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Transcript Exhibit(s)

AZ CORP COMMISSION
DOCKET CONTROL

Docket#(s): W-01412A-07-0560

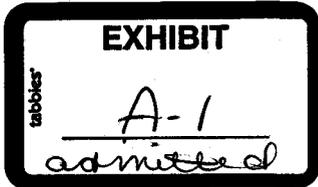
W-01412A-07-0561

Exhibit # : A1-A5, S1, S2

Arizona Corporation Commission
DOCKETED

DEC 6 2007

DOCKETED BY PKP



1 Richard L. Sallquist, Esq. (002677)
2 SALLQUIST, DRUMMOND & O'CONNOR, P.C.
3 4500 S. Lakeshore Drive, Suite 339
4 Tempe, Arizona 85282
5 Telephone: (480) 839-5202
6 Fax: (480) 345-0412
7 Attorneys for Valley Utilities Water Company, Inc.

8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

9 IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-01412A-07____
10 VALLEY UTILITIES WATER COMPANY,)
11 INC. FOR AN EMERGENCY RATE) **EMERGENCY RATE INCREASE**
12 INCREASE AND AUTHORITY TO) **APPLICATION**
13 IMMEDIATELY IMPLEMENT A WELL) **AND**
14 SURCHARGE.) **REQUEST FOR**
15) **EXPEDITED HEARING**
16)

17 Valley Utilities Water Company, Inc. ("Valley" or the "Company"), by and through
18 undersigned counsel, respectfully states the following in support of this Application:

- 19 1. Valley is a corporation duly organized and existing under the laws of the State of
20 Arizona. Its principal place of business is 6808 N. Dysart Road, Suite 112, Glendale, Arizona
21 85307.
- 22 2. Valley is a public service corporation primarily engaged in the business of providing
23 water utility service in its certificated area in portions of Maricopa County, Arizona.
- 24 3. Valley is presently operating under rates and charges authorized by the Commission
25 in Decision No. 68309, dated November 14, 2005.
- 26 4. Valley, in this Application (the "Emergency Application") seeks Commission
27 approval of an emergency increase in the rates and charges it is authorized to collect from its
28 customers for water service provided in its authorized service area, such increase in the form of
29 a monthly Well Surcharge to each customer.

1 5. In 2003, the Company added to its system a new 12 inch in diameter, 810 foot deep
2 well, designed to produce 425 GPM. That full production was needed to serve the new Stardust
3 Subdivision that was added to the Company's certificated area. The well commenced
4 production at less than the needed output, but despite the Company spending over \$150,000 in
5 remedial work on the well, it has never provided its target production. On August 24, 2007,
6 suddenly and without warning, production dropped from 350 GPM to 65 GPM. The well has
7 now been taken out of service.

8 6. This well failure and the problems with other wells, reduces the Company's total
9 available production to approximately 920 GPM. Even with the Company's over 1,000,000
10 gallons storage capacity, this production level is not sufficient to meet summer peak demands of
11 the Company's 1,400 customers. With the additional subdivisions in process, the Company
12 expects to serve additional customers before its summer 2008 peak demand. Attached as
13 **Exhibit 1** is an Engineering Data Sheet demonstrating the Company's demands for the last
14 twelve months, and an inventory of the Company's production and storage capacities. In
15 attempts to avoid just such an emergency, in 2002 the Company entered into an "Emergency
16 Supply Agreement" whereby a neighboring utility, Litchfield Park Service Company
17 ("LPSCO"), would provide emergency back-up supply. LPSCO has provided approximately
18 1,000,000 gallons of water during the term of that agreement, but as recently as August 24, has
19 advised the Company that due to its own operational issues it cannot provide Valley with any
20 additional water. The adjacent municipal provider, City of Glendale, will not, despite numerous
21 requests from Valley, enter into any type of emergency supply agreement. Although the
22 Company is in the process of finalizing a Central Arizona Project Water Subcontract for 250
23 acre feet of water per year, the actual delivery, treatment, and use of that water by the Company

1 will not be available for several years. Utilization of this resource will require coordination with
2 other nearby Subcontractors for treatment and transportation, not to mention the capital
3 financing requirements. Based on the Company's review of all possible water supply
4 alternatives, the Company has concluded that the only solution to this immediate supply
5 problem is the drilling a replacement well (the "New Well").

6 7. Attached hereto as **Exhibit 2** is the prefiled testimony of Robert L. Prince, the
7 President of the Company, explaining how the Company arrived at this emergency situation,
8 providing the history of the well and the impact of its failure on the Company and its customers,
9 setting forth the Company's only solution to this critical supply issue, and describing the
10 Company's immediate need for rate relief.

11 8. This sudden failure, and the Company's shortage of water production capacity,
12 clearly constitutes an emergency as described in the Arizona Attorney General Opinion 71-17,
13 dated May 25, 1971. That Opinion defines an emergency justifying interim rate relief as any
14 one of the following situations:

15 "The foregoing authorities make it clear that, in general, courts
16 and regulatory bodies utilize interim rates as an emergency measure [1]
17 when the sudden change brings hardship to a company, [2] when the
18 company is insolvent, or [3] when the condition of the company is such that
19 its ability to maintain service pending a formal rate determination is in
20 serious doubt.

21 In addition, under the *Mountain States Telephone* case, *supra*,
22 [4] the inability of the Commission to grant permanent rate relief within a
23 reasonable time would be grounds for granting interim relief." Numbering
and emphasis added. Opinion at page 50.

9. Although under the Attorney General's analysis only one of the conditions needs to
exist, Valley meets all four of the criteria set forth in the Attorney General's Opinion as
emergency conditions justifying interim rate relief.

1 [1] Sudden change brings hardship to the company. Clearly this catastrophic
2 failure resulting in insufficient capacity to serve its existing and future customers is a hardship
3 to the Company, and more importantly, to its customers. One must ask what could make the
4 Company's ability to fulfill its Certificate of Convenience and Necessity obligations more
5 difficult than the loss of a major well?

6 [2] The company is insolvent. Note that the Attorney General's Opinion
7 favorably cited the Nebraska Supreme Court opinion referencing the Nebraska Commission's
8 ruling that emergency rates would not be justified: "... except as a condition is shown which, if
9 not relieved from, will imperil the property of the company and its service to the public, such as
10 might subject the company at once to proceedings in bankruptcy or receivership..." and that the
11 interim rates "... would make the company secure against possible insolvency." Emphasis
12 added. Opinion at 50, citing *Omaha & Council Bluffs Street Railway Co. v. Nebraska City*
13 *Railway Commission*, (1919) 173 N.W. at 691 and 692. The cost of the New Well, plus the
14 reduced revenue from the lost sales, if not relieved from, is clearly a condition that "might
15 subject the Company at once to proceedings in bankruptcy..."

16 [3] The Company's ability to maintain service is in serious doubt. There is no
17 doubt, without the New Well, the Company will not be able to meet its customers demands.
18 Without the Well Surcharge and financing authority requested in these two applications, the
19 Company can not construct a New Well.

20 [4] Timely rate relief. Assuming the Company could prepare a fully "sufficient"
21 rate application within 60 days, this Class B company application would require an additional
22 360 days to process under Commission Rules. That time table will clearly not permit the
23

1 Company to obtain financing for, and construction of, the New Well before the summer 2008
2 peak demand.

3 10. In a Financing Application filed in a separate docket of even date herewith, Valley
4 has requested Commission approval to enter into a Revolving Line of Credit with a commercial
5 bank for up to \$250,000 for the propose of drilling the New Well. The Line of Credit is
6 expected to have terms that include an interest rate not to exceed nine percent (9%) annually,
7 with monthly interest payments. That Application also requests the Commission's authority to
8 pursue a WIFA loan as the permanent, long term financing of the New Well.

9 11. Attached hereto as **Exhibit 3** and incorporated herein by this reference for all
10 purposes is the Surcharge Computation. The Well Surcharge is designed to recover the interest
11 cost under the Line of Credit during the term of that Line of Credit and, following the retirement
12 of the Line of Credit, recovery of a portion of the loan payment obligations under the WIFA
13 loan prior to the Commission's ruling in the Plenary Rate Case Application, as described below.
14 The Company will maintain a separate accounting of the Well Surcharge revenues, and will pay
15 only the Line of Credit and WIFA payments from that account. The Company will report
16 collections and disbursements to the Utilities Division as required by the Commission. At the
17 time the Commission sets new rates in the Plenary Rate Case Application, any positive balance
18 that may exist in the Well Surcharge account will be applied to the WIFA principal balance, or
19 is the Commission otherwise directs.

20 12. With the New Well expected to go into service in the second quarter of 2008, and
21 after several months of actual operating experience with the New Well, the Company proposes
22 to file a Plenary Rate Application in June, 2009, using calendar year 2008 as the Test Year.

1 13. Attached hereto as **Exhibit 4** and incorporated herein by reference for all purposes, are
2 Valley's compiled financial statements as of December 31, 2006.

3 14. Valley will provide notice of the filing of this Application in the form attached as
4 **Exhibit 7** and incorporated herein by this reference, or in such other form as ordered by the
5 Hearing Division or Commission.

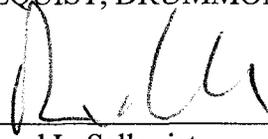
6 15. The Company has today filed in both dockets a Motion to Consolidate this Emergency
7 Rate Increase and Well Surcharge Implementation Application with the Financing Application
8 filed of even date herewith.

9 16. Due to the emergency nature that prompted this Application, and the substantial time
10 and critical path required to remedy the well failure associated with completion of construction of
11 the New Well before the 2008 summer peak demand period, the Company respectfully requests
12 that the Commission, Staff, and Hearing Division expedite this matter to accommodate a
13 November Hearing date and December Decision granting the requested financing and
14 implementation of the Well Surcharge.

15 WHEREFORE, Valley requests that the Commission make such inquiry or investigation
16 that the Commission may deem necessary and appropriate, set the matter for an expedited
17 evidentiary hearing and thereafter authorize a Well Surcharge as requested herein.

18 Respectfully submitted this 1st day of October, 2007.

19 SALLQUIST, DRUMMOND & O'CONNOR, P.C.

20 By 
21 Richard L. Sallquist
22 4500 S. Lakeshore Drive, Suite 339
23 Tempe, Arizona 85282
Attorneys for Valley Utilities Water Company,
Inc.

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Original and ten copies of the foregoing filed this 1st day of October, 2007, with

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

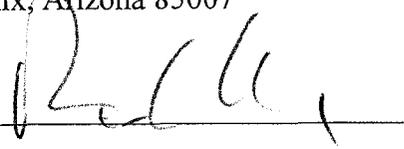
Copies of the foregoing Hand Delivered this 1st day of October, 2007 to:

Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Engineering Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007



A handwritten signature in black ink, appearing to read 'R. Kelly', is written over a horizontal line on line 17.

LIST OF EXHIBITS

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EXHIBIT

DESCRIPTION

- 1 ENGINEERING DATA SHEET
- 2 ROBERT L. PRINCE PREFILED TESTIMONY
- 3 SURCHARGE COMPUTATION
- 4 FINANCIAL STATEMENTS
- 5 NOTICE OF PUBLICATION

WATER USE DATA SHEET

NAME OF COMPANY	Valley Utilities Water Co., Inc
ADEQ Public Water System Number:	

MONTH/YEAR (12 Months of Test Year)	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)
1. August, 2007	1422	33,029,760	34,666,640
2. July, 2007	1422	38,436,430	39,344,320
3. June, 2007	1418	33,800,310	32,847,630
4. May, 2007	1420	33,924,920	33,902,950
5. April, 2007	1413	24,592,160	26,536,900
6. March, 2007	1415	19,837,880	20,921,980
7. February, 2007	1419	21,750,660	22,604,630
8. January, 2007	1413	21,152,420	20,733,280
9. December, 2006	1418	18,713,260	19,780,630
10. November, 2006	1417	24,406,430	24,294,180
11. October, 2006	1420	30,577,362	32,642,030
12. September, 2006	1419	26,635,243	29,682,350
TOTAL		326,856,835	337,957,470*

Is the water utility located in an ADWR Active Management Area ("AMA")?

YES NO

Does the Company have an ADWR gallons per capita day ("GPCD") requirement?

YES NO

If Yes, please provide the GPCD amount: _____

Note: If you are filing for more than one system, please provide separate data sheets for each system. For explanation of any of the above, please contact the Engineering Supervisor at 602-542-7277.

* Gallons pumped cannot equal or be less than the gallons sold.

COMPANY NAME	VALLEY UTILITIES WATER CO., INC.
Name of System	ADEQ Public Water System Number (if applicable)

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
#1 55-639720	25	75	650	12	3	1942
#2 55-639721	30	125	650	10	3	1969
#3 55-639723	25	125	425	8	4	1965
#4 55-639722	25	125	800	12	4	1970
#5 55-503273	75	480	850	20	6	1982
#6 55-580082	125	425	810	12	8	2001

* Arizona Department of Water Resources Identification Number

#7 55-20039 125 300 700 16 8 2006

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
15	4	12	
20	2		
40	6		
50	2		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
100,000	3	5,000	2
200,000	1	7,500	1
560,000	1	10,000	1

Note: If you are filing for more than one system, please provide separate sheets for each system.

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**VALLEY WATER UTILITIES COMPANY
DOCKET NOS. W-01412A-07-0 _____**

**DIRECT TESTIMONY
OF
ROBERT L. PRINCE**

**FILED
OCTOBER 1, 2007**

1 new well can be included in our rate base and permanent rates established to cover its
2 costs. My purpose is to explain the causes of the emergency, propose a solution, and
3 request the Commission's assistance in that regard.

4 Q. YOU SAY YOUR WELLS ARE DESIGNED TO PRODUCE 1,725 GPM, HAS
5 THAT BEEN THE EXPERIENCE?

6 A. No, and that is the very serious problem at hand. On August 24, 2007 number 6 well,
7 our supposed largest producer totally failed. Designed to produce 425 gpm to meet the
8 demand of a new subdivision of 517 homes, the well is presently, and permanently, out of
9 service.

10 Q. WILL YOU PLEASE GIVE THE COMMISSION A BRIEF HISTORY OF THAT
11 WELL?

12 A. Valley Utilities Water Co.'s number 6 well, well registration number 55-580082, was
13 drilled, developed and tested by Layne Christensen Company, as directed by Southwest
14 Ground-water Consultants, Inc. (SGC) in February 2001. The well was also designed by
15 SGC while contracted by the developer, Stardust Development, for that purpose. The well
16 tests took place over a three day period from March 21 through March 23, 2001. In the
17 well report from SGC, the conclusion was that the well would produce the needed amount
18 of water to serve the Dreaming Summit subdivision, 450 acre feet per year. As permitted
19 by ADWR, the well was approved as designed with a peaking capacity of 1,150 gpm, not to
20 exceed 450 AF per year. The well was placed in service August 30, 2002. I have attached
21 the ADWR Permit No. S-580082 and the ADWR Completion Report as **Attachments 1**
22 **and 2**, respectively.

23 Q. HOW HAS THAT WELL PERFORMED?

1 A. The well operated continuously from August of 2002, meeting demands of the system
2 at that time. However, the summer of 2003 revealed a reduction in the production of the
3 number 6 well during the highest demand months of May through August. This problem
4 was discussed with Steve Noel of SGC and the thought was that the submersible pump that
5 was operating may not have been sufficient to produce the desired amount of water at a
6 greater than anticipated draw down of the well during the summer months. The conclusion
7 being that a larger pump set deeper would produce the needed production during the peak
8 demand times.

9 Q. WERE THERE OTHER PROBLEMS?

10 A. Yes, in March of 2006, the thrust bearing failed in the 125 HP submersible and the
11 pump was pulled. Valley contracted with Longmire Well Services to video the well to have
12 a visual account of the well condition. The video revealed a problem with bio-fouling in
13 the well that was so bad that the condition of the casing could not be determined. Valley
14 reviewed the video with Frank Turek, geologist for PBS&J as well as Fred Tregaskes with
15 the Weber Group (a full service water well contractor). A plan for cleaning and
16 rehabilitation was developed and the Weber Group was contracted to implement the plan.
17 The process was to physically clean the well with a nylon brush in conjunction with
18 chemically cleaning the well with NSF approved chelated chemicals, product brand name
19 "Well Clean". This process resulted in marginal improvements, as determined by an
20 "after" video log of the well and the decision was made, with the advice of the contractor
21 that no further attempts at remediation would be made at this time.

22 Q. DID SUPPLY ISSUES REMAIN?
23

1 A. Because the time had advanced to May of 2006 and the system water demand was
2 increasing dramatically, it was decided to place the well back in service. A 125 HP US
3 vertical hollowshaft motor with an 8" National M10HC, 10 stage bowl assembly was
4 selected. This motor and pump combination is capable of producing 600 gpm at a total
5 discharge head of 600 feet. The turbine pump was installed by the Weber Group and the
6 well was started in June of 2006. The pump ran for 5 to 15 minutes, producing
7 approximately 700 gpm to waste, then it broke suction and had to be shut down. A restart
8 was done with a throttled discharge to reduce the flow to approximately 400 gpm, the result
9 was that the pump ran longer to waste, but again broke suction before being clean enough
10 to go to the system. Although the pump produced within the parameters of the engineering
11 curves the well was not producing the required flow. We attempted to resolve this problem
12 by using a variable frequency drive. The pump was started at a lower frequency, 45 Hz,
13 and ran at the slower rate and was slowly increased to a sustainable pumping rate. Running
14 the motor at a lower RPM caused the pump to produce at a rate equal to the wells
15 production capability, 250 to 350 gpm. This combination of equipment and close
16 monitoring of the dynamic level of the well was sufficient to get through the summer of
17 2006.

18 Q. DID YOU ATTEMPT A MORE PERMANENT FIX WHEN THE SEASONAL
19 DEMANDS DROPPED?

20 A. Yes, in March of 2007 it was decided to remove well number 6 from service, video the
21 well again and then to physically and chemically clean it again. This time we consulted
22 with Mike Schnieders, Hydrologist, with Water Systems Engineering Inc., located in
23 Ottawa, Kansas. Mike was recommended by Gary Gin who works for the City of Phoenix.

1 Gary is a Hydrologist in charge of the cities recharge wells among other projects. Gary is
2 highly regarded with respect to bio-fouled wells and he highly recommended Mike
3 Schnieders as the preeminent well rehabilitation hydrologist in the country, specializing in
4 bio-fouled wells. Valley took water samples per Water Systems Inc. specifications. After
5 the analysis was completed, recommendations were made by Water Systems Inc. for what
6 we hoped would be the last rehab for the number 6 well. I have attached that report as
7 **Attachment 3.**

8 Q. DID YOU FOLLOW THEIR RECOMMENDATIONS?

9 A. After the Weber Group implemented the plan and the cleaning was complete, a video
10 log was again taken to determine the success or failure of the effort. It was discovered that
11 although the cleaning, this time, was exceptional there were holes in the wire wrapped
12 casing and if not addressed would present problems. If these holes were not repaired they
13 would be an ingress path for the gravel pack to enter the well. The holes appeared to be
14 corrosion caused as a function of the bacteriological contamination and the low carbon steel
15 make up of the casing. Again, Longmire Well Services was contracted to facilitate repairs
16 and five perforated patches were swaged to repair the holes. Another video log showed that
17 the patches were successful. The pump was reinstalled and the well was again returned to
18 service in June of 2007.

19 Q. HOW DID THAT WORK?

20 A. The well operated for 80 days losing production on a weekly basis. Production fell
21 from 350 gpm to 65 gpm over this period and the well was removed from service on
22 August 24, 2007. The pump was inspected and found to be completely destroyed with little
23 of the impellers intact. The pump was completely filled with filter pack, sand and clay silts

1 indicating a failure of the well casing. The video was inconclusive due to fill to a level of
2 657 feet but there was indication of corrosion and erosion in the wire screen that may have
3 allowed filter pack and other material to enter the well causing the damage found in the
4 pump.

5 Q. BASED ON YOUR EXPERIENCE AND THE ADVICE OF YOUR
6 CONSULTANTS. WHAT DID YOU CONCLUDE?

7 A. The number 6 well has been treated with the best available technology in order to
8 rehabilitate it and return it to useful service. All attempts have failed and Valley now has no
9 choice but to drill a new well to replace the lost 450 acre feet of annual water production
10 required for Valley to meet the current demand that comes in the hotter months, April to
11 September.

12 Q. HAS THE COMPANY ATTEMPTED TO RESOLVE THIS SUPPLY PROBLEM IN
13 ANY OTHER WAY?

14 A. Yes. We have entered into a wholesale water agreement for supply from Litchfield
15 Park Service Company (LPSCO), the utility immediately south of our service area.
16 However, LPSCO has had its own problems and has recently as August 24, 2007 has
17 advised us that they could not assist at this time.

18 Q. ARE THERE OTHER ALTERNATIVES?

19 A. We thought perhaps. I have contacted the City of Glendale representatives regarding a
20 mutual supply agreement, but have been told in no uncertain terms that the City is not
21 interested in such an arrangement. One positive note is that we were awarded a Central
22 Arizona Project Subcontract for 250 acre-feet, enough to serve about 500 customers. That
23 Subcontract is being finalized presently, but the wet water will not be available until a

1 delivery and treatment plan is negotiated, designed, financed and constructed, probably
2 several years away. The New Well is the only viable plan for summer 2008 supply.

