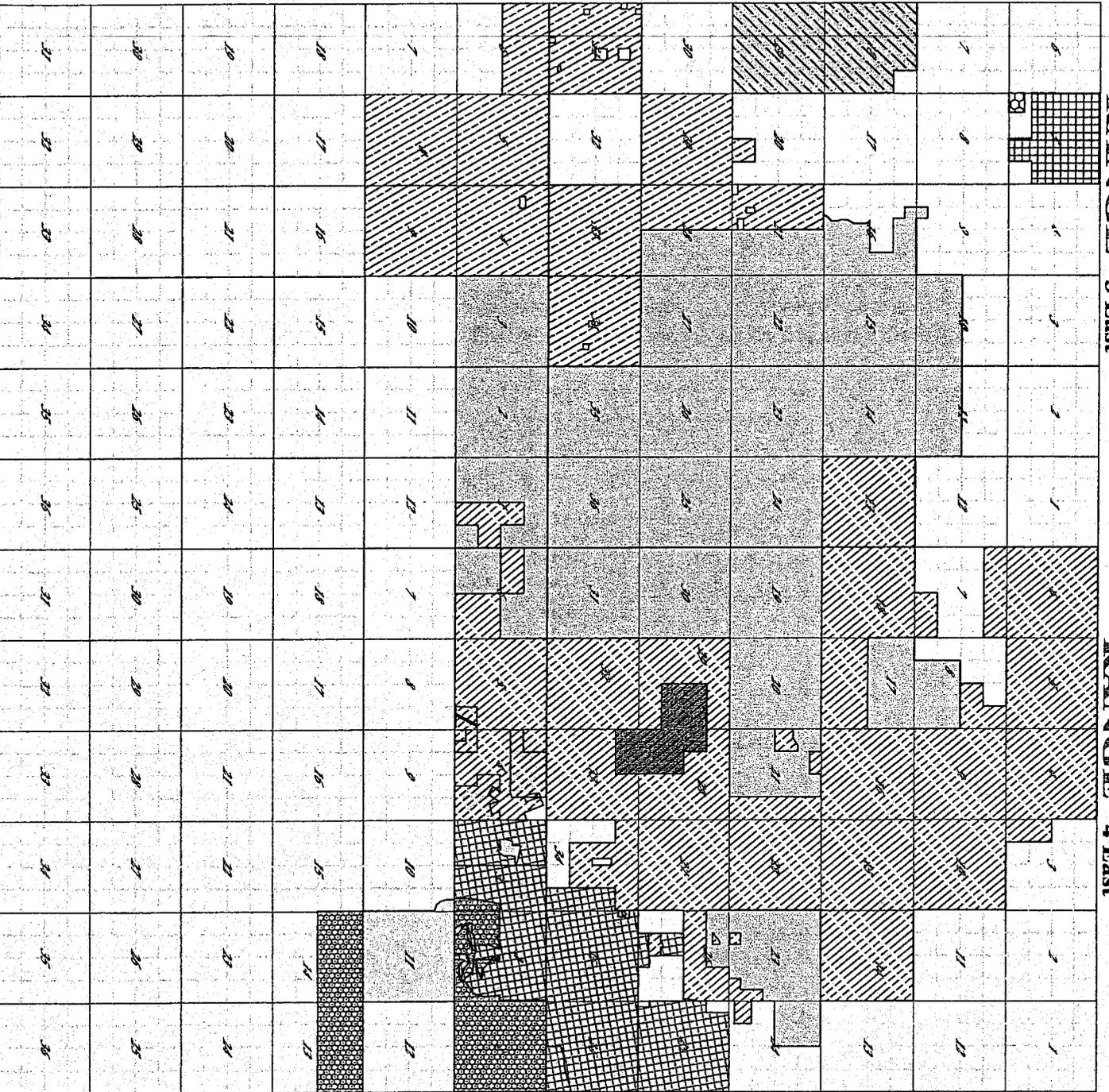
TOWNSHIP 6 North

-  WS-1303 (14)  Sewer
-  Arizona-American Water Company (Anthem)
-  W-1452 (4)
-  Cave Creek Water Company
-  W-2124 (2)
-  Desert Hills Water Company, Inc.
-  W-2111 (1)
-  Sabrosa Water Company
-  W-2474 (1)
-  Shangri-La Associates, Inc.
-  Cave Creek Water Company
-  Docket No. W-01452A-06-0449
-  Application for Extension
-  Desert Hills Water Company, Inc.
-  Docket No. W-02124A-06-0717
-  Application for Cancellation
-  (To Town of Cave Creek)

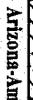
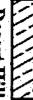
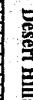
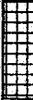
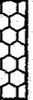
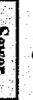
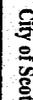
COUNTY OF Maricopa

RANGE 3 East

RANGE 4 East



TOWNSHIP 6 North
TOWNSHIP 5 North

-  WS-1303 Sewer
-  Arizona-American Water Company
-  W-1452
-  Care Creek Water Company
-  W-2124
-  Desert Hills Water Company, Inc.
-  W-2111
-  Sabrosa Water Company
-  W-2474
-  Shampf-La Associates, Inc.
-  Sewer SW-2361
-  Black Mountain Sewer Corporation
-  City of Scottsdale (Nonjurisdictional)
-  Town of Carefree (Nonjurisdictional)
-  Town of Care Creek (Sewer Only)
-  Cave Creek Water Company
Docket No. W-01452A-d6-0449
Application for Extension