3 Q. IS THE NEW WELL CRITICAL TO VALLEY AND YOUR CUSTOMERS?

4 A. I can not stress strongly enough, if Valley does not develop a water source equal to what
5 was lost, Valley will experience water shortages that will create serious public safety
6 concerns for all of the customers that we serve as well as extended outages with no water at
7 times. Even with a tie line connected to LPSCO, the availability of that water is subject to
8 their system needs and we have been turned down three times already when we requested
9 supplement water to augment what we were able to produce.

10 Q. WHAT IS YOUR REQUEST OF THE COMMISSION?

11 A. Valley is at a critical juncture. We must, I say, must, have a new well in service by
12 early spring 2008. If we do not, our storage tanks will go dry and we will not be able to serve
13 ANY of our customers. The only way the new well can be constructed is with WIFA funds and
14 with an interim commercial construction loan. To obtain approval of that "bridge" loan we
15 must have a WIFA take out of that line of credit. To obtain the WIFA long term loan we must
16 have an immediate surcharge to cover interest costs until a permanent rate case can recognize
17 the new well costs. The solution is not enjoyable for anyone, but it is very clear immediate
18 action by the Commission is essential.

19 Q. WHAT SPECIFICALLY IS NEEDED?

20 A. We need the Commission's approval of our proposed Line of Credit of up to \$250,000
21 (which would hopefully be for less than the twelve months during the construction period), and
22 in addition loan term approval of a WIFA loan to repay that Line of Credit, and an Emergency
23 Surcharge to cover interest payments to first the bank as set forth in Attachment Three to the

1 Emergency Rate Increase Application, and then to WIFA. When the new well comes on line
2 and we have operating experience with it, Valley would file a plenary rate application to drop
3 the Surcharge and recover those costs in new permanent rates.

4 Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?

5 A. Yes it does.

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PERMIT NO. S-580082

Well Location: SW¼ of the SW¼ of the SE¼, Section 11, Township 2 North, Range 1 West, GSRB&M

Depth: 800 ft. Diameter: 18-20 inches inches Type of Casing: Steel

Maximum Pumping Capacity: 1150 gallons per minute

Maximum Annual Volume: 450-acre feet

Authorized Place of Use for Groundwater Withdrawn: Within the service area of Valley Utilities Company

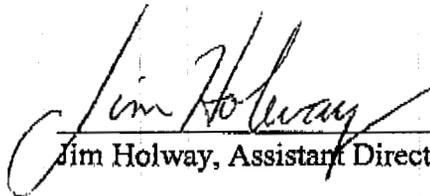
Authorized Use of Groundwater: As authorized by Water Provider Right Number 56-002047

Latest Date for Completing Well: August 2, 2001

Permit Conditions

1. If the permitted well is not completed on or before August 2, 2001 the Permittee will be required to file a new application, and secure a new permit before proceeding with construction.
2. The proposed well shall be constructed in accordance with the minimum well construction standards, A.A.C. R12-15-811.
3. The permitted well is located in an area of known land subsidence. Therefore, this permit is issued subject to permittee's agreement to conduct land elevation monitoring, as set forth in the letter dated July 13, 2000 from Jim Holway to Valley Utilities Water Company. The letter agreement is located in the ADWR Well Registration file No. 55-580082.

WITNESS my hand and seal of office this 3rd day of August, 2000.


Jim Holway, Assistant Director

ATTACHMENT 1

**DEPARTMENT OF WATER RESOURCES
GROUNDWATER MANAGEMENT SUPPORT SECTION
MAIL TO: P. O. BOX 458 - PHOENIX ARIZONA 85001-0458
Phone (602) 417-2470**

COMPLETION REPORT

(Pump Installation Report)

- A. Per A.R.S. § 45-600.B, the Completion Report is to be filed with the Department within 30 days after installation of pump equipment by the registered well owner.
- B. Drawdown of the water level for a non-flowing well should be measured in feet after not less than 4 hours of continuous operations. For a flowing well the shut-in pressure should be measured in feet above the land surface or in pounds per square inch at the land surface.
- C. The static groundwater level should be measured in feet from the land surface immediately prior to the capacity test.
- D. The tested pumping capacity of the well in gallons per minute for a non-flowing well should be determined by measuring the discharge of the pump after continuous operation for at least 4 hours and for a flowing well be measuring the natural flow at the land surface.
- E. Items 1 and 2 are available from the Notice of Intent to Drill.
- F. Items 3 and 4 may be available from the driller.

1. REGISTRATION NO: 55- 580082 FILE NO: B (2-1) 11 DCC

2. LOCATION OF THE WELL:

<u>2N</u>	<u>N/S</u>	<u>1W</u>	<u>E/W</u>	<u>11</u>	<u>1/4 SW</u>	<u>1/4 SW</u>	<u>1/4 SE</u>
Township		Range		Section	10-acre	40-acre	160-acre

3. EQUIPMENT INSTALLED:

Kind of pump Submersible Kind of power Electric
Turbine, Submersible, Centrifugal, etc. Electric, natural gas, gasoline, etc.

H.P. Rating of Motor 125 Pumping Capacity 900 Date Pump Installed 24 Oct., 2002

4. WELL TEST:

Test pumping capacity 450 GPM Date Well Tested 20 March, 2001
Gallons per minute

Method of Discharge Measurement Gallon Meter
Weir, orifice, current meter, etc.

Static Groundwater Level 237' ft. Drawdown 114' ft.

Total Pumping Lift 351' ft. Drawdown _____ lbs
(Flowing Well)

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

Valley Utilities Water Co. Inc. 12540 W. Bethany Home Road Litchfield Park, AZ 85340
 Print Well Owner's Name Address City State Zip

[Signature] 623-935-1100 8-30-02
 Signature of Well Owner Phone Number Date

Water Systems Engineering Inc.

3201 Labette Terrace
P.O. Box 700
Ottawa, KS 66067-0700

Phone: 785-242-6166
Fax: 785-242-9411

WATER TREATMENT ANALYSIS AND CONTROL REPORT

Bob Prince
Valley Utilities Water Co., Inc.
6808 N. Dysart Rd. - Suite 112
Glendale, AZ 85340

Date: April 4, 2007

Lab Report # 17308

REF: Well No.6, Bethany Hills West Yard, samples dated 3/21/07
Complete Profile (1)

*(as CaCO ₃)	WELL NO.6	
	Casing 100' mg/l	Aquifer mg/l
Phenolphthalein Alkalinity*	0	0
Total Alkalinity*	132	116
Hydroxide Alkalinity	0	0
Carbonate Alkalinity	0	0
Bicarbonate Alkalinity	132	116
pH Value	7.9	8.0
Chlorides (as Cl)	48.0	70.4
Total Dis. Solids	357	457
Conductivity (micromhos)	496	635
Total Hardness*	136	100
Carbonate Hardness	132	100
Non Carbonate Hardness	4	0
Calcium*	80	68
Magnesium*	56	32
Sodium (as Na)	39.2	66.4
Potassium (as K)	1.9	2.1
Phosphate (as PO ₄)	0.1	0.1
Dissolved Iron (as Fe ⁺²)	0.0	0.0
Suspended Iron (as Fe ⁺³)	0.1	0.03
Iron Total (as Fe)	0.1	0.03
Iron (resuspended)	0.8	0.1
Copper (as Cu)	0.0	0.0
Tannin/Lignin	0.1	0.0
Nitrate (Nitrogen)	3.7	3.7
Sulfate (as SO ₄)	42.9	63.7
Silica (as SiO ₂)	27.2	22.8
Manganese (as Mn)	0.0	0.0
Chlorine (as Cl)	0.0	0.0
Total Organic Carbon (C)	3.8	0.5
Saturation Index	-0.24	-0.27
ORP	94 mV	83 mV

ATTACHMENT 3

Bacterial Analysis:

	WELL NO.6	
	Casing 100'	Aquifer
Plate Count (colonies/ml)	>1500	3
Sulfate Reducing Bacteria	Negative	Negative
Anaerobic Growth	20%	<10%
ATP (cells per ml)	3.0 M	260,000
ATP (cells per ml) filtered	508,000	260,000
Total Coliform Bacteria	Positive 2 / 10 ml	Negative
E. coli Coliform Bacteria	Negative	Negative

Microscopic Evaluation:

Casing: Light visible bacterial activity, moderate number of protozoa, few crystals, moderate iron oxide, no sheathed or stalked bacteria noted.

Bacterial Identification: *Pseudomonas aeruginosa*

Aquifer: Light visible bacterial activity, few crystals, minor amount of plant particulate matter, minor iron oxide with no sheathed or stalked bacteria noted.

Bacterial Identification: *Microbacterium spp. (CDC A-4)*
Staphylococcus gallinarum

Observations:

Please Note: The casing samples submitted contained a light coating of oil leaving a visible film on top of the water. The oil was very light colored, suggesting it was from the pump itself and not from an outside source. Oil presence in water has been found to act as a stimulant and/or nutrient source for some bacteria. Natural degradation of the oil can result in a carbonization that has shown to be an excellent location for anaerobic bacterial development.

The casing and aquifer samples submitted for analysis of Well 6 show moderate alkalinity, with an alkaline pH. Total dissolved solids and conductivity were elevated, with moderate hardness present in both samples. The hardness measurement in the casing sample showed a very small amount of non-carbonate hardness, while the aquifer sample did not reveal any non-carbonate hardness. Calculation of the Langelier Saturation Index yielded negative readings for both samples, suggesting a reduced potential for carbonate scale development and an increased potential for corrosion. Nitrate levels were elevated in both samples. Manganese and copper were not detected. Iron levels suggest some limited accumulation is occurring within the casing, but levels do not exceed benchmark accumulating levels at this time. Other ion concentrations did not reveal any particular measurement to be alarming or indicative of causing a problem with plugging of the well. The level of total organic carbon

in the casing sample was excessive, while the aquifer sample was much lower. The oxygen reduction potential was moderately low in both samples.

Bacterial analysis of the samples showed much more of an insight to probable fouling within the well system. The plate count for the casing sample was excessive and decreased significantly in the aquifer sample. Anaerobic bacteria were elevated within the casing sample, while the aquifer sample had limited anaerobic growth. Results of testing for sulfate reducing bacteria were negative in both casing and aquifer samples. ATP counts for the samples were excessive, with the casing sample including some larger protozoans. Filtering of the protozoans still yielded a high population level for an active well system. Bacterial identification of the major populations for the samples included two common slime forming species, *Pseudomonas* and *Microbacterium*, and a *Staphylococcus* species. This particular type of bacteria is often associated with the skin of animals and humans, but can also be found in soil and in dust. The presence of the *Staphylococcus* species in the aquifer sample is suggestive of human contact with the water or the sample bottle, during sampling.

Total coliform testing was positive in the casing sample with a low count of 2 colonies per 10 ml made. Testing for E.coli specific coliforms was negative, and the count suggest the coliform presence within the casing sample is environmental in nature. Testing for total and E.coli coliform presence within the aquifer sample was negative.

The slime forming bacteria mentioned above are notable as they produce a polysaccharide exopolymer that aids the bacteria in adhering to surfaces of the well and in attracting food. The slime also creates a protective barrier for the bacteria to grow within. The bacteria can grow to form masses of biological material that also accumulate fine sediment entering the well and gravel pack as well as minerals precipitating out of solution.

Interpretations:

Due to the overwhelming influence of bacteria upon the well, biofouling is very likely to be occurring within the system, impacting well production and efficiency. The level of bacterial growth and activity exceeds typical levels observed in active potable well systems. The population, activity and growth, and diversity could all account for the degradation of water quality (odor) noted. Also evident with the amount of protozoans in the casing sample is an influence on the well or aquifer recharge zone from a surface water source. The light oil in the sample is most likely from the pump, but, as it can become a food source for bacteria, should be investigated. The oil can act much like the slime forming bacteria, causing problems not only within the well, but while it is being pumped out the oil can cause gummy, carbonized deposits within the piping and treatment system as well.

The coliform occurrence and count observed, are suggestive of environmental coliforms. These can be found present within the soils and watershed, not being a concern pathogenically to humans, but are used as indication of bacterial presence and

contamination within well systems. If these coliforms are present, the likelihood that other potentially harmful bacteria are dwelling within the system increases. At a minimum, the coliform occurrence should be used as an indicator of the need for maintenance and disinfection of the well.

Recommendations:

Due to the protozoan presence in the casing sample, the well seal around the well needs to be inspected for possible surface water intrusion beyond aquifer recharge influence. Furthermore, due to the oil presence, the production pump should be removed, inspected, and serviced as needed. The amount of oil within the well column should be investigated and, if an appreciable volume is present, evacuated from the well prior to cleaning. If the oil occurrence is light, it can be pumped out during cleaning, however significant accumulations are present and carbonization is occurring within the well, a caustic treatment may be needed to remove the oil from the well and prevent future influence. While the pump is removed for service, a rehabilitation cleaning should occur in order to remove as much biofouling that is present within the well proper. Combined chemical and mechanical rehabilitation of the well, followed by a chlorination treatment for disinfection is recommended.

At the start of rehabilitation, the pump should be removed, serviced and disinfected along with any installed monitoring equipment. The well should then be brushed, swabbed, or low-pressure jetted to disrupt and remove the accumulations expected within the immediate well zone. The well should then be evacuated of all debris starting at the bottom of the well and working upward.

Once evacuation is completed, the addition of chemicals into the well should begin. A mixture of 6% hydrochloric acid, 3% NW-310 biodispersant, and 0.1% NW-400 surfactant is recommended for effective removal of biofouling within the well and gravel pack.

Based on the provided well specifications, the recommended chemical volumes are:

Potable water for blending	2000 gallons
Hydrochloric Acid	640 gallons
NW-310 Biodispersant	94 gallons
NW-400 Surfactant	3 gallon

The NW-310 biodispersant by Johnson Screens aids in dispersing both the biomass and dissolved ions for more effective cleaning and improved removal from the well. The NW-400 surfactant will aid penetration of the cleaning chemicals beyond the immediate well to treat the near-well formation.

The mixture of water, hydrochloric acid, NW-310, and NW-400 should be blended in an above ground holding tank before being pumped into the well.

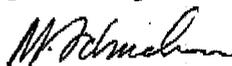
This cleaning chemistry should be added into the well using a jetting tool and followed with mechanical agitation, such as a double disc surge block device. The well should then be agitated, forcing the chemistry throughout the well and gravel pack for a period of approximately 8 to 10 hours. The pH of the well should be monitored during the entire process, with the pH remaining below 3.0 for best removal of the biofouling. If the pH rises, additional hydrochloric acid should be administered as it is being neutralized down hole. After the initial surging period, the well should be allowed to sit overnight (12 hours) with the cleaning chemistry down hole, still maintaining a pH below 3.0. The following day, the well should be mechanically agitated again while maintaining the pH for a second period of 4 to 6 hours. Once complete, the well will need to be pumped until the pH and turbidity return to normal. This water should be pumped into a treatment tank and any acid neutralized before being disposed of following federal, state, and local guidelines.

Following rehabilitation and efficient purging of the well, a pH balanced chlorination effort should be employed as a means of disinfection prior to returning the well to active service. A 300 ppm chlorine dosage utilizing a 12.5% active sodium hypochlorite solution is recommended for effective chlorination without excessive oxidation. The natural pH and alkalinity of the well will require buffering for effective chlorination. Use of the Johnson Screen's NW-410 is recommended as a chlorine enhancer to increase the effectiveness of the chlorination treatment through pH buffering and surfactant properties. Use of a total treatment volume equal to 3 times the standing well volume to flood the entire borehole and increase the effected area is recommended. Based on the well dimensions provided, the amount of chemical required for the recommended disinfection treatment would be:

Total Treatment Volume	7500 gallons
Sodium Hypochlorite (12.5% Active)	18 gallons
NW 410 Chlorine Enhancer	8 gallons

Following disinfection and removal of the solution from the well, the well will need to be sampled for coliform occurrence. The samples will likely require submittal to a State lab for certification. Once the well has been returned to active service, it is recommended that a second well profile be run to evaluate the cleaning procedure and assess the need for regular maintenance, monitoring, and routine disinfection.

Should you have any questions regarding the interpretations or the recommendations provided, please feel free to contact our office.



Michael Schnieders
Hydrogeologist

Valley Utilities Water Company
Proposed Debt Recovery Surcharge - Long-Term Debt
Computation

Line					
<u>No.</u>					
1	WIFA Loan Principle	\$		250,000	
2	Interest Rate (annual) ¹			6.00%	
3	Term (in years)			20	
4	Annual Principle Payment [1]	\$		6,796	
5	Tax Factor [2]			1.62	
6	Principle plus Taxes [1] X [2] = [3]	\$		11,010	
7	Annual Interest Payment [4]	\$		15,000	
8	Debt Payment Reserve [5] ²	\$		4,359	
9	Total Annual Debt Service [3] + [4] + [5] = [6]	\$		30,369	
10					
11					
12	Total [6]				<u>\$ 30,369</u>
13					
14	Number of Customers at YE 2006		<u>1,418</u>		
15					
16	<u>Computation of Equivalent 5/8 Inch Meters</u>				
17					
18					
19					
20	<u>Meter Size</u>		<u>Portion of</u>	<u>2006</u>	<u>AWWA</u>
21	5/8 Inch		<u>Anticipated Growth</u>	<u>Year-end Customers</u>	<u>Meter</u>
22	3/4 Inch				<u>Flow</u>
23	1 Inch				<u>Factor</u>
24	1 1/2 Inch				<u>Equivalent</u>
25	2 Inch				<u>5/8 Inch Meters</u>
26	3 inch				
27	4 Inch				
28	6 Inch				
29	8 Inch				
30	10 Inch				
31	12 Inch				
32	Totals		<u>100.00%</u>	<u>1,418</u>	<u>2,840</u>
33					
34	Total Equivalent 5/8 Inch Meters [7]				2,840
35					
36	Annual Costs Expected to be Funded by Surcharge (Percent X [7] = [8])				100% \$ 30,369
37					
38	Annual Surcharge for Equivalent 5/8 Inch Metered Customer before tax (rounded down) ([8] / [7] = [9])				\$ 10.69
39					
40	Monthly Surcharge for Equivalent 5/8 Inch Metered Customer before tax (rounded down) ([9] / 12 = [10])				\$ 0.89
41					
42	<u>Projected Debt Recovery Surcharge by Meter Size</u>				
43	<u>Meter Size</u>				
44	5/8 Inch	\$		0.89 [10]	
45	3/4 Inch	\$		1.34 Scaled on 5/8 meter flow	
46	1 Inch	\$		2.23 Scaled on 5/8 meter flow	
47	1 1/2 Inch	\$		4.45 Scaled on 5/8 meter flow	
48	2 Inch	\$		7.13 Scaled on 5/8 meter flow	
49	3 inch	\$		14.25 Scaled on 5/8 meter flow	
50	4 Inch	\$		22.27 Scaled on 5/8 meter flow	
51	6 Inch	\$		44.54 Scaled on 5/8 meter flow	
52	8 Inch	\$		71.27 Scaled on 5/8 meter flow	
53	10 Inch	\$		102.45 Scaled on 5/8 meter flow	
54	12 Inch	\$		191.53 Scaled on 5/8 meter flow	
55					
56	<u>Customer Monthly Bill Impact</u>		<u>Current Mon. Bill</u>	<u>Mon. Surcharge</u>	<u>Total Mon. Bill</u>
57	5/8 Inch metered customer at average use of 9,264 gals.	\$	30.21	\$ 0.89	\$ 31.10
58	3/4 Inch metered customer at average use of 10,243 gals.	\$	38.15	\$ 1.34	\$ 39.49
59					
60					
61	¹ Assumed to be 75 percent of prime rate (rounded). Current prime rate is 8.25%.				
62	² WIFA debt reserve requirement is to collect one-years debt service over 5 years (60 months).				

Valley Utilities Water Company
Proposed Debt Recovery Surcharge - Short-Term Debt
Computation

Line
No.

1					
2					
3	Line of Credit			\$	250,000
4	Average Annual Outstanding Balance of Line of Credit [1]			\$	125,000
5	Annual Interest Rate [2]				9.00%
6	Projected Annual Interest Expense [1] X [2] = [3]			\$	11,250
7					
8	Total annual amount to be recovered [3]				<u>\$ 11,250</u>
9					
10	Number of Customers at YE 2006	<u>1,418</u>			
11					
12	<u>Computation of Equivalent 5/8 Inch Meters</u>				
13					
14				AWWA	
15				Meter	
16	<u>Meter Size</u>	<u>Portion of</u>	<u>2006</u>	<u>Flow</u>	<u>Equivalent</u>
17	5/8 Inch	13.47%	191	1.0	191
18	3/4 Inch	53.95%	765	1.5	1,148
19	1 Inch	28.42%	403	2.5	1,008
20	1 1/2 Inch	0.42%	6	5.0	30
21	2 Inch	3.39%	48	8.0	384
22	3 inch	0.35%	5	16.0	80
23	4 Inch	0.00%		25.0	-
24	6 Inch	0.00%		50.0	-
25	8 Inch	0.00%		80.0	-
26	10 Inch	0.00%		115.0	-
27	12 Inch	0.00%		215.0	-
28	Totals	<u>100.00%</u>	<u>1,418</u>		<u>2,840</u>
29					
30	Total Equivalent 5/8 Inch Meters [4]				2,840
31					
32	Annual Costs Expected to be Funded by Surcharge (Percent X [3] = [5])			100%	\$ 11,250
33					
34	Annual Surcharge for Equivalent 5/8 Inch Metered Customer (rounded) ([5] / [4] = [6])				\$ 3.96
35					
36	Monthly Surcharge for Equivalent 5/8 Inch Metered Customer (rounded) ([6] / 12 = [7])				\$ 0.33
37					
38	<u>Projected Debt Recovery Surcharge by Meter Size</u>				
39	<u>Meter Size</u>				
40	5/8 Inch	\$	0.33 [7]		
41	3/4 Inch	\$	0.50 Scaled on 5/8 meter flow		
42	1 Inch	\$	0.83 Scaled on 5/8 meter flow		
43	1 1/2 Inch	\$	1.65 Scaled on 5/8 meter flow		
44	2 Inch	\$	2.64 Scaled on 5/8 meter flow		
45	3 inch	\$	5.28 Scaled on 5/8 meter flow		
46	4 Inch	\$	8.25 Scaled on 5/8 meter flow		
47	6 Inch	\$	16.50 Scaled on 5/8 meter flow		
48	8 Inch	\$	26.40 Scaled on 5/8 meter flow		
49	10 Inch	\$	37.95 Scaled on 5/8 meter flow		
50	12 Inch	\$	70.95 Scaled on 5/8 meter flow		
51					
52	<u>Customer Monthly Bill Impact</u>	<u>Current Mon. Bill</u>	<u>Mon. Surcharge</u>	<u>Total Mon. Bill</u>	<u>% Increase</u>
53	5/8 Inch metered customer at average use of 9,264 gals.	\$ 30.21	\$ 0.33	\$ 30.54	1.09%
54	3/4 Inch metered customer at average use of 10,243 gals.	\$ 38.15	\$ 0.50	\$ 38.65	1.30%
55					
56					
57					
58					
59					
60					
61					

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL - MAKE CHANGES AS NECESSARY

<input type="checkbox"/>
<p>VALLEY UTILITIES WATER CO., INC. 6808 N. DYSART ROAD, SUITE 112 GLENDALE, AZ 85307</p>

ANNUAL REPORT

FOR YEAR ENDING

12	31	2006
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FOR COMMISSION USE

ANN 04	06
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PROCESSED BY:

SCANNED

EXHIBIT 4

COMPANY INFORMATION

Company Name (Business Name) <u>VALLEY UTILITIES WATER CO., INC.</u>			
Mailing Address <u>6808 N. DYSART ROAD, SUITE 112</u> <small>(Street)</small>			
<u>GLENDALE</u> <small>(City)</small>	<u>AZ</u> <small>(State)</small>	<u>85307</u> <small>(Zip)</small>	
<u>(623) 935-1100</u> <small>Telephone No. (Include Area Code)</small>	<u>(623) 935-7321</u> <small>Fax No. (Include Area Code)</small>	<u>(602) 672-9481</u> <small>Pager/Cell No. (Include Area Code)</small>	
Email Address _____			
Local Office Mailing Address <u>SAME AS ABOVE</u> <small>(Street)</small>			
<u></u> <small>(City)</small>	<u></u> <small>(State)</small>	<u></u> <small>(Zip)</small>	
<u></u> <small>Local Office Telephone No. (Include Area Code)</small>	<u></u> <small>Fax No. (Include Area Code)</small>	<u></u> <small>Pager/Cell No. (Include Area Code)</small>	
Email Address _____			

MANAGEMENT INFORMATION

Management Contact: <u>ROBERT PRINCE</u> <small>(Name)</small> <small>(Title)</small>			
<u>6808 N. DYSART ROAD, SUITE 112</u> <small>(Street)</small>	<u>GLENDALE</u> <small>(City)</small>	<u>AZ</u> <small>(State)</small>	<u>85307</u> <small>(Zip)</small>
<u>(623) 935-1100</u> <small>Telephone No. (Include Area Code)</small>	<u>(623) 935-7321</u> <small>Fax No. (Include Area Code)</small>	<u></u> <small>Pager/Cell No. (Include Area Code)</small>	
Email Address _____			
On Site Manager: <u>SAME AS ABOVE</u> <small>(Name)</small>			
<u></u> <small>(Street)</small>	<u></u> <small>(City)</small>	<u></u> <small>(State)</small>	<u></u> <small>(Zip)</small>
<u></u> <small>Telephone No. (Include Area Code)</small>	<u></u> <small>Fax No. (Include Area Code)</small>	<u></u> <small>Pager/Cell No. (Include Area Code)</small>	
Email Address _____			

Please mark this box if the above address(es) have changed or are updated since the last filing.

Statutory Agent: RICHARD L SALLQUIST

(Name)

2525 EAST ARIZONA BILTMORE CIRCLE #117

(Street)

PHOENIX

(City)

AZ

(State)

85016

(Zip)

(602) 224-9222

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

Attorney: SAME AS ABOVE

(Name)

(Street)

(City)

(State)

(Zip)

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

Please mark this box if the above address(es) have changed or are updated since the last filing.

OWNERSHIP INFORMATION

Check the following box that applies to your company:

- | | |
|---|--|
| <input type="checkbox"/> Sole Proprietor (S) | <input checked="" type="checkbox"/> C Corporation (C) (Other than Association/Co-op) |
| <input type="checkbox"/> Partnership (P) | <input type="checkbox"/> Subchapter S Corporation (Z) |
| <input type="checkbox"/> Bankruptcy (B) | <input type="checkbox"/> Association/Co-op (A) |
| <input type="checkbox"/> Receivership (R) | <input type="checkbox"/> Limited Liability Company |
| <input type="checkbox"/> Other (Describe) _____ | |

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

- | | | |
|-------------------------------------|--|-----------------------------------|
| <input type="checkbox"/> APACHE | <input type="checkbox"/> COCHISE | <input type="checkbox"/> COCONINO |
| <input type="checkbox"/> GILA | <input type="checkbox"/> GRAHAM | <input type="checkbox"/> GREENLEE |
| <input type="checkbox"/> LA PAZ | <input checked="" type="checkbox"/> MARICOPA | <input type="checkbox"/> MOHAVE |
| <input type="checkbox"/> NAVAJO | <input type="checkbox"/> PIMA | <input type="checkbox"/> PINAL |
| <input type="checkbox"/> SANTA CRUZ | <input type="checkbox"/> YAVAPAI | <input type="checkbox"/> YUMA |
| <input type="checkbox"/> STATEWIDE | | |

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

UTILITY PLANT IN SERVICE

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization			
302	Franchises			
303	Land and Land Rights	44,196		44,196
304	Structures and Improvements	18,907	12,860	6,047
307	Wells and Springs	1,095,291	302,349	792,942
311	Pumping Equipment	336,173	206,128	130,045
320	Water Treatment Equipment	19,258	1,969	17,289
330	Distribution Reservoirs and Standpipes	290,662	197,688	92,974
331	Transmission and Distribution Mains	2,552,353	1,170,280	1,382,073
333	Services	108,339	49,214	59,125
334	Meters and Meter Installations	394,008	126,176	267,832
335	Hydrants	147,204	18,570	128,634
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment	1,237	108	1,129
340	Office Furniture and Equipment	63,705	27,959	35,746
341	Transportation Equipment	82,788	21,528	61,260
343	Tools, Shop and Garage Equipment	29,533	13,911	15,622
344	Laboratory Equipment			
345	Power Operated Equipment	5,930	5,930	0
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	TOTALS	5,189,584	2,154,670	3,034,914

This amount goes on the Balance Sheet Acct. No. 108

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR

Acct. No.	DESCRIPTION	Original Cost (1)	Depreciation Percentage (2)	Depreciation Expense (1x2)
301	Organization			
302	Franchises			
303	Land and Land Rights	44,196		
304	Structures and Improvements	18,907	3.33%	630
307	Wells and Springs	1,095,291	3.33%	34,789
311	Pumping Equipment	336,173	12.50%	37,217
320	Water Treatment Equipment	19,258	3.33%	620
330	Distribution Reservoirs and Standpipes	290,662	2.22%	6,442
331	Transmission and Distribution Mains	2,552,353	2.00%	50,993
333	Services	108,339	3.33%	3,460
334	Meters and Meter Installations	394,008	8.33%	31,023
335	Hydrants	147,204	2.00%	2,944
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment	1,237	6.67%	78
340	Office Furniture and Equipment	63,705	6.67%	3,891
341	Transportation Equipment	82,788	20.00%	13,584
343	Tools, Shop and Garage Equipment	29,533	5.00%	1,302
344	Laboratory Equipment			
345	Power Operated Equipment	5,930	5.00%	0
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	SUBTOTALS	5,189,584		186,973
	Less: Amortization of Contributions			14,329
	TOTALS	5,189,584		172,644

This amount goes on Comparative Statement of Income and Expense Acct. No. 403.

 **ULLMANN
& COMPANY P.C.**
Certified Public Accountants

To the Board of Directors of
Valley Utilities Water Co., Inc.
Glendale, Arizona

We have compiled the balance sheet of Valley Utilities Water Co., Inc. (a corporation) as of December 31, 2006 and 2005, and the comparative statement of income and expense for the years then ended included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the Arizona Corporation Commission information that is the representation of management. We have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements are presented in accordance with the requirements of the Arizona Corporation Commission, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

All other information contained in the accompanying prescribed form has not been audited, reviewed, or compiled by us and, accordingly, we assume no responsibility for that information.

Ullmann & Company

ULLMANN & COMPANY, P.C.
Certified Public Accountants

March 31, 2007

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	\$ 823,902	\$ 947,115
134	Working Funds		
135	Temporary Cash Investments		
141	Customer Accounts Receivable	78,227	71,201
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies	16,639	30,303
162	Prepayments		
174	Miscellaneous Current and Accrued Assets	55,767	46,972
	TOTAL CURRENT AND ACCRUED ASSETS	\$ 974,535	\$ 1,095,591
	FIXED ASSETS		
101	Utility Plant in Service	\$ 4,904,248	\$ 5,189,584
103	Property Held for Future Use	40,000	40,000
105	Construction Work in Progress	18,075	197,012
108	Accumulated Depreciation - Utility Plant	1,971,713	2,154,670
121	Non-Utility Property		
122	Accumulated Depreciation - Non Utility		
	TOTAL FIXED ASSETS	\$ 2,990,610	\$ 3,271,926
	TOTAL ASSETS	\$ 3,965,145	\$ 4,367,517

NOTE: The Assets on this page should be equal to Total Liabilities and Capital on the following page.

COMPANY NAME
VALLEY UTILITIES WATER CO., INC.

BALANCE SHEET (CONTINUED)

Acct. No.	LIABILITIES	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT LIABILITES		
231	Accounts Payable	\$ 15,818	\$ 16,329
232	Notes Payable (Current Portion)	7,958	11,590
234	Notes/Accounts Payable to Associated Companies		
235	Customer Deposits	53,775	80,189
236	Accrued Taxes	21,559	44,513
237	Accrued Interest		
241	Miscellaneous Current and Accrued Liabilities	5,421	7,198
	TOTAL CURRENT LIABILITIES	\$ 104,531	\$ 159,819
	LONG-TERM DEBT (Over 12 Months)		
224	Long-Term Notes and Bonds	\$ -	\$ 28,237
	DEFERRED CREDITS		
251	Unamortized Premium on Debt		
252	Advances in Aid of Construction	3,726,938	3,805,035
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction	865,157	1,018,717
272	Less: Amortization of Contributions	257,238	271,566
281	Accumulated Deferred Income Tax	30,689	29,820
	TOTAL DEFERRED CREDITS	\$ 4,365,546	\$ 4,582,006
	TOTAL LIABILITIES	\$ 4,470,077	\$ 4,770,062
	CAPITAL ACCOUNTS		
201	Common Stock Issued	\$ 110,000	\$ 110,000
211	Paid in Capital in Excess of Par Value	4,988	4,988
215	Retained Earnings	(619,920)	(517,533)
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	\$ (504,932)	\$ (402,545)
	TOTAL LIABILITIES AND CAPITAL	\$ 3,965,145	\$ 4,367,517

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR
461	Metered Water Revenue	\$ 883,022	\$ 1,111,620
460	Unmetered Water Revenue		
474	Other Water Revenues	38,959	114,795
	TOTAL REVENUES	\$ 921,981	\$ 1,226,415
	OPERATING EXPENSES		
601	Salaries and Wages	\$ 274,462	\$ 337,921
610	Purchased Water	0	16,051
615	Purchased Power	119,368	132,562
618	Chemicals	6,303	10,208
620	Repairs and Maintenance	11,178	9,511
621	Office Supplies and Expense	33,045	22,512
630	Outside Services	11,829	31,520
635	Water Testing	3,782	9,538
641	Rents	74,770	92,058
650	Transportation Expenses	26,726	19,203
657	Insurance - General Liability	19,343	29,052
659	Insurance - Health and Life	81,377	106,608
666	Regulatory Commission Expense - Rate Case	1,903	12,199
675	Miscellaneous Expense	40,497	49,465
403	Depreciation Expense	191,094	172,644
408	Taxes Other Than Income	21,844	26,105
408.11	Property Taxes	31,157	35,524
409	Income Tax	(587)	24,905
	TOTAL OPERATING EXPENSES	\$ 948,091	\$ 1,137,586
	OTHER INCOME/EXPENSE		
419	Interest and Dividend Income	\$ 7,912	\$ 22,455
421	Non-Utility Income	0	685
426	Miscellaneous Non-Utility Expenses	0	3,069
427	Interest Expense	1,423	6,513
	TOTAL OTHER INCOME/EXP	\$ 6,489	\$ 13,558
	NET INCOME/(LOSS)	\$ (19,621)	\$ 102,387

429

COMPANY NAME VALLEY UTILITIES WATER CO., INC.

SUPPLEMENTAL FINANCIAL DATA
Long-Term Debt

	LOAN #1	LOAN #2	LOAN #3	LOAN #4
Date Issued	01/05/2006			
Source of Loan	CHASE BANK			
ACC Decision No.				
Reason for Loan	VEHICLE PURCHASE			
Dollar Amount Issued	\$35,309	\$	\$	\$
Amount Outstanding	\$28,237	\$	\$	\$
Date of Maturity	2/19/2010			
Interest Rate	7.99%	%	%	%
Current Year Interest	\$2,460	\$	\$	\$
Current Year Principle	\$7,072	\$	\$	\$

Meter Deposit Balance at Test Year End	<u>\$ 262,798</u>
Meter Deposits Refunded During the Test Year	<u>\$ 43,208</u>

COMPANY NAME	VALLEY UTILITIES WATER CO., INC.
Name of System	ADEQ Public Water System Number (if applicable)

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
#1 55-639720	25	75	650	12	3	1942
#2 55-639721	30	125	650	10	3	1969
#3 55-639723	25	125	425	8	4	1965
#4 55-639722	25	125	800	12	4	1970
#5 55-503273	75	480	850	20	6	1982
#6 55-580082	125	425	810	12	8	2001

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
15	4	12	
20	2		
40	6		
50	2		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
100,000	3	5,000	2
200,000	1	7,500	1
560,000	1	10,000	1

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	VALLEY UTILITIES WATER CO., INC.
Name of System	ADEQ Public Water System Number (if applicable)

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2		
3		
4	AC & PVC	10,000
5		
6	AC & DIP	64,514
8	AC & DIP	50,010
10	DIP	2,952
12	AC & DIP	5,925

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	191
3/4	765
1	403
1 1/2	6
2	48
Comp. 3	5
Turbo 3	
Comp. 4	
Tubo 4	
Comp. 6	
Tubo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

1 - 3" Tablet Chlorinator

3 - 50 Gallon Liquid Chlorinator

STRUCTURES:

OTHER:

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME:	VALLEY UTILITIES WATER CO., INC.
Name of System	ADEQ Public Water System Number (if applicable)

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2006

MONTH/YEAR	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	1358	22,417	25,143	
FEBRUARY	1383	19,655	20,240	
MARCH	1395	19,078	19,975	
APRIL	1403	30,089	31,376	
MAY	1413	31,422	32,254	
JUNE	1401	38,113	39,141	
JULY	1412	43,111	44,030	
AUGUST	1421	28,420	29,621	
SEPTEMBER	1419	27,623	28,070	
OCTOBER	1420	30,577	31,615	
NOVEMBER	1417	24,406	25,635	
DECEMBER	1418	18,713	19,514	
TOTALS →		333,624	346,614	

What is the level of arsenic for each well on your system? WELL #1 - 11.50 ppb mg/l
(If more than one well, please list each separately.)
 WELL #2 - 12.50 ppb
 WELL #3 - 6.8 ppb
 WELL #4 - 12 ppb
 WELL #5 - 13 ppb
 WELL #6 - 11 ppb

If system has fire hydrants, what is the fire flow requirement? 1000 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
 Yes No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
 Yes No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
 Yes No

If yes, provide the GPCPD amount: _____

Note: If you are filing for more than one system, please provide separate data sheets for each system.

COMPANY NAME VALLEY UTILITIES WATER CO., INC. YEAR ENDING 12/31/2006

PROPERTY TAXES

Amount of actual property taxes paid during Calendar Year 2006 was: \$ 34,234

Attach to this annual report proof (e.g. property tax bills stamped "paid in full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calendar year.

If no property taxes paid, explain why. _____

**VERIFICATION
AND
SWORN STATEMENT**
Taxes

VERIFICATION

STATE OF ARIZONA
I, THE UNDERSIGNED
OF THE

COUNTY OF (COUNTY NAME)
MARICOPA
NAME (OWNER OR OFFICIAL) TITLE
ROBERT L. PRINCE, PRESIDENT
COMPANY NAME
VALLEY UTILITIES WATER CO., INC.

DO SAY THAT THIS ANNUAL UTILITY PROPERTY TAX AND SALES TAX REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2006

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

I HEREBY ATTEST THAT ALL PROPERTY TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

I HEREBY ATTEST THAT ALL SALES TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

SIGNATURE OF OWNER OR OFFICIAL

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS DAY OF

(SEAL)

COUNTY NAME	
MONTH	, 20__

SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES _____

COMPANY NAME VALLEY UTILITIES WATER CO., INC. YEAR ENDING 12/31/2006

INCOME TAXES

For this reporting period, provide the following:

Federal Taxable Income Reported	<u>77,119</u>
Estimated or Actual Federal Tax Liability	<u>14,470</u>

State Taxable Income Reported	<u>162,302</u>
Estimated or Actual State Tax Liability	<u>11,304</u>

Amount of Grossed-Up Contributions/Advances:

Amount of Contributions/Advances	<u>0</u>
Amount of Gross-Up Tax Collected	<u>0</u>
Total Grossed-Up Contributions/Advances	<u>0</u>

Decision No. 55774 states, in part, that the utility will refund any excess gross-up funds collected at the close of the tax year when tax returns are completed. Pursuant to this Decision, if gross-up tax refunds are due to any Payer or if any gross-up tax refunds have already been made, attach the following information by Payer: name and amount of contribution/advance, the amount of gross-up tax collected, the amount of refund due to each Payer, and the date the Utility expects to make or has made the refund to the Payer.

CERTIFICATION

The undersigned hereby certifies that the Utility has refunded to Payers all gross-up tax refunds reported in the prior year's annual report. This certification is to be signed by the President or Chief Executive Officer, if a corporation; the managing general partner, if a partnership; the managing member, if a limited liability company or the sole proprietor, if a sole proprietorship.

SIGNATURE

DATE

PRINTED NAME

TITLE

**VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only**

VERIFICATION

**STATE OF ARIZONA
I, THE UNDERSIGNED
OF THE**

<small>COUNTY OF (COUNTY NAME)</small> MARICOPA
<small>NAME (OWNER OR OFFICIAL) TITLE</small> ROBERT L. PRINCE, PRESIDENT
<small>COMPANY NAME</small> VALLEY UTILITIES WATER CO., INC.

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

<small>MONTH</small>	<small>DAY</small>	<small>YEAR</small>
12	31	2006

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2006 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)
\$ <u>1,294,697</u>

**(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 68,282
IN SALES TAXES BILLED, OR COLLECTED)**

****REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)**

SIGNATURE OF OWNER OR OFFICIAL

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS **DAY OF**

<small>COUNTY NAME</small>	
<small>MONTH</small>	.20__

(SEAL)

SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES _____

**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
Intrastate Revenues Only**

VERIFICATION

STATE OF ARIZONA

<small>COUNTY OF (COUNTY NAME)</small> MARICOPA	
<small>NAME (OWNER OR OFFICIAL)</small> ROBERT L. PRINCE	<small>TITLE</small> PRESIDENT
<small>COMPANY NAME</small> VALLEY UTILITIES WATER CO., INC.	

I, THE UNDERSIGNED

OF THE

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

<small>MONTH</small>	<small>DAY</small>	<small>YEAR</small>
12	31	2006

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2006 WAS:

<small>ARIZONA INTRASTATE GROSS OPERATING REVENUES</small>
\$ 859,155

**THE AMOUNT IN BOX AT LEFT
INCLUDES \$ 45,312
IN SALES TAXES BILLED, OR COLLECTED)**

***RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.**

SIGNATURE OF OWNER OR OFFICIAL

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS **DAY OF**

<small>NOTARY PUBLIC NAME</small>	
<small>COUNTY NAME</small>	
<small>MONTH</small>	, 20__

(SEAL)

MY COMMISSION EXPIRES

X _____

SIGNATURE OF NOTARY PUBLIC

PROPERTY DESCRIPTION

SEC/LOT TWN/BLK RNG/TR

TOTAL VALUE OF OPERATING PROPERTY

*Property address: SITUS ADDRESS NOT AVAILABLE.

MARICOPA COUNTY
2006 PROPERTY TAX
STATEMENT

MARICOPA COUNTY
TREASURER
DAVID SCHWEIKERT, TREASURER
301 W JEFFERSON ST - RM 100
PHOENIX, AZ 85003-2199

TO UPDATE YOUR MAILING ADDRESS
please go to:
<http://treasurer.maricopa.gov>

SIGN UP FOR "PARCEL WATCH"
and receive an e-mail reminder for
second half payments.
<http://treasurer.maricopa.gov>



1662 1724 *****AUTO**5-DIGIT 85340
VALLEY UTILITIES WATER CO INC
12540 W BETHANY HOME RD
LITCHFIELD PARK, AZ 85340-9303

\$25.00 CHARGE IF CHECK
FAILS TO CLEAR BANK.
YOUR CHECK IS YOUR RECEIPT.

Primary (limited) Assessed Value 366,520

Secondary Assessed Value 366,520

Tax Area Code: 790000

	CONTACT #	COMPARATIVE 2005 AMT	RATE / 100	2006 AMT DUE
PRIMARY				
LITCHFIELD ELEMENTARY	(623) 535-6000	6080.87	20284	7434.50
AGUA FRIA HIGH SCHOOL	(623) 932-7000	7228.39	22412	8214.45
GENERAL COUNTY FUND	(602) 506-8511	3857.65	11794	4322.74
COMMUNITY COLLEGE DIST.	(480) 731-8621	2879.62	8815	3230.87
EDUCATION EQUALIZATION	(602) 506-8511	1404.37	0000	.00
SUBTOTAL		21450.90	63305	23202.56
SECONDARY				
FLOOD CONTROL OF MARICOPA COUNTY	(602) 506-1501	79.72	2047	76.00
CENTRAL ARIZONA WATER CONSV. DIST.	(623) 869-2333	386.70	1200	439.82
FIRE DISTRICT ASSISTANCE	(602) 506-8511	22.24	0068	24.92
COUNTY LIBRARY	(602) 652-3000	167.90	0507	185.82
COUNTY HEALTHCARE DISTRICT	(602) 344-5978	388.62	1184	433.96
*BONDS**				
-COUNTY		.00	0000	.00
-CITY		.00	0000	.00
-SCHOOLS		6097.62	17089	6263.46
-COMMUNITY COLLEGE		444.38	1831	571.10
SCHOOL DISTRICT OVERRIDES		2886.94	8773	3215.48
SUBTOTAL		10554.12	32699	11310.56
SPECIAL DISTRICT	DISTRICT #			
WEST-MEC	30002	(623) 873-1860	0500	183.26
PAID OCT 30 2006				
OK #5039 \$17,348.19				
		32166.14	TOTAL FOR 2006	34696.38

*Property address is provided by the Maricopa County Assessor's Office.

(505493 = PRTCNTL)

DETACH AND RETURN WITH PAYMENT

2

PARCEL/ACCOUNT # 628-57-900-1

2006 SECOND HALF PAYMENT STUB
DUE MARCH 1, 2007
DELINQUENT AFTER MAY 1, 2007

MAKE CHECK PAYABLE TO:

PRINT THE ABOVE PARCEL / ACCOUNT
NUMBER ON YOUR CHECK

VALLEY UTILITIES WATER CO INC

Maricopa County Treasurer
P O Box 52133
Phoenix, AZ 85072-2133

U.S. FUNDS ONLY

MAKE CHANGES TO MAILING ADDRESS BELOW
OR GO TO <http://treasurer.maricopa.gov>

SECOND HALF \$17,348.19

PLEASE REMEMBER YOUR SECOND HALF PAYMENT IS DUE IN MARCH
AND THAT NO ADDITIONAL NOTIFICATION IS SENT.

0600000000200034696380001734819628579000013

PROPERTY DESCRIPTION

SEC/LOT TWN/BLK RING/TR

MARICOPA COUNTY
TREASURER
 DAVID SCHWEIKERT, TREASURER
 301 W JEFFERSON ST - RM 100
 PHOENIX, AZ 85003-2199

TOTAL VALUE OF OPERATING PROPERTY
 *Property address: SITUS ADDRESS NOT AVAILABLE.

MARICOPA COUNTY
2006 PROPERTY TAX
STATEMENT

TO UPDATE YOUR MAILING ADDRESS
 please go to:
<http://treasurer.maricopa.gov>

1662 1724 *****AUTO**5-DIGIT 85340
 VALLEY UTILITIES WATER CO INC
 12540 W BETHANY HOME RD
 LITCHFIELD PARK, AZ 85340-9303

SIGN UP FOR "PARCEL WATCH"
 and receive an e-mail reminder for
 second half payments.
<http://treasurer.maricopa.gov>

\$25.00 CHARGE IF CHECK
 FAILS TO CLEAR BANK.
 YOUR CHECK IS YOUR RECEIPT.

Primary (limited) Assessed Value 6,370

Secondary Assessed Value 6,370

Tax Area Code: 790001

	CONTACT #	COMPARATIVE 2005 AMT	RATE / 100	2006 AMT DUE
PRIMARY				
LITCHFIELD ELEMENTARY	(623) 535-6000	122.66	20284	129.21
AGUA FRIA HIGH SCHOOL	(623) 932-7000	145.80	22412	142.77
GENERAL COUNTY FUND	(602) 506-8511	77.81	11794	75.13
COMMUNITY COLLEGE DIST.	(480) 731-8621	58.08	8815	56.15
EDUCATION EQUALIZATION	(602) 506-8511	28.33	0000	.00
SUBTOTAL		432.68	63305	403.26
SECONDARY				
FLOOD CONTROL OF MARICOPA COUNTY	(602) 506-1501	13.78	2047	13.04
CENTRAL ARIZONA WATER CONSV. DIST.	(623) 869-2333	7.80	1200	7.64
FIRE DISTRICT ASSISTANCE	(602) 506-8511	.44	0068	.44
COUNTY LIBRARY	(602) 652-3000	3.38	0507	3.22
COUNTY HEALTHCARE DISTRICT	(602) 344-5978	7.54	1184	7.54
*BONDS**				
-COUNTY		.00	0000	.00
-CITY		.00	0000	.00
-SCHOOLS		123.00	17089	108.86
-COMMUNITY COLLEGE		8.96	1831	11.66
SCHOOL DISTRICT OVERRIDES		59.84	2773	55.88
SUBTOTAL		225.04	32699	208.28
SPECIAL DISTRICT				
LITCHFIELD PARK # 2	DISTRICT # 23507	.00	3475	22.14
WEST-MEC	30002	3.26	0500	3.18
129TH AVENUE	28530	13.28	0000	.00
	(623) 873-1860			
	(602) 506-8798			
		674.26	TOTAL FOR 2006	636.86

PAID OCT 30 2006
 #318.43

*Property address is provided by the Maricopa County Assessor's Office.

(505494 = PRTCNTL)

DETACH AND RETURN WITH PAYMENT

2

PARCEL/ACCOUNT # 628-57-901-8

2006 SECOND HALF PAYMENT STUB
 DUE MARCH 1, 2007
 DELINQUENT AFTER MAY 1, 2007

VALLEY UTILITIES WATER CO INC

MAKE CHANGES TO MAILING ADDRESS BELOW
 OR GO TO <http://treasurer.maricopa.gov>

MAKE CHECK PAYABLE TO:
 Maricopa County Treasurer
 P O Box 52133
 Phoenix, AZ 85072-2133

PRINT THE ABOVE PARCEL / ACCOUNT
 NUMBER ON YOUR CHECK

U.S. FUNDS ONLY

SECOND HALF	\$318.43
-------------	----------

PLEASE REMEMBER YOUR SECOND HALF PAYMENT IS DUE IN MARCH
 AND THAT NO ADDITIONAL NOTIFICATION IS SENT.

0600000000200000636860000031843628579010081

Your total tax bill is one hundred dollars (\$100.00)
 or less and must be paid in full on or
 before November 1, 2006. ARS 42-18052-C

PARCEL/ACCOUNT # 628-58-900-5

**MARICOPA COUNTY
 TREASURER**
 DAVID SCHWEIKERT, TREASURER
 301 W JEFFERSON ST - RM 100
 PHOENIX, AZ 85003-2199

PROPERTY DESCRIPTION
 SEC/LOT: TWN/BLK: RNG/TR:
TOTAL VALUE OF OPERATING PROPERTY
 *Property address: SITUS ADDRESS NOT AVAILABLE.

**MARICOPA COUNTY
 2006 PROPERTY TAX
 STATEMENT**

TO UPDATE YOUR MAILING ADDRESS
 please go to:
<http://treasurer.maricopa.gov>

1662 1724 *****AUTO**5-DIGIT 85340
 VALLEY UTILITIES WATER CO INC
 12540 W BETHANY HOME RD
 LITCHFIELD PARK, AZ 85340-9303

SIGN UP FOR "PARCEL WATCH"
 and receive an e-mail reminder for
 second half payments.
<http://treasurer.maricopa.gov>

\$25.00 CHARGE IF CHECK
 FAILS TO CLEAR BANK.
 YOUR CHECK IS YOUR RECEIPT.

Primary (limited) Assessed Value 980

Secondary Assessed Value 980

Tax Area Code: 890000

	CONTACT #	COMPARATIVE 2005 AMT	RATE / 100	2006 AMT DUE
PRIMARY				
DYSART UNIFIED	(623) 876-7000	54.63	51144	50.12
GENERAL COUNTY FUND	(602) 506-8511	11.97	11794	11.56
COMMUNITY COLLEGE DIST.	(480) 731-8621	8.94	8815	8.64
EDUCATION EQUALIZATION	(602) 506-8511	4.36	0000	.00
SUBTOTAL		79.90	71753	70.32
SECONDARY				
FLOOD CONTROL OF MARICOPA COUNTY	(602) 506-1501	2.12	2047	2.00
CENTRAL ARIZONA WATER CONSV. DIST.	(623) 869-2333	1.20	1200	1.18
FIRE DISTRICT ASSISTANCE	(602) 506-8511	.06	0068	.06
COUNTY LIBRARY	(602) 652-3000	.52	0507	.50
COUNTY HEALTHCARE DISTRICT	(602) 344-5978	1.20	1184	1.16
*BONDS**				
-COUNTY		.00	0000	.00
-CITY		.00	0000	.00
-SCHOOLS		5.24	5419	5.31
-COMMUNITY COLLEGE		1.38	1831	1.79
SCHOOL DISTRICT OVERRIDES		11.68	12959	12.70
SUBTOTAL		23.40	25215	24.70
SPECIAL DISTRICT	DISTRICT #			
WEST-MEC	30002 (623) 873-1860	.50	0500	.50
PAID OUT 30 2006				
Ch# 5041 \$95.52				
		103.80	TOTAL FOR 2006	95.52

*Property address is provided by the Maricopa County Assessor's Office.

**PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER AUTHORIZING
THE ISSUANCE OF PROMMISSORY NOTES AND OTHER EVIDENCE OF
INDEBTEDNESS
AND
AN EMERGENCY INCREASE IN IT RATES BY A SURCHARGE
FOR
VALLEY UTILITIES WATER COMPANY INC.**

Valley Utilities Water Company, Inc. (Applicant) has filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue a total of \$250,000 in short term and long term debt for the purpose of drilling a replacement well for a failed well. The Applicant has also requested approval of a two-step Surcharge necessary to support those loans as follows:

Meter Size	Monthly	Surcharge
	During Short Term Loan	During Long Term Loan
5/8 inch	\$0.33	\$0.89
¾ inch	\$0.50	\$1.34
1 inch	\$0.83	\$2.23
1 ½ inch	\$1.65	\$4.45
2 inch	\$2.64	\$7.13
3 inch	\$5.28	\$14.25
4 inch	\$8.25	\$22.27
6 inch	\$16.50	\$44.54
8 inch	\$26.40	\$71.27
10 inch	\$37.95	\$102.45
12 inch	\$70.95	\$191.53

The Applications are available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and Applicant's offices at 6880 N. Dysart Road, Suite 112 Glendale, Arizona 85307.

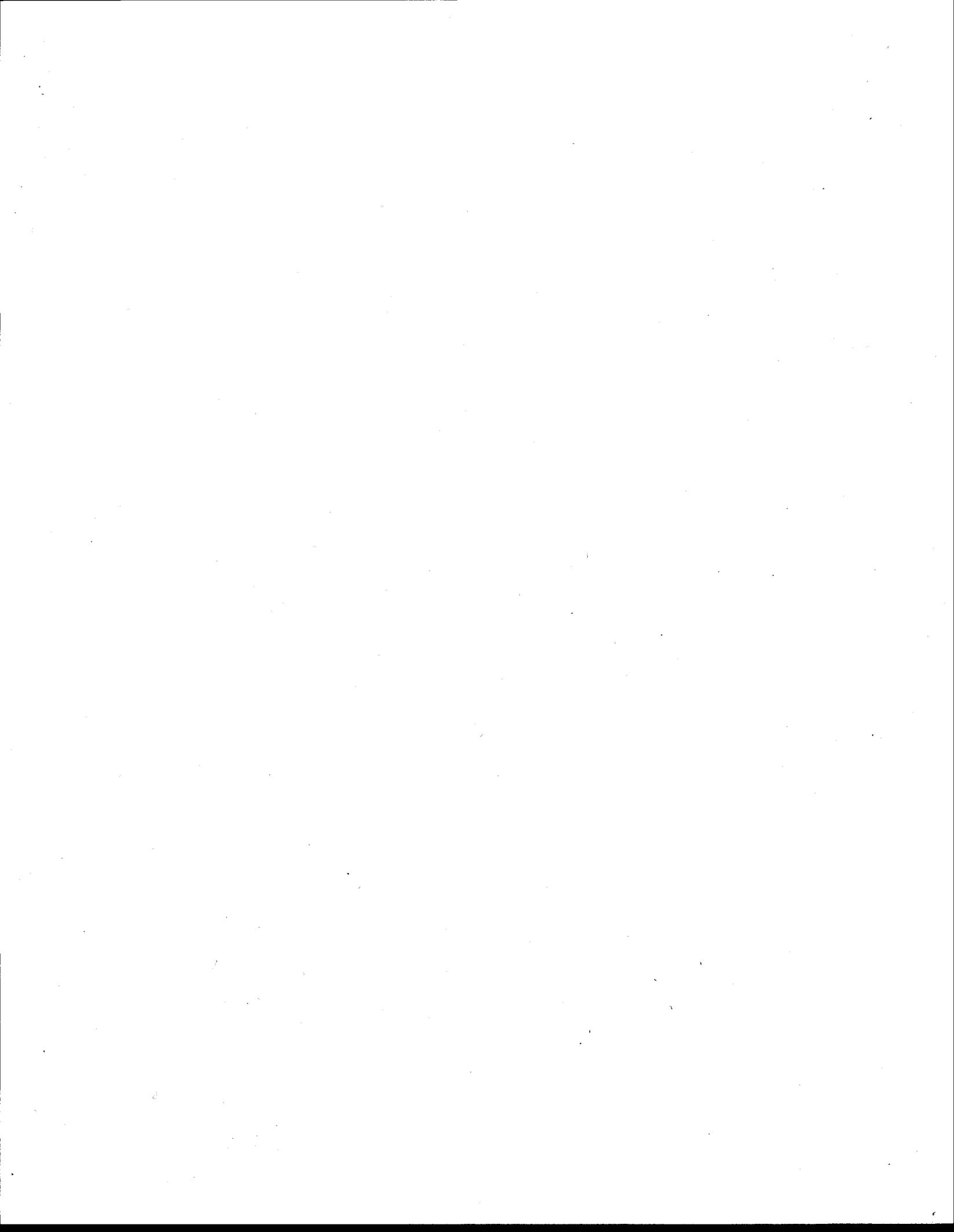
Intervention in the Commission's proceedings on the Financing Application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon the Applicant and which, at a minimum, shall contain the following information:

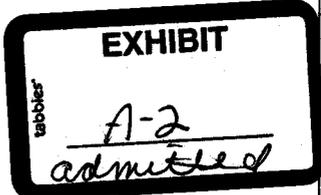
1. The name, address and telephone of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceedings.

3. Whether the proposed intervenor desires a formal evidentiary hearing on the Application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.

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





1 Richard L. Sallquist, Esq. (002677)
 2 SALLQUIST, DRUMMOND & O'CONNOR, P.C.
 3 4500 S. Lakeshore Drive, Suite 339
 4 Tempe, Arizona 85282
 Telephone: (480) 839-5202
 Fax: (480) 345-0412
 Attorneys for Valley Utilities Water Company, Inc.

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

6 IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. W-01412A-07__
7 VALLEY UTILITIES WATER COMPANY,)	
8 INC. FOR APPROVAL OF A \$250,000 LINE OF)	FINANCING APPLICATION
9 CREDIT AND AUTHORITY TO ISSUE LONG)	AND
10 TERM PROMISSORY NOTES OR BONDS)	REQUEST FOR EXPEDITED
11 AND OTHER EVIDENCE OF INDEBTEDNESS)	HEARING
12 AS PERMANENT REFINANCING OF THAT)	
13 LINE OF CREDIT.)	

14 Valley Utilities Water Company, Inc. ("Valley" or the "Company"), by and through
 15 undersigned counsel, respectfully states the following in support of this Application:

16 1. Valley is a corporation duly organized and existing under the laws of the State of
 17 Arizona. Its principal place of business is 6808 N. Dysart Road, Suite 112, Glendale, Arizona
 18 85307.

19 2. Valley is a public service corporation primarily engaged in the business of providing
 20 water utility service in its certificated area in portions of Maricopa County, Arizona.

21 3. Valley herein this Application (the "Financing Application") seeks Commission
 22 approval to enter into certain loan agreements necessary to fund the construction of a
 23 replacement well for its Well Number 6. Well Number 6 totally failed on August 24, 2007. A
 replacement well (the "New Well") is essential to permit the Company to continue water service
 to its existing and future customers, all as explained below.

1 4. Valley seeks herein Commission approval to enter into a Revolving Line of Credit
2 (the "L/C") with a commercial bank for up to \$250,000, with an interest rate not to exceed nine
3 percent (9%) annually, for the propose of interim construction financing associated with the
4 drilling of the New Well. The form of Promissory Note and supporting documents required by
5 the bank for this L/C are anticipated to be received within fifteen (15) days and will be late-filed
6 as **Attachment One**. The exact interest rate will be determined at the time the Company
7 executes those documents. The bank is expected to condition approval of the L/C on the
8 Company having arranged for permanent financing to satisfy the L/C.

9 5. Therefore, Valley also seeks Commission approval, at this time and in this
10 Application, for authority to issue long term promissory notes or bonds and other evidence from
11 the Water Infrastructure Finance Authority of Arizona ("WIFA") for the purpose of repaying the
12 above reference short term construction L/C to the bank. Attached hereto as **Attachment Two**,
13 and incorporated herein by this reference for all purposes, are the form of Promissory Note and
14 supporting documents previously required by WIFA in the Company's existing loan with
15 WIFA. The Company expects the documentation for the new loan will be substantially similar
16 to those documents. The interest rate is expected to be eighty percent (80%) of the Prime Rate
17 at the time of executing the documents, presently assumed to be 6.6%, $(8.25] \times 80\% = 6.6\%$).
18 The exact interest rate will be determined at the time the Company executes those documents.

19 6. Simultaneously with this Financing Application, Valley has filed with the
20 Commission in a separate Docket an Emergency Rate Increase and Well Surcharge
21 Implementation Application (the "Emergency Application") requesting that the Commission
22 approve a Well Surcharge in an amount sufficient to pay the interest payments associated with
23 the loans. A copy of the Surcharge Computation as included in the Emergency Application is

1 attached hereto as **Attachment Three** which is incorporated herein by this reference for all
2 purposes. The Company proposes that the New Well, and its associated costs, be incorporated
3 into a Plenary Rate Application with a Test Year of calendar 2008 (the "Plenary Case"),
4 anticipated to be a requirement in the Emergency Application Decision, and that the requested
5 Well Surcharge will be discontinued at the time the new rates that support the New Well and its
6 financing are established in the Plenary Case.

7 7. A bid from a well drilling company indicating the estimated cost of the New Well to
8 be approximately \$200,000 is expected within fifteen (15) days, and will be filed as late-filed as
9 **Attachment Four**. Most of the equipment at Well Number 6 can be utilized at the New Well.
10 The Company is requesting authority to borrow up to \$250,000 in the unlikely event there are as
11 yet undetermined costs associated with drilling and equipping the New Well. A schematic
12 drawing of the New Well is also attached to **Attachment Four**.

13 8. The Company has, or will within ten (10) business days, submit applications to both
14 the Arizona Department of Water Resources ("ADWR"), and the Arizona Department of
15 Environmental Quality ("ADEQ") for the permits necessary to construct the New Well. It is
16 anticipated that the required permits can be obtained before December 1, 2007. December 1,
17 2007 is the critical start of construction date that will permit the New Well to be completed and
18 in service before April 1, 2008. In the event the Company does not have the New Well in
19 service by approximately that date, it is a certainty that the Company will not be able to provide
20 water to its existing 1,400 customers and those anticipated to be added before the summer 2008
21 peak season demand.

22 9. Neither the Company, nor its Shareholders, have sufficient funds to pay for the
23 required construction. The requested L/C and long term-financings are required for the

1 construction of these capital facilities. Hence, the companion Emergency Application, followed by
2 the Plenary Case, which are necessary for the Company to obtain and repay the required financing.

3 10. Attached hereto as **Attachment Five** which is incorporated herein by this reference
4 for all purposes, is the prefiled testimony of Robert L. Prince, President of the Company,
5 explaining how the Company arrived at this emergency situation, the Company's only solution
6 to this critical supply issue, and the Company's immediate need for the financing.

7 11. Attached hereto as **Attachment Six** and incorporated herein by reference for all
8 purposes, are Valley's compiled financial statements as of December 31, 2006.

9 12. Attached hereto as **Attachment Eight**, and incorporated herein by this reference for all
10 purposes, is a proforma capital structure before and after the requested financing.

11 13. Attached as **Attachment Nine** and incorporated herein for all purposes is the
12 Resolution of the Valley's Board of Directors authorizing this Application and the issuance of the
13 requested loans.

14 14. Valley will provide notice of the filing of this Application in conformity with A.R.S.
15 § 40-302 in the form attached as **Attachment Ten** and incorporated herein by this reference,
16 which exhibit contains the form of the Notice of Publication to be filed with the Commission, or in
17 such other form as ordered by the Commission.

18 15. The Company has today filed in both dockets a Motion to Consolidate this Financing
19 Application with the Emergency Rate Increase and Well Surcharge Implementation Application
20 filed of even date herewith.

21 16. In Valley's opinion the purpose to which proceeds of the issuance of the promissory
22 notes or bonds and other evidence of indebtedness will be applied as set forth above are lawful,
23 and within its powers and are compatible with the public interest, with sound financial practices,

1 and with the proper performance of the Company of service as a public service corporation and
2 will not impair its ability to perform that service. The Company is further of the opinion that the
3 issuance of the issuance of the promissory notes or bonds and other evidence of indebtedness as
4 herein contemplated is reasonably necessary or appropriate for the aforementioned purposes.

5 WHEREFORE, Valley requests that the Commission make such inquiry or investigation
6 that the Commission may deem necessary and appropriate; make the findings required by A.R.S.
7 §40-301 and §40-302 relative to the purposes of issuing the promissory notes or bonds and other
8 evidence of indebtedness as herein stated; and thereafter issue an immediately effective order(s) (i)
9 setting the matter for an expedited evidentiary hearing only if deemed necessary, (ii) authorizing
10 the Company to issue promissory notes or bonds and other evidence of indebtedness, in the same
11 manner and for the purposes herein contemplated, (iii) stating that the issuance of the promissory
12 notes or bonds and other evidence of indebtedness, is reasonably necessary or appropriate for the
13 purposes set forth above, and (iv) stating that such purposes are within those permitted by A.R.S.
14 §40-301.

15 Respectfully submitted this 1ST day of October, 2007.

16 SALLQUIST, DRUMMOND & O'CONNOR, P.C.

17
18 By 
19 Richard L. Sallquist
20 4500 S. Lakeshore Drive, Suite 339
21 Tempe, Arizona 85282
22 Attorneys for Valley Utilities Water Company,
23 Inc.

1 Original and ten copies of the
2 foregoing filed this 13th day
of October, 2007, with

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

7 Copies of the foregoing Hand Delivered this 1ST
8 day of October, 2007 to:

9 Hearing Division
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 Legal Division
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, Arizona 85007

17 Utilities Division
18 Arizona Corporation Commission
19 1200 West Washington
20 Phoenix, Arizona 85007

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1 **LIST OF EXHIBITS**

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ATTACHMENT

DESCRIPTION

- | | |
|-------|---------------------------------------|
| ONE | LINE OF CREDIT DOCUMENTS (Late filed) |
| TWO | WIFA DOCUMENTS |
| THREE | SURCHARGE COMPUTATION |
| FOUR | CONSTRUCTION BID (Late filed) |
| FIVE | ROBERT L. PRINCE PREFILED TESTIMONY |
| SIX | FINANCIAL STATEMENTS |
| SEVEN | PRO FORMA CAPITAL STRUCTURE |
| EIGHT | BOARD OF DIRECTORS RESOLUTION |
| NINE | NOTICE OF PUBLICATION |

SALLQUIST, DRUMMOND & O'CONNOR, P.C.

ATTORNEYS AT LAW
TEMPE OFFICE
4500 S. LAKESHORE DRIVE
SUITE 339
TEMPE, ARIZONA 85282

RICHARD L. SALLQUIST

PHONE (480) 839-5202
FACSIMILE (480) 345-0412
E-MAIL dick@sd-law.com

November 6, 2006

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

Re: Valley Utilities Water Company, Inc.; Docket Nos. W-01412A-04-0736 & W-01412A-04-0849; Decision No. 68309; Loan Closing Documents Compliance Filing

Dear Mr. Johnson:

The Subject Decision requires the Company to file the Loan Closing documents within 30 days of the loan closing. The Loan closed on October 19, 2006. Enclosed herewith are 3 copies of the required documents.

In the event you have any questions regarding this matter, please do not hesitate to call.

Sincerely,



Richard L. Sallquist

Enclosures

Cc: Docket Control (with 15 copies of the transmittal letter only)
Brian Bozzo (with 1 copy of the Closing Documents)
Bob Prince
Tom Bourassa

LOAN AGREEMENT STANDARD TERMS AND CONDITIONS

Water Infrastructure Finance Authority of Arizona

This document sets forth the Standard Terms and Conditions applicable to Loans made by the Water Infrastructure Finance Authority of Arizona the ("Lender") to a Borrower. These Standard Terms and Conditions are a part of the Loan Agreement to which this document is attached. Capitalized terms not otherwise defined herein shall have the meanings given them in the Loan Agreement.

Section 1. Repayment; Prepayment.

(a) Loan Repayment Schedule. Borrower shall pay to Lender the amounts shown in the Loan repayment schedule in Exhibit A hereto on or before the dates shown in Exhibit A as the same may be adjusted as provided below to reflect the revised principal repayment schedule of the Loan. At the expiration of the Commitment, if the total amount of the Advances is less than the maximum Loan Amount, the amount of each principal installment due as set forth in the Loan repayment schedule contained in Exhibit A shall be adjusted based on (A) the principal balance then outstanding, (B) the amortization schedule as provided in Exhibit A and (C) the Combined Interest and Fee Rate. Upon such adjustment, Lender shall compute the adjusted interest payment amounts for each Interest Payment Date to reflect the adjusted principal amounts and shall enter the results in the Loan repayment schedule and furnish the revised schedule to Borrower.

(b) Prepayment. Borrower may prepay the Loan, in whole, or in part at any time without premium or penalty. Prepayment shall not alter the repayment schedule except to the extent that the final principal repayment date and the final interest repayment date shall be affected thereby.

(c) Application of Payments. Absent a default under the Note or this Agreement, any payments received by Lender shall be applied first to sums, other than principal and interest, due Lender, next to the payment of all interest accrued to the date of such payment, and the balance, if any, to the payment of principal. Any payments received by Lender after any Event of Default shall be applied to the amounts specified in this paragraph in such order as Lender may, in its sole discretion, elect.

(d) Late Payments. If any payment of interest and/or principal is not received by Lender when such payment is due, then, as additional remedies, (a) a late charge of six percent (6%) of the amount due and unpaid will be added to the delinquent amount for any payment past due in excess of fifteen (15) days and (b) all past due payments of principal and/or interest shall bear interest from their due date until paid at the annual rate equal to the sum of (i) six percent (6%) and (ii) the Interest Rate specified in Exhibit A, payable on demand.

(e) Calculations of Interest. Interest shall be calculated on the actual number of days each Advance is outstanding on the basis of a year consisting of 360 days. In calculating interest, the date each Advance is made shall be included and the date each such Advance is repaid shall be excluded.

(f) Payment on Maturity Date. On the final Principal Repayment Date, Borrower shall make one (1) final payment of principal, accrued and unpaid interest, and all other amounts due and payable hereunder and under all of the Loan Documents.

Section 2. Conditions Precedent.

(a) Conditions Precedent to Initial Advance. This Agreement and Lender's obligation to make the initial Advance shall become effective only upon satisfaction, at Borrower's sole cost and expense, of the following conditions precedent, as determined by Lender in its absolute and sole discretion on or before the date of such Advance:

(i) Loan Documents. That Lender receive duly executed originals of this Agreement, the Note, the Security Agreement and all other instruments and documents contemplated hereby.

(ii) Company Existence and Authorization. That Lender receive copies of (A) all company resolutions, documents and proceedings of Borrower authorizing the execution, delivery, and performance of the Loan Documents to which it is a party, certified to be true and correct by the Secretary of Borrower; (B) Borrower's Articles of Incorporation or other organizational documents, with all amendments certified by the Arizona Corporation Commission; (C) certificate as to Borrower's good standing from the Arizona Corporation Commission and (D) Borrower's Bylaws or similar documents with all amendments certified by the Secretary of Borrower.

(iii) Approvals. That Lender receive evidence satisfactory to it that all consents and approvals which are necessary for, or required as a condition of, the validity and enforceability of the Loan Documents have been obtained and are in full force and effect.

(iv) Opinion of Counsel. That Lender receive an opinion of counsel for Borrower (who shall be acceptable to Lender) in form and content acceptable to Lender in substantially the form attached hereto as Exhibit G.

(v) Perfection and Priority of Liens. That Lender receive evidence satisfactory to it that Lender has, as of the date of the initial Advance, a duly perfected security interest on all security provided for herein.

(vi) Permits. That Lender receive evidence satisfactory to it that Borrower possesses all necessary operating permits, authorizations, approvals, and the like which are material to the conduct of Borrower's business or which may otherwise be required by law.

(vii) Fees, Expenses. That Borrower pay the costs and expenses to obtain, perfect and determine the priority of any security hereof. Further, if all costs and expenses of this transaction are not known at the time of the initial advance, Borrower agrees to pay such costs and expenses upon demand.

(viii) Insurance. That Lender receive evidence of insurance in such amount and covering such risks as are usually carried by companies engaged in the same or similar business.

(ix) Debt Service Reserve and Replacement Reserve. That Lender receive evidence that Borrower has established the Debt Service Reserve Fund and Replacement Reserve Fund as required in Exhibit D hereto.

(x) Subordination Agreement. That Lender receive a Subordination Agreement, in form and substance satisfactory to Lender, fully executed by the Borrower and the Subordinated Creditors.

(b) Advances Generally. Lender's obligation to make each Advance hereunder, including the initial Advance, is subject to the satisfaction of each of the following conditions precedent on or before the date of such Advance:

(i) Event of Default. That no Event of Default (as that term is defined in Section 6 hereof) exists, and that there has occurred no event which with the passage of time or the giving of notice, or both, could become an Event of Default (a "Default").

(ii) Continuing Representations and Warranties. That the representation and warranties of Borrower contained in this Agreement be true and correct on and as of the date of the initial Advance and each subsequent Advance as though made on and as of such date.

(iii) Other Items. That Lender receive such other items or documents as Lender may reasonably require.

Section 3. Representations And Warranties.

(a) Organization; Power, Etc. Borrower (i) is duly organized, validly existing, and in good standing under the laws of its state of incorporation; (ii) is duly qualified to do business and is in good standing in each jurisdiction in which the transaction of its business makes such qualification necessary; (iii) has all requisite corporate and legal power to own and operate its assets and to carry on its business and to enter into and perform the Loan Documents to which it is a party, (iv) has duly and lawfully obtained and maintained all licenses, certificates, permits, authorizations, approvals, and the

like which are material to the conduct of its business or which may be otherwise required by law; (v) is eligible to borrow from Lender.

(b) Due Authorization; No Violations; Etc. The execution and delivery by Borrower of, and the performance by Borrower of its obligations under, the Loan Documents have been duly authorized by all requisite corporate action on the part of Borrower and do not and will not (i) violate any provision of any law, rule or regulations, any judgment, order or ruling of any court or governmental agency, the articles of incorporation or bylaws of Borrower, or any agreement, indenture, mortgage, or other instrument to which Borrower is a party or by which Borrower or any of its properties is bound or (ii) be in conflict with, result in a breach of, or constitute with the giving of notice or lapse of time, or both, a default under any such agreement, indenture, mortgage, or other instrument. No action on the part of any member or shareholder of Borrower is necessary in connection with the execution and delivery by Borrower of and the performance by Borrower of its obligations under the Loan Documents except for actions which have occurred.

(c) Consents. No consent, permission, authorization, order, or license of any governmental authority is necessary in connection with the execution, delivery, performance, or enforcement of the Loan Documents to which Borrower is a party, except such as have been obtained and are in full force and effect.

(d) Binding Agreement. Each of the Loan Documents to which Borrower is a party is, or when executed and delivered will be, the legal, valid, and binding obligation of Borrower, enforceable in accordance with its terms, subject only to limitations on enforceability imposed by applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally.

(e) Compliance with Laws. Borrower is in compliance with all federal, state, and local laws, rules, regulations, ordinances, codes, and orders (collectively, "Laws"), the failure to comply with which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of Borrower, or on the ability of Borrower to perform its obligations under the Loan Documents, except as Borrower has disclosed on Exhibit H.

(f) Environmental Compliance. Without limiting the provisions of Subsection (e) above, all property owned or leased by Borrower and all operations conducted by it are in compliance in all material respects with all Laws relating to environmental protection, the failure to comply with which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of Borrower, or on the ability of Borrower to perform its obligations, under the Loan Documents, except as Borrower has disclosed on Exhibit H.

(g) Litigation. There are no pending legal, arbitration, or governmental actions or proceedings to which Borrower is a party or to which any of its property is subject which, if adversely determined, could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of Borrower, or on the ability of Borrower to perform its obligations under the Loan Documents, and to the best of Borrower's knowledge, no such actions or proceedings are threatened or contemplated, except as Borrower has disclosed on Exhibit H.

(h) Title to Property. Borrower holds good and marketable title to all of its real property and owns all of its personal property free and clear of any lien or encumbrance, except the liens and encumbrances specifically identified on Exhibit H.

(i) Financial Statements; No Material Adverse Change; Etc. All financial statements submitted to Lender in connection with the application for the Loan or in connection with this Agreement fairly and fully present the financial condition of Borrower and the results of Borrower's operations for the periods covered thereby, and are prepared in accordance with generally accepted accounting principles for regulated utilities ("GAAP") consistently applied. Since the dates thereof, there has been no material adverse change in the financial condition or operations of Borrower. All budgets, projections, feasibility studies, and other documentation submitted by Borrower to Lender are based upon assumptions that are reasonable and realistic, and as of the date hereof, no fact has come to light, and no event or transaction has occurred, which would cause any assumption made therein not to be reasonable or realistic.

(j) Principal Place of Business; Records. The principal place of business and chief executive office of Borrower and the place where the records required by Subsection (g) of Section 4 hereof are kept is at the business office street address of Borrower shown in Section 1 of the Agreement.

(k) Subsidiaries. Borrower has no subsidiary, except as Borrower has disclosed on Exhibit H.

(l) Water Rights and System Condition. Borrower has water rights with such amounts, priorities and qualities as are necessary to adequately service Borrower's customers and members. Borrower controls, owns, or has access to all such water rights free and clear of the interest of any third party and has not suffered or permitted any transfer or encumbrance of such water rights, and has not abandoned such water rights, or any of them, nor has done any act or thing which would impair or cause the loss of any such water rights. Borrower's utility facilities reasonably meet present demand in all material respects, are constructed in a good and workmanlike manner, are in good working order and condition, and comply in all respects with applicable laws.

Section 4. Affirmative Covenants. Unless otherwise agreed to in writing by Lender, while this Agreement is in effect, whether or not any Advance is outstanding, Borrower agrees to:

(a) Corporate Existence. Preserve and keep in full force and effect its corporate existence and good standing in the jurisdiction of its incorporation and its good standing and qualification to transact business in all places required by law.

(b) Compliance with Laws and Agreements. Comply with (i) all Laws, the failure to comply with which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of Borrower, or on the ability of Borrower to perform its obligations under the Loan Documents; and (ii) all agreements, indentures, mortgages, and other instruments to which it is a party or by which it or any of its property is bound.

(c) Compliance with Environmental Laws. Without limiting the provisions of Subsection (b) above, comply in all material respects with, and cause all persons occupying or present on any properties owned or leased by Borrower to so comply with all Laws relating to environmental protection, the failure to comply with which could have a material adverse effect on the condition, financial or otherwise, operations, properties, or business of Borrower, or on the ability of Borrower to perform its obligations under the Loan Documents.

(d) Licenses; Permits; Etc. Duly and lawfully obtain and maintain in full force and effect all licenses, certificates, permits, authorizations, approvals, and the like which are material to the conduct of Borrower's business or which may be otherwise required by law.

(e) Insurance. Maintain insurance with insurance companies or associations acceptable to Lender in such amounts and covering such risks as are usually carried by companies engaged in the same or similar business and similarly situated, and make such increases in the type or amount of coverage as Lender may request. All such policies insuring any collateral provided for herein, shall provide for loss payable clauses or endorsements in form and content acceptable to Lender. At the request of Lender, all policies (or such other proof of compliance with this Section as may be satisfactory) shall be delivered to Lender.

(f) Property Maintenance. Maintain and preserve at all times its property, and each and every part and parcel thereof, in good repair, working order and condition and in compliance with all applicable laws, regulations and orders.

(g) Books and Records. Keep adequate records and books of account in accordance with GAAP consistently applied.

(h) Inspection. Permit Lender or its agents, during normal business hours or at such other times as the parties may agree, to examine Borrower's properties, books, and records, and to discuss Borrower's affairs, finances, operations, and accounts with its respective officers, directors, employees, and independent certified public accountants.

(i) Debt Service Coverage. Achieve, at each fiscal year end a Debt Service Coverage Ratio ("DSC") of 1.20. For the purposes of this Section, DSC shall be computed by adding net income plus interest expense, depreciation and amortization expenses and dividing the total by the sum of principal and interest payments required during the period. In the computation of net income, gains and losses and any taxes or reduction of taxes resulting from the sale or other disposition or abandonment of capital assets, or from increases or decreases in value of capital assets, or from the retirement or reacquisition or resale or reissuance of debt or capital stock, shall be disregarded.

(j) Use of Dividends and Surplus Revenues. Retain all existing capital and retained earnings in the business and retain all revenue which may accumulate over and above that needed to pay operating, maintenance, debt service, and Reserve requirements; or use same to reduce obligations due creditors; or invest same for capital expenditures related directly to Borrower's ability to provide services to users.

(k) Water Rights. Maintain or procure water rights with such amounts, priorities and qualities as are necessary to service adequately Borrower's customers and members, whether riparian, appropriative, or otherwise and whether or not appurtenant and whether groundwater or surface water, any shares of stock and certificates evidencing the same; and all grandfathered groundwater rights under A.R.S. Section 45-401, *et seq.* (collectively, the "Water Rights"). Borrower will continue to control, own or have access to all Water Rights free and clear of the interest of any third party, will not suffer any Transfer of the Water Rights, will not abandon the Water Rights, nor do any act or thing which would impair or cause the loss of any of the Water Rights. For purposes of this paragraph (m) "Transfer" means, respectively, each and all of the following"

(i) Any or all of the Water Rights, or any interest or right of Borrower in or to the Water Rights is conveyed to, or becomes vested in, any person, other than Borrower and Lender, voluntarily or involuntarily;

(ii) The occurrence of any event that results in any option, right of first refusal, other right to acquire, or any other claim, interest, or right in, to, or against, any or all of the Water Rights being held by a person other than Borrower or Lender, whether occurring voluntarily or involuntarily and whether arising by agreement, under any law, ordinance, regulation, or rule (federal, state, or local), or otherwise;

(iii) Any lease or assignment of any of the Water Rights; and

(iv) Borrower enters into any agreement the performance of which would result in a Transfer under any of the clauses (i) through (iii) above, and the consummation of such agreement is not expressly conditional upon the prior written consent of Lender in its sole and absolute discretion.

(l) Operation and Maintenance of System. Borrower shall, in accordance with prudent utility practice, (a) at all times operate the properties of the water system and any business in connection therewith in an efficient manner, (b) maintain its drinking water system in good repair, working order and operating condition, and (c) from time to time make all necessary and proper repairs, renewals, replacements, additions, betterments and improvements with respect to its drinking water system so that at all times the business carried on in connection therewith shall be properly and advantageously conducted.

Section 5. Negative Covenants.

Unless otherwise agreed to in writing by Lender, while this Agreement is in effect, whether or not any advance is outstanding, Borrower shall not:

(a) Liens. Create, incur, assume, or allow to exist any mortgage, deed of trust, deed to secure debt, pledge, lien, (including the lien of an attachment, judgment, or execution), security interest, or other encumbrance of any kind upon any of its property, real or personal. The foregoing restrictions shall not apply to (i) liens in favor of Lender; (ii) liens for taxes, assessments, or governmental charges that are not past due; (iii) liens, pledges, and deposits under workers' compensation, unemployment insurance, and social security laws; (iv) liens, deposits, and pledges to secure the performance of bids, tenders, contracts (other than contracts for the payment of money), and like obligations arising in the ordinary course of borrower's business as conducted on the date hereof; and (v) liens imposed by law in favor of mechanics, materialmen, warehousemen, and like persons that secure obligations that are not past due.

(b) Mergers; Acquisitions; Etc. Merge or consolidate with any other entity, or acquire all or substantially all of the assets of any person or entity, or form or create any new subsidiary or affiliate, or commence operations under any other name, organization, or entity, including any joint venture.

(c) Transfer of Assets. Sell, transfer, lease, or otherwise dispose of any of Borrower's assets, except in the ordinary course of its business or to effect any change in ownership.

(d) Change in Business. Engage in any business activities or operations substantially different from or unrelated to Borrower's present business activities or operations.

Section 6. Events Of Default. Each of the following shall constitute an "Event of Default" hereunder:

- (a) Payment Default. Failure by Borrower to make any payment or investment required to be made hereunder, under the Note, or under any other Loan Document when due.
- (b) Representations and Warranties. Any representation or warranty made by Borrower herein or in any other Loan Document shall prove to have been false or misleading in any material respect on or as of the date made, including deemed made in connection with each Advance.
- (c) Covenants and Agreements. Borrower should fail to perform or comply with any covenant or agreement contained herein.
- (d) Cross-Default. Borrower should, after any applicable grace period, breach or be in default under the terms of any agreement (other than the Loan Documents) between Borrower and Lender, including, without limitation, any other loan agreement, security agreement, mortgage, deed to secure debt, or deed of trust.
- (e) Other Indebtedness. The occurrence of any breach, default, event of default, or event which with the giving of notice or lapse of time, or both, could become a default or event of default under any agreement, indenture, mortgage, or other instrument by which Borrower or any of its property is bound or affected (other than the Loan Documents) if the effect of such breach, default, event of default or event is to accelerate, or to permit the acceleration of, the maturity of any indebtedness under such agreement, indenture, mortgage, or other instrument.
- (f) Judgments. Judgments, decrees, or orders for the payment of money in the aggregate in excess of the amount set forth in Exhibit E relating to Additional Indebtedness hereof shall be rendered against Borrower and either (i) enforcement proceedings shall have been commenced; or (ii) such judgments, decrees, and orders shall continue unsatisfied and in effect for a period of twenty (20) consecutive days without being vacated, discharged, satisfied, or stayed pending appeal.
- (g) Insolvency, Etc. Borrower: (i) shall become insolvent or shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they come due; or (ii) shall suspend its business operations or a material part thereof or make an assignment for the benefit of creditors; or (iii) shall apply for, consent to, or acquiesce in the appointment of a trustee, receiver, or other custodian for it or any of its property or, in the absence of such application, consent, or acquiescence, a trustee, receiver, or other custodian is so appointed; or (iv) shall commence with respect to it or have commenced against it any proceeding under any bankruptcy, reorganization, arrangement, readjustment of debt, dissolution, or liquidation law or statute of any jurisdiction.
- (h) Material Adverse Change. Any material adverse change occurs, as reasonably determined by Lender, in Borrower's condition, financial or otherwise, operations, properties, or business or Borrower's ability to perform its obligations under the Loan Documents.

Section 7. Remedies Upon Event Of Default. Upon the occurrence of and during the continuance of each and every Event of Default:

- (a) Termination, Etc. Lender shall have no obligation to make advances hereunder and, upon notice to Borrower, may terminate the Commitment and declare the entire unpaid principal balance of the Note, all accrued interest thereon and all other amounts payable under this Agreement and all other agreements between Lender and Borrower, to be immediately due and payable. Upon such a declaration, the unpaid principal balance of the Note and all such other amounts shall become immediately due and payable, without protest, presentment, demand, or further notice of any kind, all of which are hereby expressly waived by Borrower.
- (b) Enforcement. Lender may proceed to protect, exercise, and enforce such rights and remedies as may be provided by agreement or under law including, without limitation, the rights and remedies provided for in the Note. Each and every one of such rights and remedies shall be cumulative and may be exercised from time to time, and no failure on the part of Lender to exercise, and no delay in exercising, any right or remedy shall operate as a waiver thereof, nor shall any single or partial exercise of any rights or remedy preclude any other or future exercise thereof, or the exercise of any

other right. In addition, Lender may hold and/or set off and apply against Borrower's indebtedness any and all cash, accounts, securities, or other property in Lender's possession or under its control.

(c) Application of Payments. After termination and acceleration of the Loan all amounts received by Lender shall be applied to the amounts owing hereunder and under the Note in whatever order and manner as Lender shall in its sole discretion elect.

Section 8. Survival. The representations, warranties, and covenants of Borrower in the Loan Documents shall survive the execution and delivery of the Loan Documents and the making of the Loan.

Section 9. Integration, Change, Discharge, Termination, Or Waiver. The Loan Documents contain the entire understanding and agreement of Lender and Borrower and supersede all prior representations, warranties, agreements, arrangements, and understandings. No provision of the Loan Documents may be changed, discharged, supplemented, terminated, or waived except in a writing signed by Lender and Borrower. No waiver of any breach or default shall be deemed a waiver of any breach or default occurring thereafter or a waiver of the time of the essence provision.

Section 10. Parties And Binding Effect. This Agreement is made solely between Lender and Borrower, and no other Person shall have any rights hereunder or be a third-party beneficiary hereof. This Loan Agreement shall be binding upon the undersigned, and upon the heirs, legal representatives, successors and assigns of the undersigned; and to the extent that the Borrower is either a partnership or a corporation, all references herein to the Borrower shall be deemed to include any successor or successors, whether immediate or remote, to such partnership or corporation. Borrower may not assign any of its rights or delegate any of its obligations under the Loan Documents without the prior express written consent of Lender, and any purported assignment by Borrower made in contravention hereof shall be void. Lender may from time to time assign, or sell participation interests in, any part or all of the Obligations and its rights and obligations under the Loan Documents in its absolute and sole discretion.

Section 11. Costs And Expenses. Borrower agrees to pay, on demand, all internal and external costs, expenses, and fees of Lender in respect of (i) application fees, (ii) enforcement of the Loan Documents and exercise of the rights and remedies of Lender, (iii) defense of the enforceability of the Loan Documents or of the perfection or priority of any Lien granted in the Loan Documents, (iv) any other matter relating to the Loan Documents, the collateral provided for herein, or the transaction described in the Loan Documents, and (v) preparation for matters within (ii), (iii), or (iv) whether or not any legal proceeding is brought. Such costs shall include, without limitation, all such costs incurred in connection with any bankruptcy, receivership, or other court proceedings (whether at the trial or appellate level). At the option of Lender such costs, expenses, and fees may be deducted from the proceeds of the Loan.

Section 12. Authority To File Notices. Borrower irrevocably appoints Lender as its attorney-in-fact, with full power of substitution, to file for record, at the Borrower's cost and expense and in Borrower's name, any notices of completion, notices of cessation of labor, or any other notices that Lender considers necessary to desirable to protect its security.

Section 13. Inconsistencies With Loan Documents. In the event of any inconsistencies between the terms of this Agreement and any terms of any of the Loan Documents or any loan application, the terms of this Agreement shall govern and prevail.

Section 14. No Waiver. No disbursement of proceeds of the Loan shall constitute a waiver of any conditions to Lender's obligation to make further disbursements nor, in the event Borrower is unable to satisfy any such conditions, shall any such waiver have the effect of precluding Lender from thereafter declaring such inability a default under this Agreement.

Section 15. Lender Approval Of Instruments And Parties. All proceedings taken in accordance with transactions provided for herein; all surveys, appraisals and documents required or contemplated by this Agreement and the persons responsible for the execution and preparation thereof, shall be satisfactory to and subject to approval by

Lender. Lender's counsel shall be provided with copies of all documents which they may reasonably request in connection with the Agreement.

Section 16. Lender Determination Of Facts. Lender shall at all times be free to establish independently, to its satisfaction, the existence or nonexistence of any fact or facts, the existence or nonexistence of which is a condition of this Agreement.

Section 17. Incorporation Of Preamble, Recitals And Statement Of Terms. The preamble, recitals and statement of terms are hereby incorporated into this Agreement.

Section 18. Disclaimer By Lender. Borrower is not and shall not be an agent of Lender for any purpose. Lender is not a joint venture partner with Borrower in any manner whatsoever. Approvals granted by Lender for any matters covered under this Agreement shall be narrowly construed to cover only the parties and facts identified in any written approval or, if not in writing, such approvals shall be solely for the benefit of Borrower.

Section 19. Severability. If any provision of this Agreement is unenforceable, the enforceability of the other provisions shall not be affected and they shall remain in full force and effect.

Section 20. Choice Of Law And Jurisdiction. This agreement has been delivered in Arizona, and shall be construed in accordance with and governed by the laws of the state of Arizona. The courts of Arizona, federal or state, shall have exclusive jurisdiction of all legal actions arising out of this agreement. By executing this agreement, the undersigned submits to the jurisdiction of the federal and state courts of Arizona.

Section 21. Waiver Of Jury Trial. Borrower waives, and, by accepting this agreement, the lender shall be deemed to waive, any right to a trial by jury in any action or proceeding to enforce or defend any rights (a) under this agreement or under any amendment, instrument, document or agreement delivered or which may in the future be delivered in connection herewith or (b) arising from any banking relationship existing in connection with this agreement, and borrower agrees, and, by accepting this agreement, the lender shall be deemed to agree, that any such action or proceeding shall be tried before a court and not before a jury.

Section 22. Time Of The Essence. Time is of the essence with regard to each provision of this Agreement as to which time is a factor.

Section 23. Notices And Demands. All written demands and notices by Lender or Borrower relating to the Loan Documents shall be served by certified or registered mail, return receipt requested. Each such demand or notice shall be deposited in the United States Mail postage prepaid and addressed to the addressee's address first above stated. Service of any such demand or notice shall be deemed complete on the date of actual delivery as shown by the addressee's return receipt or at the expiration of the third Business Day after mailing, whichever is earlier. Rejection or refusal to accept the demand or notice by the addressee or inability to deliver the demand or notice due to a changed address of which no notice was given shall not affect deemed service. Lender or Borrower may from time to time, by written notice served on the other, designate a different address or a different attention person for service of demands and notices.

Section 24. No Construction Against Lender Or Borrower. The Loan Documents are the result of negotiations between Borrower and Lender. Accordingly, the Loan Documents shall not be construed for or against Borrower or Lender, regardless of which party drafted the Loan Documents or any part thereof.

Section 25. Rescission Or Return Of Payments. If at any time or from time to time, whether before or after payment and performance of the Obligations, all or any part of any amount received by Lender in payment of, or on account of, any Obligation is or must be, or is claimed to be, avoided, rescinded, or returned by Lender to Borrower or any other Person for any reason whatsoever (including, without limitation, bankruptcy, insolvency, or reorganization of Borrower or any other Person), such Obligation and the Liens on property, and rights to property that were the

collateral at the time such avoided, rescinded, or returned payment was received by Lender shall be deemed to have continued in existence or shall be reinstated, as the case may be, all as though such payment had not been received.

Section 26. Indemnification Of Lender. Borrower agrees to indemnify, hold harmless, and on demand defend Lender and its directors, officers, employees, agents, auditors, counsel, investment committee members and representatives for, from, and against any and all damages, losses, liabilities, costs, and expenses (including, without limitation, costs and expenses of litigation and reasonable attorneys' fees) arising from any claim or demand in respect of this Agreement, the Loan Documents, the collateral provided for herein, or the transaction described in the Loan Documents and arising at any time, whether before or after payment and performance of the Obligations. The obligations of Borrower and the rights of Lender under this Section 26 shall survive payment and performance of the Obligations and shall remain in full force and effect without termination.

Section 27. Waiver Of Statute Of Limitations. Borrower waives, to the full extent permitted by law, the right to plead and any statutes of limitations as a defense in any action or proceeding in respect of the Loan Documents.

Section 28. Number And Gender. In this Agreement the singular shall include the plural and the masculine shall include the feminine and neuter genders, and vice versa.

Section 29. Headings And References. The headings at the beginning of each section of this Agreement are solely for convenience and are not part of this Agreement. Reference herein to a section, attachment, exhibit, or schedule is to the respective section, attachment, exhibit, or schedule herein or hereto, unless otherwise specified.

Section 30. Counterpart Execution. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same document. Signature pages may be detached from the counterparts and attached to a single copy of this document to physically form one document.

Section 31. Arbitration. The parties hereto agree to use arbitration to the extent required by Section 12-1518 of the Arizona Revised Statutes, as amended.

Section 32. Notice Regarding A.R.S. § 38-511. To the extent applicable by provision of law, the parties acknowledge that this Agreement is subject to cancellation pursuant to A.R.S. §38-511, the provisions of which are hereby incorporated herein.

Section 33. Compliance with Applicable Federal Laws And Authorities

The Borrower agrees that the project will comply with the applicable terms and conditions of those federal laws and authorities listed below, as amended from time to time:

Environmental:

1. Archeological and Historic Preservation Act of 1974, Pub. L. 85-523, as amended.
2. Clean Air Act, Pub. L. 84-159, as amended.
3. Coastal Barrier Resources Act, Pub. L. 97-348.
4. Coastal Zone Management Act, Pub. L. 92-583, as amended.
5. Endangered Species Act, Pub. L. 93-205, as amended.
6. Environmental Justice, Executive Order 12898.
7. Floodplain Management, Executive Order 11988 as amended by Executive Order 12148.

8. Protection of Wetlands, Executive Order 11990.
9. Farmland Protection Policy Act, Pub. L. 97-98.
10. Fish and Wildlife Coordination Act, Pub. L. 85-624, as amended.
11. National Historic Preservation Act of 1966, PL 89-665, as amended.
12. Safe Drinking Water Act, Pub. L. 93-523, as amended.
13. Wild and Scenic Rivers Act, Pub. L. 90-542, as amended.

ECONOMIC AND MISCELLANEOUS:

1. Demonstration Cities and Metropolitan Development Act of 1966, Pub. L. 89-754, as amended, Executive Order 12372.
2. Procurement Prohibitions under Section 306 of the Clean Air Act and Section 508 of the Clean Water Act, including Executive Order 11738, Administration of the Clean Air Act and the Federal Water Pollution Control Act with Respect to Federal Contracts, Grants, or Loans.
3. Uniform Relocation and Real Property Acquisition Policies Act, Pub. L. 91-646, as amended.
4. Debarment and Suspension, Executive Order 12549.

SOCIAL POLICY:

1. Age Discrimination Act of 1975, Pub. L. 94-135.
2. Title VI of the Civil Rights Act of 1964, Pub. L. 88-352 (The Civil Rights Act and related anti-discrimination statutes apply to all the operations of the SRF program).
3. Section 13 of the Federal Water Pollution Control Act Amendments of 1972, Pub. L. 92-500 (the Clean Water Act)
4. Section 504 of the Rehabilitation Act of 1973, Pub. L. 93-112 (including Executive Orders 11914 and 11250).
5. The Drug-Free Workplace Act of 1988, Pub. L. 100-690 (applies only to the capitalization grant recipient).
6. Equal Employment Opportunity, Executive Order 11246.
7. Women's and Minority Business Enterprise, Executive Orders 11625, 12138 and 12432.
8. Section 129 of the Small Business Administration Reauthorization and Amendment Act of 1988, Pub. L. 100-590.
9. Anti-Lobbying Provisions (40 CFR Part 30) (applies only to capitalization grant recipients).

CASH COLLATERAL AGREEMENT

This Cash Collateral Agreement is made as of October 19, 2006 between Valley Utilities Water Company, Inc, ("Pledgor") and the Water Infrastructure Finance Authority of Arizona ("Lender").

RECITALS:

A. Pledgor and Lender have entered into that certain Loan Agreement of even date herewith (the "Loan Agreement"), pursuant to which Lender has made available to Pledgor a loan of up to \$1,926,100 (the "Loan").

B. Pursuant to the Loan Agreement, certain funds are required to be deposited from time to time by Pledgor in a Debt Service Reserve Fund administered by the Lender and in a Replacement Reserve Fund administered by the Borrower, both of which are pledged to Lender to secure repayment with interest of the Loan. Amounts deposited with the Lender in the Debt Service Reserve Fund and in the Replacement Reserve Fund are referred to herein as the "Pledged Funds".

C. Pledgor and Lender desire to enter into this Cash Collateral Agreement to provide for the deposit and holding of the Pledged Funds.

D. The Loan Agreement, this Cash Collateral Agreement and all other documents securing or otherwise relating to the Loan shall be referred to collectively in this Cash Collateral Agreement as the "Loan Documents". All capitalized terms used in this Cash Collateral Agreement and not otherwise defined shall have the meanings given to such terms in the Loan Agreement.

E. It is a condition to the making of the Loan that Pledgor and Lender enter into this Cash Collateral Agreement.

NOW, THEREFORE, in order to induce Lender to make the Loan and in consideration thereof, Pledgor and Lender agree as follows:

1. Definitions. The following terms shall have the following meanings:

"Cash Collateral Agreement" means this Cash Collateral Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Debt Service Reserve Fund" shall have the meaning ascribed thereto in Section 2 hereof.

"Obligations" shall mean all the obligations of Pledgor to Lender under the Loan Agreement and the Note and all other obligations and liabilities of Pledgor to Lender, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter incurred, arising under, out of, or in connection with, the Loan Agreement, this Cash Collateral Agreement or any of the Loan Documents.

"Pledged Funds" shall mean as defined in the Recitals to this Agreement.

"Replacement Reserve Fund" shall have the meaning ascribed thereto in Section 2 hereof.

2. Establishment of Debt Service Reserve Fund and Replacement Reserve Fund. Pledgor and Lender agree that concurrently with the execution and delivery of this Cash Collateral Agreement there is established and shall be maintained a Debt Service Reserve Fund pursuant to the Loan Agreement. At such time as is required pursuant to the Loan Agreement Borrower shall establish a Replacement Reserve Fund in the name of Borrower in which there shall be deposited by Pledgor all Pledged Funds as required by the provisions of the Loan Agreement.

3. Grant of Security Interest. As collateral security for the prompt and complete payment when due of all the Obligations, Pledgor has granted, bargained, sold, assigned, pledged, and set over and by these presents does hereby grant, bargain, sell, assign, pledge, transfer and set over unto the Lender, and its successors and assigns, all of Pledgor's right, title and interest in and to any Pledged Funds now or hereafter held or deposited in the Debt Service Reserve Fund and the Replacement Reserve Fund.

4. Terms and Conditions.

(a) The Debt Service Reserve Fund and all amounts deposited therein shall be held in the sole dominion and control of Lender and shall be administered by the Lender as a collateral account for the benefit of Lender, and Pledgor shall have no rights or powers with respect to, or control over, the Debt Service Reserve Fund or any part thereof. Pledgor's sole right with respect to the Pledged Funds in the Debt Service Reserve Fund shall be as provided herein and in the Loan Agreement.

(b) If no Event of Default, and no event which with the giving of notice or the passage of time or both could become an Event of Default, has occurred and is continuing, Pledgor from time to time may withdraw moneys from the Replacement Reserve Fund and apply the moneys withdrawn for one or more of the following purposes: (i) for the acquisition of new, or the replacement of obsolete or worn out, machinery, equipment, furniture, fixtures or other personal property for the Facility provided that the property is depreciable; (ii) for the performance of repairs with respect to the Facility which are of an extraordinary and non-recurring nature provided that the property is depreciable; (iii) for the acquisition or construction of additions to or improvements, extensions or enlargements to, or remodeling of, the Facility provided that the property is depreciable; and/or (iv) to make payments to Lender on the Loan.

(c) From and after the occurrence and during the continuation of an Event of Default, Lender may, in the sole and absolute discretion of Lender, apply the Pledged Funds in the Debt Service Reserve Fund, and, if there are insufficient Pledged Funds in the Debt Service Reserve Fund, in the Replacement Reserve Fund, to the Obligations in the following order: (i) all outstanding costs, expenses, fees and late charges due to Lender, (ii) interest at the rate or rates specified in the Loan

Documents and (iii) the principal amount of the Obligations. All interest and other investment earnings amounts from time to time accrued and paid on the Pledged Funds in the Debt Service Reserve Fund and the Replacement Reserve Fund shall be retained in the Debt Service Reserve Fund and the Replacement Reserve Fund and shall be applied in accordance with the Loan Agreement and this Cash Collateral Agreement.

(d) Lender shall have, with respect to the Pledged Funds, all rights and remedies of a secured party under Article 9 of the Arizona Uniform Commercial Code and other applicable laws.

5. Further Assurances. Pledgor will, at any time and from time to time, execute and deliver such further documents and do such further acts as shall be required by law or be reasonably requested by Lender to confirm or further assure the interest of Lender hereunder.

6. No Liability for Lawful Actions. Neither Lender nor any of its officers, directors, employees, agents, attorneys-in-fact or affiliates shall be liable for any action lawfully taken or omitted to be taken by any of them under or in connection with this Cash Collateral Agreement (except for gross negligence or willful misconduct).

7. Notices. All notices, requests, demands or other communications to or upon the parties hereto shall be deemed to have been given or made when mailed, delivered or transmitted in accordance with the requirements of the Loan Documents.

8. No Failure, etc. No failure to exercise and no delay in exercising on the part of Lender of any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof, or the exercise of any other power or right. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

9. Waiver; Amendments. None of the terms and provisions of this Cash Collateral Agreement may be waived, altered, modified or amended except by an instrument in writing executed by the parties hereto.

10. Representations and Warranties; Covenants.

(a) Pledgor hereby represents and warrants to Lender, effective upon the date hereof and each deposit of Pledged Funds to the Debt Service Reserve Fund and the Replacement Reserve Fund, that:

(i) No filing, recordation, registration or declaration with or notice to any person or entity is required in connection with the execution, delivery and performance of this Cash Collateral Agreement by Pledgor or in order to preserve or perfect the first priority lien and charge intended to be created hereunder in the Pledged Funds.

(ii) Except for the security interest granted to Lender pursuant to this Cash Collateral Agreement, Pledgor is the sole owner of the Pledged Funds, having good and marketable title thereto, free and clear of any and all mortgages, liens, security interests, encumbrances, claims or rights of others.

(iii) No security agreement, financing statement, equivalent security or lien instrument or continuation statement covering all or any part of the Pledged Funds is on file or of record in any public office, except such as may have been filed by Pledgor in favor of Lender.

(iv) This Cash Collateral Agreement constitutes a valid and continuing first lien on and first security interest in the Pledged Funds in favor of Lender, prior to all other liens, encumbrances, security interests and rights of others, and is enforceable as such as against creditors of and purchasers from Pledgor.

(b) Without the prior written consent of Lender, Pledgor hereby covenants and agrees that it will not sell, assign, transfer, exchange or otherwise dispose of, or grant any option with respect to, the Pledged Funds, nor will it create, incur or permit to exist any pledge, lien, mortgage, hypothecation, security interest, charge, option or any other encumbrance with respect to any of the Pledged Funds, or any interest therein, except for the security interest provided for by this Cash Collateral Agreement.

(c) Pledgor hereby covenants and agrees that it will defend Lender's right, title and security interest in and to the Pledged Funds against the claims and demands of all persons whomsoever except to the extent which arise out of the willful misconduct or gross negligence of Lender.

11. Lender's Expenses and Liabilities. Pledgor shall pay all costs and out-of-pocket reasonable expenses of Lender in connection with the maintenance and operation of this Cash Collateral Agreement made in accordance with the terms hereof. Pledgor also agrees to pay all costs of Lender, including reasonable attorneys' fees, incurred with respect to the enforcement of Lender's rights hereunder.

12. Governing Law. This Cash Collateral Agreement shall be deemed to be a contract under, and for all purposes shall be governed by, and construed and interpreted in accordance with, the law of the State of Arizona.

13. Severability. Any provision of this Cash Collateral Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14. Successors and Assigns. This Cash Collateral Agreement and all obligations of Pledgor hereunder shall be binding upon the successors or assigns of Pledgor, and shall, together with the

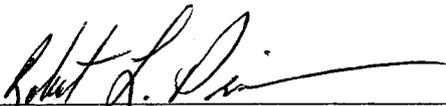
rights and remedies of Lender hereunder, inure to the benefit of Lender and its successors and assigns.

15. Termination. This Agreement shall terminate and, upon request of Pledgor, all monies (if any) remaining in the Debt Service Reserve Fund and the Replacement Reserve Fund shall be returned to Pledgor at such time as all of the following have occurred: (i) all amounts payable to Lender under the Loan Documents have been paid in full and all other obligations of Pledgor to Lender pursuant to the Loan Agreement have been performed in full, and (ii) Lender has no further obligation to make any loans or advances to Pledgor pursuant to the Loan Agreement or any of the other Loan Documents.

16. Counterparts. This Agreement may be executed in counterparts, all of which executed counterparts shall together constitute a single document. Signature pages may be detached from the counterparts and attached to a single copy of this Agreement to form physically one document.

IN WITNESS WHEREOF, the parties hereto have executed or caused this instrument to be duly executed and delivered as of the date first above written.

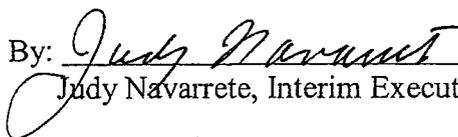
Pledgor: Valley Utilities Water Company, Inc.

By:  _____

Name: Robert L. Prince

Title: President

Lender: Water Infrastructure Finance Authority of Arizona

By:  _____
Judy Navarrete, Interim Executive Director

UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

A. NAME & PHONE OF CONTACT AT FILER [optional]

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

Water Infrastructure Finance Authority of Arizona
 1110 W. Washington, Suite 290
 Phoenix, Arizona 85007
 Attention: Chief Financial Officer

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

1. DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (1a or 1b) - do not abbreviate or combine names

1a. ORGANIZATION'S NAME
 Valley Utilities Water Company, Inc.

OR
 1b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

1c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
 6806 N. Dysart Road, Suite 112 Glendale AZ 85307 USA

1d. TAX ID #: SSN OR EIN ADD'L INFO RE ORGANIZATION DEBTOR 1e. TYPE OF ORGANIZATION 1f. JURISDICTION OF ORGANIZATION 1g. ORGANIZATIONAL ID #, if any
 Public Water System Arizona NONE NONE

2. ADDITIONAL DEBTOR'S EXACT FULL LEGAL NAME - insert only one debtor name (2a or 2b) - do not abbreviate or combine names

2a. ORGANIZATION'S NAME

OR
 2b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

2c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY

2d. TAX ID #: SSN OR EIN ADD'L INFO RE ORGANIZATION DEBTOR 2e. TYPE OF ORGANIZATION 2f. JURISDICTION OF ORGANIZATION 2g. ORGANIZATIONAL ID #, if any
 NONE

3. SECURED PARTY'S NAME (or NAME of TOTAL ASSIGNEE of ASSIGNOR S/P) - insert only one secured party name (3a or 3b)

3a. ORGANIZATION'S NAME
 Water Infrastructure Finance Authority of Arizona

OR
 3b. INDIVIDUAL'S LAST NAME FIRST NAME MIDDLE NAME SUFFIX

3c. MAILING ADDRESS CITY STATE POSTAL CODE COUNTRY
 1110 W. Washington, Suite 290 Phoenix AZ 85007 USA

4. This FINANCING STATEMENT covers the following collateral:

5. ALTERNATIVE DESIGNATION (if applicable): LESSEE/LESSOR CONSIGNEE/CONSIGNOR BAILEE/BAILOR SELLER/BUYER AG. LIEN NON-UCC FILING

6. This FINANCING STATEMENT is to be filed (for record) (or recorded) in the REAL ESTATE RECORDS. Attach Addendum (if applicable) 7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) (optional) All Debtors Debtor 1 Debtor 2

8. OPTIONAL FILER REFERENCE DATA

Continuing Security Agreement

Date: October 19, 2006

Parties: **Obligor:** Valley Utilities Water Company, Inc.

Address: 6808 N. Dysart Road, Suite 112
Glendale, Arizona 85307

Secured Party: Water Infrastructure Finance Authority of Arizona

Address: 1110 West Washington, Suite 290
Phoenix, Arizona 85007

Attention: Executive Director

Agreement: For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Obligor agrees for the benefit of Secured Party as follows:

1. Schedule Of Terms.

Name in which Obligor conducts business: Valley Utilities Water Company, Inc

Locations of Collateral:

See Attached

2. Definitions. In this Agreement, the following terms shall have the following meanings, and all capitalized terms used in this Agreement not defined herein and used or defined in the Uniform Commercial Code will have their respective meanings in the Uniform Commercial Code:

"Accounts" means all accounts arising from or by virtue of the sale, lease or disposition of any of the Real Property or Personal Property, or from any policy of insurance or the taking of any of the Real Property by right of eminent domain or condemnation or by private or other purchase in lieu thereof, including change of grade of street, curb cuts or other rights of access, for any public or quasi-public use under any law and all amounts due under current and future Customer accounts, including but not limited to those future accounts arising from any water utility plants or systems (or for delivery of water by any other means);

"Agreement" means this Security Agreement as it may be amended, modified, extended, renewed, restated, or supplemented from time to time.

"Agreement" means this Security Agreement as it may be amended, modified, extended, renewed, restated, or supplemented from time to time.

"Collateral" means all of Obligor's present and future right, title, and interest in and to any and all of the following types of property, regardless of whether in the possession of Obligor, a bailee, a warehouseman, or any other Person; Fixtures, Personal Property, Accounts, General Intangibles, Liens and Encumbrances and Proceeds; the agreements, documents, and instruments evidencing Accounts or granting such Liens and Encumbrances and the filings and recordings relating to such Liens and Encumbrances; all books and records and all computer software, computer disks, computer tapes, and other record keeping media pertaining to any of the Collateral; furniture, fixtures, machinery, and equipment of any kind or nature; and proceeds of any of the Collateral; any accounts established for debt service or reserves; any certificate of authority, franchise or other right to conduct business as may be issued by any Governmental Authority (including, without limitation, cash and non-cash Proceeds, insurance proceeds, proceeds of any proceeds, and proceeds of any taking by any Governmental Authority or any transfer in lieu of such a taking).

"Commitment" means any and all obligations of Secured Party from time to time to make advances to Obligor, or to make other financial accommodations for Obligor.

"Customer" means a water supply customer of Obligor.

"Default Rate" means a rate per annum of interest equal to the sum of (i) six percent (6%) per annum, and (ii) the rate per annum of interest applicable from time to time to the principal amount under the Note.

"Event of Default" shall have the meaning specified in Section 6.

"Fixtures" means the water utility plants and systems of the Debtor, including, but not limited to, all water works, generating stations, substations, pump houses, wells, distribution lines, whether located upon the Real Property or upon public or private easements, leaseholds or the like and which form a part of or are used in connection with the water utility plants or systems of the Debtor.

"General Intangibles" means all of the franchises, certificates, authorizations by rule, privileges, permits, grants and consents for the construction, operation, and maintenance of water plants or systems in, on, and under streets, alleys, highways, roads, public grounds, easements and rights-of-way and all rights incident thereto which were granted by private persons or entities or the governing bodies of the cities, counties, state, and countries in which the Debtor operates and including, but not limited to, permits and certificates issued pursuant to the applicable provisions of the Arizona Water Code, and all development rights, utility commitments, water and wastewater taps, living unit equivalents, capital improvements project contracts, utility construction agreements with any governmental authority, including municipal utility districts or other constitutional conservation districts created under Article III, Section 52, or Article XVI, Section 59, of the Arizona Constitution, or with any utility companies (and all refunds and reimbursements thereunder) relating

to the Real Property or improvements, as any of the foregoing may be amended, and all plants and specifications for water utility plants or systems and all Debtor's rights (but not Debtor's obligations) under any documents, contract rights, accounts, commitments, construction contracts (and all payment and performance bonds, statutory or otherwise, issued by any surety in connection with any such construction contracts, and the proceeds of such bonds), architectural contracts, engineering contracts, and general intangibles (including without limitation trademarks, trade names, and symbols) arising from or by virtue of any transactions related to the Real Property, any improvements thereon, or the Personal Property, management contracts and all of the Debtor's rights under any contracts otherwise providing for the purchase, lease, sale or assignment of water or water rights.

"Governmental Authority" means any government, any court, and any agency, authority, body, bureau, department, or instrumentality of any government.

"Inventory" means all goods and other tangible and intangible personal property (i) owned by Obligor or in which Obligor has rights or an interest under any agreement, document, instrument, or otherwise (including, without limitation, a lease) now or hereafter from time to time and (ii) either (A) consumed or to be consumed in the business of Obligor, (B) held for sale, lease, or other disposition by Obligor, (C) sold, leased, or furnished under contracts for service, or (D) used for demonstration, display, executive, model, or similar uses, or to be so used. Inventory includes, without limitation, (i) raw materials, scrap materials and by-products, work in progress, supplies, components, parts, spare parts, accessories, and finished goods, (ii) the rights and interest of Obligor in goods or other tangible or intangible personal property sold, leased, or furnished under contracts of service, (iii) goods or other tangible or intangible personal property sold, leased, or furnished under contracts of service and returned to or repossessed by Obligor, and (D) all accessions and additions to any goods or other tangible or intangible personal property included in Inventory.

"Lien or Encumbrance" and **"Liens and Encumbrances"** mean each and all of the following: (i) any lease or other right to use; (ii) any assignment as security, conditional sale, grant in trust, lien, mortgage, pledge, security interest, title retention arrangement, other encumbrance, or other interest or right securing the payment of money or the performance of any other liability or obligation, whether voluntarily or involuntarily created and whether arising by agreement, document, or instrument, under any law, ordinance, regulation, or rule (federal, state, or local), or otherwise; and (iii) any option, right of first refusal, other right to acquire, or other interest or right.

"Loan Agreement" means that certain Loan Agreement of even date herewith by and between Obligor and Secured Party, as it may be amended, modified, extended, renewed, restated or supplemented from time to time.

"Loan Documents" means the Loan Agreement, this Agreement and any and all other agreements, documents, and instruments from time to time evidencing, guarantying, securing, or otherwise relating to the Obligations (including, without limitation, any and all promissory notes, loan agreements, and guaranties), as they may be amended, modified, extended, renewed, restated, or supplemented from time to time.

"Note" means that certain promissory note of even date herewith executed by Obligor in favor of Secured Party, as it may be amended, modified, extended, renewed, restated or supplemented from time to time.

"Obligations" means (i) payment by Obligor of all sums due under and pursuant to the Note, the Loan Agreement, or any other Loan Document; (ii) performance by Obligor of all terms and conditions set forth in any or all of the Loan Documents; and (iii) any and all other liabilities and obligations of Obligor to Secured Party existing now or in the future (except indebtedness of any individual for personal, family, or household purposes), whether for the payment of money or otherwise, whether absolute or contingent, whether as principal, endorser, guarantor, or otherwise, whether originally due to Secured Party or to a third Person and assigned or endorsed to Secured Party, and whether several, joint, or joint and several, all as they may be amended, modified, extended, renewed, restated, or supplemented from time to time.

"Permitted Exceptions" means a Lien and Encumbrance granted by Obligor with the consent of Secured Party.

"Person" means a natural person, a partnership, a joint venture, an unincorporated association, a corporation, a limited liability company, a trust, any other legal entity, or any Governmental Authority.

"Personal Property" means all goods, (whether goods held for sale or returned or whether used in the business of the Debtor or to be installed in or on the Real Property), personal property, equipment, Inventory, fixtures, furnishings, devices or tools and all replacements or substitutions of same.

"Proceeds" means all deposits, bank accounts, funds, instruments, notes or chattel paper of Obligor, including, without limitation cash or securities deposited pursuant to leases to secure performance by the tenants of their obligations thereunder; and proceeds arising from or by virtue of the sale, lease or other disposition of the Real Property and proceeds (including premium refunds) of each policy of insurance relating to the Real Property.

"Real Property" means all real property owned by Obligor.

"Remittance Account" means an account established with a financial institution acceptable to Secured Party for the benefit of Secured Party and subject to the sole dominion and control of Secured Party.

"Requirements" means any and all obligations, other terms and conditions, requirements, and restrictions in effect now or in the future by which Obligor or any or all of the Collateral is bound or which are otherwise applicable to any or all of the Collateral or the business or operations of Obligor including, without limitation, such obligations, other terms and conditions, restrictions, and

requirements imposed by: (i) any law, ordinance, regulation, or rule (federal, state, or local); (ii) any approvals and permits; (iii) any Permitted Exceptions; (iv) any insurance policies; (v) any other agreement, document, or instrument to which Obligor is a party or by which Obligor or any of the Collateral is bound; or (vi) any judgment, order, or decree of any arbitrator, other private adjudicator, or Governmental Authority to which Obligor is a party or by which Obligor, any or all of the Collateral, or the business or operations of Obligor is bound.

"Transfer" means the occurrence of any of the following:

(i) Any or all of the Collateral, or any interest or right of Obligor in or to the Collateral, is conveyed to, or becomes vested in, any Person, other than Obligor and Secured Party, voluntarily or involuntarily;

(ii) The occurrence of any event that results in any option, right of first refusal, other right to acquire, or any other claim, interest, or right in, to, or against, any or all of the Collateral being held by a Person other than Obligor and Secured Party, whether occurring voluntarily or involuntarily and whether arising by agreement, under any law, ordinance, regulation, or rule (federal, state, or local), or otherwise; or

(iii) Obligor enters into any agreement the performance of which would result in a Transfer under clause (i) or (ii) above, and the consummation of such agreement is not expressly conditional upon the prior written consent of Secured Party in its absolute and sole discretion,

except (A) disposition of Inventory by lease, sale, or otherwise for fair consideration in the ordinary course of the business of Obligor, excluding from such exception bulk sales, dispositions to one or more creditors, and transfers in satisfaction of indebtedness, and (B) the Permitted Exceptions.

"Uniform Commercial Code" means the Uniform Commercial Code as in effect from time to time in the State of Arizona (currently, Arizona Revised Statutes Sections 47-1101 through 47-9507).

3. Grant Of Security Interest. Obligor grants to Secured Party a Security Interest in the Collateral to secure payment and performance of the Obligations.

4. Obligor Representations And Warranties. Obligor represents and warrants to Secured Party as of the date of this Agreement:

4.1 Ownership of Collateral. Obligor is the legal and beneficial owner of the Collateral, subject only to the Permitted Exceptions. There are no Liens and Encumbrances on the Collateral or claims thereof, except the Permitted Exceptions. There is no financing statement now filed or recorded covering any of the Collateral or in which Obligor is named or has signed as a Debtor, except financing statements related to the Permitted Exceptions.

4.2 Validity, Perfection, and Priority of Security Interest. The Security Interest granted in this Agreement (i) is legal, valid, binding, and enforceable, (ii) is a perfected security interest in all the Collateral, and (iii) is and shall remain prior to any security interest other than the Permitted Exceptions.

4.3 Names; Location of Collateral; Place of Business or Chief Executive Office; and Books and Records. Obligor conducts its business and other activities solely in the name(s) set forth in Section 1. The Collateral, the sole place of business or the chief executive office of Obligor, and all books and records of Obligor relating to the Collateral are at the location(s) set forth in Section 1.

5. Obligor Covenants. Until any Commitment terminates in full, and the Obligations are paid and performed in full, Obligor agrees that, unless Secured Party otherwise agrees in writing in Secured Party's absolute and sole discretion:

5.1 Payment and Performance of Obligations. Obligor shall pay and perform the Obligations. Obligor shall comply with and perform the Requirements.

5.2 Transfer; Liens and Encumbrances; Defense of Obligor's Title and of Security Interest.

5.2.1 Obligor shall not suffer to occur any Transfer. Except for Permitted Exceptions, Obligor shall not suffer to exist any Lien or Encumbrance on any or all of the Collateral, regardless of whether junior or senior to the security interest granted herein. Obligor shall notify Secured Party immediately of any claim of any Lien or Encumbrance on any or all of the Collateral. Except for financing statements relating to Permitted Exceptions, Obligor shall not execute or suffer to exist or to be filed or recorded any financing statement that covers any or all of the Collateral or in which Obligor is named or signs as Debtor.

5.2.2 Obligor shall defend the Collateral, the title and interest therein of Obligor represented and warranted in this Agreement, and the legality, validity, binding nature, and enforceability of the security interest granted herein, the perfection thereof, and the priority thereof against (i) any attachment, levy, or other seizure by legal process or otherwise of all or part of the Collateral, (ii), except for Permitted Exceptions, any Lien or Encumbrance or claim thereof on any or all of the Collateral, (iii) any attempt to realize upon any or all of the Collateral under any Lien or Encumbrance other than the Permitted Exceptions, regardless of whether junior or senior to the security interest herein, or (iv) any claim questioning the legality, validity, binding nature, enforceability, perfection, or priority of the security interest herein. Obligor shall notify Secured Party immediately in writing of any of the foregoing.

5.3 Names; Books and Records; Location of Collateral; Place of Business or Chief Executive Office. Obligor shall maintain complete and accurate books and records relating to the Collateral. Unless Obligor obtains the prior written consent of Secured Party and takes in advance all actions and makes all filings and recordings necessary or appropriate to assure the

perfection and priority of the security interest granted herein, Obligor shall not change its name, shall conduct its business and other activities solely in the name(s), trade name(s), and fictitious name(s) in Section 1, and shall not move the Collateral, its sole place of business or chief executive office, or its books and records relating to the Collateral from the location(s) in Section 1. Anything in this Section 5.3 to the contrary notwithstanding, Obligor may move the Inventory between any of such locations and between any of such locations and any location at which services are rendered to Customers or where the Inventory is delivered to Customers.

5.4 Inspection. Secured Party and such persons as Secured Party may designate shall have the right, at any reasonable time from time to time, (i) to enter upon the premises at which any of the Collateral or any of the books and records relating to the Collateral is located, (ii) to inspect the Collateral, (iii) to make extracts and copies from Obligor's books and records relating to the Collateral, and (iv) to verify under reasonable procedures determined by Secured Party the amount, condition, quality, quantity, status, validity, and value of, or any other matter relating to, the Collateral (including, without limitation, in the case of Accounts or Collateral in the possession of a third Person by contacting the obligors of the Accounts or the third Persons possessing such Collateral for the purpose of making such verification). Obligor shall provide access to such premises. Secured Party shall have the absolute right to share any information it gains from any such inspection or verification with any other Person holding an interest or a participation in any of the Obligations.

5.5 Further Assurances. Obligor shall promptly execute, acknowledge, deliver, and cause to be duly filed and recorded all such additional agreements, documents, and instruments (including, without limitation, financing statements) and take all such other actions as Secured Party may reasonably request from time to time to better assure, perfect, preserve, and protect the security interest granted herein, the priority thereof, and the rights and remedies of Secured Party hereunder. If any amount payable under or in connection with any Receivable shall be evidenced by any Instrument or any of the Inventory by a Document, such Document or Instrument shall be immediately pledged and delivered to the Secured Party, duly endorsed in a manner satisfactory to the Secured Party.

5.6 Maintenance of Inventory. Obligor shall keep the Inventory in good and leasable, saleable, and usable condition and shall store the Inventory properly to protect it from damage, destruction, and deterioration. Obligor shall not misuse or conceal the Inventory nor take any action or fail to take any action with respect to Inventory that might affect any insurance coverage. Unless Secured Party approves in advance in writing, Obligor shall not use any Inventory for demonstration, executive, or any similar purpose, other than reasonable and customary quality control tests and inspections. Obligor shall pay promptly when due all liabilities and obligations incurred to acquire or lease Inventory or otherwise relating to Inventory.

5.7 Insurance. The risk of loss of, damage to, or destruction of the Collateral at all times shall be on Obligor. At its expense, Obligor will maintain insurance in form and amounts, and with

companies, in all respects satisfactory to Secured Party, covering all of the insurable Collateral on an all-risk basis at full replacement value. Obligor shall deliver to Secured Party the original, or a certified copy, of each policy of insurance and evidence of payment of all premiums therefor within thirty (30) days of the date hereof. Such policies of insurance shall contain an endorsement or an independent instrument furnished to Secured Party, providing that such insurance company will give Secured Party at least 30 days prior written notice before any such policy or policies of insurance shall be altered or canceled. Obligor hereby agrees to apply all insurance proceeds received under the Insurance Policy to remedy the loss covered thereby (including reimbursing Obligor for funds expended to remedy such loss), to satisfy the indebtedness evidenced by the Note, or as otherwise consented to by Secured Party.

5.8 Taxes. Obligor shall promptly pay when due any and all property, excise, and other taxes and all assessments, duties, and other charges levied or imposed on any or all of the Collateral or imposed on Obligor in respect of any or all of the Collateral, this Agreement, or the security interest granted herein. Obligor shall also pay when due any and all lawful claims for labor, materials, and supplies, that, if unpaid, might become a Lien or Encumbrance on any or all of the Collateral.

5.9 Special Covenants Regarding Collateral.

5.9.1 Use of Inventory. Until an Event of Default, Obligor may possess, process, use, and consume in the manufacture or processing of finished goods, and lease, sell, or otherwise dispose of for fair consideration the Inventory, all in the ordinary course of Obligor's business, excluding, however, any bulk sale, any disposition to one or more creditors, and any transfer in satisfaction of indebtedness.

5.9.2 Proceeds of Inventory and Accounts and Notification to Accounts Obligors. Upon the occurrence of an Event of Default, to the extent applicable, (i) Obligor will notify the obligors of Accounts to make payments of any or all Accounts directly into a Remittance Account established in favor of Secured Party, and (ii) Obligor shall on the day of receipt by Obligor of any Accounts or any proceeds of Inventory or Accounts, transmit the same to Secured Party in the form received by Obligor. Obligor agrees to account to Secured Party for all Accounts and all proceeds of Inventory and Accounts and, pending transmittal of any proceeds to Secured Party, to hold the same in the form received separate and apart from, and not commingled with, any other property of Obligor and in trust for Secured Party. Amounts in the Remittance Account and any cash proceeds received by Secured Party will be applied periodically by Secured Party to payment of such of the Obligations, whether or not then due, determined by Secured Party in its absolute and sole discretion.

5.10 No Obligations and Limit of Liability of Secured Party. Secured Party does not assume and shall have no liability or obligation for any liabilities or obligations of Obligor relating to the Collateral. Secured Party shall have no obligation to notify Obligor with respect to the payment or performance or non-payment or non-performance of any third Person obligations

included in the Collateral (including, without limitation, payment or non-payment of any Accounts) or to enforce the payment or performance by any third Person of obligations included in the Collateral (including, without limitation, payment of the Accounts). In exercising its rights and remedies in the Loan Documents and its other rights and remedies and in performing any obligations to Obligor, Secured Party and its stockholders, directors, officers, employees, agents, and representatives shall have no liability or responsibility whatsoever (including, without limitation, any liability or obligation for any injury to the assets, business, operations, or property of Obligor), other than for its gross negligence or willful misconduct. No action taken or omitted to be taken by the Secured Party with respect to all or part of the Collateral shall give rise to any claim, counterclaim, defense, or offset in favor of Obligor against Secured Party (except for claims for gross negligence or willful misconduct by Secured Party).

5.11 Costs and Expenses of Performance of Obligor's Covenants. Obligor will perform all its obligations under this Agreement at its sole cost and expense.

5.12 Actions by Secured Party; Power of Attorney.

5.12.1 If Obligor fails to pay or perform any of the Obligations under this Agreement, Secured Party in its absolute and sole discretion, without obligation so to do, without releasing Obligor from such Obligations, and without notice to or demand upon Obligor, may pay or perform the same in such manner and to such extent as Secured Party determines necessary or appropriate in its absolute and sole discretion.

5.12.2 Without limiting the general powers, whether conferred herein, in another Loan Document, or by law, upon an Event of Default or in exercising its rights under Section 5.12.1, Secured Party shall have the right but not the obligation to do any or all of the following from time to time, to the extent applicable: (i) to enter upon any premises where any of the Collateral or the books and records relating to the Collateral are located and take possession of the Collateral; (ii) to maintain, preserve, protect, repair, restore, assign, lease, pledge, sell, and otherwise dispose of and deal with the Collateral; (iii) to make additions, alterations, and improvements to the Collateral to keep the Collateral in good condition and repair; (iv) to enforce the rights and remedies of Obligor with respect to the Collateral; (v) to perform or cause compliance with the Requirements; (vi) to adjust, compromise, defend, deposit a bond or give security in connection with, discharge, enforce, make demands related to, pay or otherwise obtain the discharge or release, prosecute, release, settle, terminate, or waive any claim or legal proceeding relating to any or all of the Collateral (including, without limitation, claims under insurance policies and claims against Obligor or the Collateral that Secured Party believes to be valid, regardless of whether actually valid); (vii) to send verifications to obligors of Accounts and issuers of Documents evidencing or representing Collateral; (viii) to notify obligors of Accounts to make payments directly to Secured Party; (ix) to execute, deliver, file, record, amend, modify, extend, renew, restate, supplement, and

terminate agreements, documents, and instruments included in or relating to the Collateral (including, without limitation, invoices, bills of lading, and Documents); (x) to receive, endorse, and collect Accounts (including, without limitation, checks, Instruments, and other orders for the payment of money made payable to Obligor or representing any Collateral), and to give receipts and full or partial discharge for the same; (xi) to obtain, realize upon, and release guaranties and security for obligations of third Persons included in the Collateral (including, without limitation, the Accounts); (xii) to obtain any insurance required under this Agreement, to pay the premiums for such required insurance, to file, prosecute, compromise, and settle proofs of claim under such insurance, and to receive insurance proceeds payable to Secured Party alone; (xiii) to commence, appear and participate in, prosecute, and terminate any legal proceeding relating to (A) the Collateral, (B) the security interest granted herein, (C) the perfection or priority of such security interest, or (D) the rights or remedies of Secured Party under the Loan Documents or the law; (xiv) to compromise, contest, deposit a bond or give security in connection with, discharge, pay, purchase, or settle any Lien or Encumbrance (including, without limitation, any Permitted Exception), whether senior or junior to the security interest granted herein; (xv) to do all other acts and things that Secured Party may, in its absolute and sole discretion, determine to be necessary or appropriate to carry out the purpose of the Loan Documents, as fully and completely as if Secured Party were the absolute owner of the Collateral, and (xvi) to pay from Secured Party's own funds or from proceeds of advances of any unadvanced portion of any Commitment, which advances Obligor hereby authorizes Secured Party to make for account of Obligor, all related costs, expenses, and fees (including, without limitation, attorneys' fees and costs of legal proceedings) incurred by Secured Party, which costs, expenses, and fees, if paid from Secured Party's funds, Obligor agrees to pay to Secured Party upon demand together with interest thereon at the Default Rate from the date incurred until paid in full. All costs, expenses, and fees incurred by Secured Party shall be prima facie evidence of the necessity therefor and the reasonableness thereof. Nothing in this Agreement shall be construed as requiring or obligating Secured Party to make any inquiry as to the nature or sufficiency of any payment received by Secured Party, to present or file any claim or notice, or to take any other action with respect to the Collateral.

5.12.3 Obligor hereby appoints Secured Party as Obligor's attorney-in-fact for the purpose of carrying out the provisions of this Agreement (including, without limitation, the obligations of Obligor). This appointment is coupled with an interest and is irrevocable. Without limiting the generality of the foregoing, Secured Party shall have the power as attorney-in-fact to do the things described in Section 5.12.2 as and when provided in such section.

5.12.4 Nothing in this Agreement shall relieve Obligor of any of its obligations under any Loan Document or under any other agreement, document, or instrument or in any way limit the rights or remedies of Secured Party.

6. Events Of Default. Each of the following shall be an event of default ("Event of Default"):

6.1 Attachment, garnishment, levy of execution, or seizure by legal process of any or all of the Collateral.

6.2 Any legal proceeding or other action against or affecting any or all of the Collateral is commenced (including, without limitation, any prejudgment attachment or garnishment) and is not quashed, stayed, or released within thirty (30) days.

6.3 Giving of notice of a sale under the Uniform Commercial Code or any other action by any Person, other than Secured Party, to realize upon any of the Collateral under any Lien or Encumbrance, regardless of whether such Lien or Encumbrance is a Permitted Exception and regardless of whether junior or senior to the security interest granted herein.

6.4 Any Transfer occurs.

6.5 Any Lien or Encumbrance on any or all of the Collateral, other than the Permitted Exceptions, is created or exists, whether junior or senior to the security interest herein.

6.6 Any or all of the Collateral is lost, stolen, suffers substantial damage or destruction, or declines materially in value.

6.7 Obligor abandons any or all of the Collateral.

6.8 The occurrence of a default or any event or condition that with notice, passage of time, or both would be a default in respect of any Permitted Exception.

6.9 The occurrence of a default or condition or event designated as a default, an event of default, or an Event of Default in any other Loan Document or in any agreement, document, or instrument relating to any other indebtedness of Obligor to Secured Party.

7. Rights And Remedies Of Secured Party. Upon occurrence of an Event of Default, Secured Party may, at its option, in its absolute and sole discretion and without demand or notice, do any or all of the following:

7.1 Acceleration of Obligations. Declare any or all of the Obligations to be immediately due and payable, whereupon such Obligations shall be immediately due and payable within 30 days.

7.2 Possession and Other Actions Concerning Collateral. Either in person or by agent, with or without bringing any action or legal proceeding, without regard to the adequacy of its security, or by means of a court appointed receiver, enter upon any premises in which the Collateral or the books and records relating to the Collateral are located and take sole and exclusive possession of all or any part of the Collateral, and take any or all of the actions described in Section 5.12.2. In

the event Secured Party demands, or attempts to take possession of the Collateral in the exercise of the rights under this Agreement, Obligor shall promptly turn over and deliver possession of the Collateral to Secured Party. Secured Party may enter upon any premises upon which any of the Collateral or any books and records relating to the Collateral are located in order to exercise Secured Party's right to take possession of the Collateral and may remove the Collateral from such premises or render the Collateral unusable.

7.3 Replevin. As a matter of right and without notice to Obligor or anyone claiming under Obligor, Secured Party shall be entitled to orders of replevin by a court of any or all Collateral from time to time.

7.4 Other Rights and Remedies. Exercise any and all other rights and remedies of Secured Party. In this regard, Secured Party may, among any other rights and remedies, sell all or any part of the Collateral at public or private sale for cash, upon credit, in exchange for other property, or for future delivery as Secured Party shall deem appropriate. As to sale or other disposition of the Collateral, except as to any of the Collateral that is perishable, threatens to decline speedily in value, or is of a type customarily sold on a recognized market as to which no notice shall be required, Secured Party will give Obligor reasonable notice of the time and place of any public sale or of the time after which any private sale or any other intended disposition is to be made. Obligor agrees that any such notice shall be sufficient if given at least ten (10) days prior to such sale or other disposition. Secured Party may be a purchaser at any sale. Secured Party may pay the purchase price at any sale by crediting the amount of the purchase price against the obligations.

8. Application Of Proceeds. All Collateral and all proceeds of Collateral received by Secured Party, before or after an Event of Default, will be applied by Secured Party to the Obligations, whether or not due, in such order as Secured Party shall determine in its absolute and sole discretion, subject to any requirements of law. Any Collateral and any balance of such proceeds remaining after payment of the Obligations in full will be paid to Obligor, its successors or assigns, or as the law or a court of competent jurisdiction may direct. Any proceeds of Collateral in the form of a check shall be credited against the Obligations only upon the expiration of such period of time after receipt thereof by Secured Party as Secured Party determines is reasonably sufficient to allow for clearance or payment thereof. Any other proceeds of Collateral will be credited against the Obligations only upon conversion into cash and receipt of such cash by Secured Party. Each such credit shall, however, be conditional upon final payment to Secured Party of the item giving rise to such credit.

9. Provisions In Other Loan Documents Govern This Agreement. This Agreement is subject to certain terms and provisions in the other Loan Documents, to which reference is made for a statement of such terms and provisions.

10. Counterparts. This Agreement may be executed in counterparts, all of which executed counterparts shall together constitute a single document. Signature pages may be detached from the counterparts and attached to a single copy of this Agreement to form physically one document.

October 19, 2006

By 
Name: Robert L. Prince
Title: President
"Obligor"

May 17, 2006

Judy Navarrete
Water Infrastructure Financing Authority
1110 West Washington Street, Suite 290
Phoenix, Arizona 85007

Subject: Loan Collateral

Dear Ms. Navarrete:

Please find below the Parcel numbers of the physical property that will serve as the collateral for the WIFA loan, Project number DW 032-2006.

PARCEL NUMBERS

LOCATION & DISCRPTION

- | | |
|-------------------------------|--|
| 1. 501-52-001 F | NW corner of Dysart Road & Glendale Avenue, Northern well. |
| 2. 501-63-930 | NW corner of 129 th Avenue & San Miguel, Lux Well Yard & Booster Station. |
| 3. 501-57-046 B | SE corner of Glendale Avenue & Commissary Road, Glendale Well Yard & Booster Station. |
| 4. 501-56-038 B | 12334 West Maryland Avenue, booster station. |
| 5. 501-56-010 V & 501-056-038 | To the rear, north boundry, of 12540 West Bethany Home Road, Bethany Hills West well yard & booster station. |

If there any questions, please call.

Respectfully,

Robert L. Prince

Valley Utilities Water Company
Proposed Debt Recovery Surcharge - Long-Term Debt
Computation

Line					
<u>No.</u>					
1	WIFA Loan Principle	\$	250,000		
2	Interest Rate (annual) ¹		6.00%		
3	Term (in years)		20		
4	Annual Principle Payment [1]	\$	6,796		
5	Tax Factor [2]		1.62		
6	Principle plus Taxes [1] X [2] = [3]	\$	11,010		
7	Annual Interest Payment [4]	\$	15,000		
8	Debt Payment Reserve [5] ²	\$	4,359		
9	Total Annual Debt Service [3] + [4] + [5] = [6]	\$	30,369		
10					
11					
12	Total [6]			\$ 30,369	
13					
14	Number of Customers at YE 2006		1,418		
15					
16	<u>Computation of Equivalent 5/8 Inch Meters</u>				
17					
18				AWWA	
19				Meter	
20	<u>Meter Size</u>	Portion of	2006	Flow	Equivalent
21	5/8 Inch	Anticipated Growth	Year-end Customers	Factor	5/8 Inch Meters
22	3/4 Inch	13.47%	191	1.0	191
23	1 Inch	53.95%	765	1.5	1,148
24	1 1/2 Inch	28.42%	403	2.5	1,008
25	2 Inch	0.42%	6	5.0	30
26	3 Inch	3.39%	48	8.0	384
27	4 Inch	0.35%	5	16.0	80
28	6 Inch	0.00%		25.0	-
29	8 Inch	0.00%		50.0	-
30	10 Inch	0.00%		80.0	-
31	12 Inch	0.00%		115.0	-
32	Totals	100.00%	1,418	215.0	2,840
33					
34	Total Equivalent 5/8 Inch Meters [7]				2,840
35					
36	Annual Costs Expected to be Funded by Surcharge (Percent X [7] = [8])			100%	\$ 30,369
37					
38	Annual Surcharge for Equivalent 5/8 Inch Metered Customer before tax (rounded down) ([8] / [7] = [9])				\$ 10.69
39					
40	Monthly Surcharge for Equivalent 5/8 Inch Metered Customer before tax (rounded down) ([9] / 12 = [10])				\$ 0.89
41					
42	<u>Projected Debt Recovery Surcharge by Meter Size</u>				
43	<u>Meter Size</u>				
44	5/8 Inch	\$	0.89	[10]	
45	3/4 Inch	\$	1.34	Scaled on 5/8 meter flow	
46	1 Inch	\$	2.23	Scaled on 5/8 meter flow	
47	1 1/2 Inch	\$	4.45	Scaled on 5/8 meter flow	
48	2 Inch	\$	7.13	Scaled on 5/8 meter flow	
49	3 Inch	\$	14.25	Scaled on 5/8 meter flow	
50	4 Inch	\$	22.27	Scaled on 5/8 meter flow	
51	6 Inch	\$	44.54	Scaled on 5/8 meter flow	
52	8 Inch	\$	71.27	Scaled on 5/8 meter flow	
53	10 Inch	\$	102.45	Scaled on 5/8 meter flow	
54	12 Inch	\$	191.53	Scaled on 5/8 meter flow	
55					
56	<u>Customer Monthly Bill Impact</u>	<u>Current Mon. Bill</u>	<u>Mon. Surcharge</u>	<u>Total Mon. Bill</u>	<u>% Increase</u>
57	5/8 Inch metered customer at average use of 9,264 gals.	\$ 30.21	\$ 0.89	\$ 31.10	2.95%
58	3/4 Inch metered customer at average use of 10,243 gals.	\$ 38.15	\$ 1.34	\$ 39.49	3.50%
59					
60					
61	¹ Assumed to be 75 percent of prime rate (rounded). Current prime rate is 8.25%.				
62	² WIFA debt reserve requirement is to collect one-years debt service over 5 years (60 months).				

Valley Utilities Water Company
Proposed Debt Recovery Surcharge - Short-Term Debt
Computation

Line					
<u>No.</u>					
1					
2					
3	Line of Credit			\$	250,000
4	Average Annual Outstanding Balance of Line of Credit [1]			\$	125,000
5	Annual Interest Rate [2]				9.00%
6	Projected Annual Interest Expense [1][X [2] = [3]			\$	11,250
7					
8	Total annual amount to be recovered [3]				\$ 11,250
9					
10	Number of Customers at YE 2006	1,418			
11					
12	<u>Computation of Equivalent 5/8 Inch Meters</u>				
13				AWWA	
14				Meter	
15				Flow	Equivalent
16	<u>Meter Size</u>	<u>Portion of</u>	<u>2006</u>	<u>Factor</u>	<u>5/8 Inch Meters</u>
17	5/8 Inch	13.47%	191	1.0	191
18	3/4 Inch	53.95%	765	1.5	1,148
19	1 Inch	28.42%	403	2.5	1,008
20	1 1/2 Inch	0.42%	6	5.0	30
21	2 Inch	3.39%	48	8.0	384
22	3 inch	0.35%	5	16.0	80
23	4 Inch	0.00%		25.0	-
24	6 Inch	0.00%		50.0	-
25	8 Inch	0.00%		80.0	-
26	10 Inch	0.00%		115.0	-
27	12 Inch	0.00%		215.0	-
28	Totals	100.00%	1,418		2,840
29					
30	Total Equivalent 5/8 Inch Meters [4]				2,840
31					
32	Annual Costs Expected to be Funded by Surcharge (Percent X [3] = [5])			100%	\$ 11,250
33					
34	Annual Surcharge for Equivalent 5/8 Inch Metered Customer (rounded) ([5] / [4] = [6])				\$ 3.96
35					
36	Monthly Surcharge for Equivalent 5/8 Inch Metered Customer (rounded) ([6] / 12 = [7])				\$ 0.33
37					
38	<u>Projected Debt Recovery Surcharge by Meter Size</u>				
39	<u>Meter Size</u>				
40	5/8 Inch	\$	0.33 [7]		
41	3/4 Inch	\$	0.50 Scaled on 5/8 meter flow		
42	1 Inch	\$	0.83 Scaled on 5/8 meter flow		
43	1 1/2 Inch	\$	1.65 Scaled on 5/8 meter flow		
44	2 Inch	\$	2.64 Scaled on 5/8 meter flow		
45	3 inch	\$	5.28 Scaled on 5/8 meter flow		
46	4 Inch	\$	8.25 Scaled on 5/8 meter flow		
47	6 Inch	\$	16.50 Scaled on 5/8 meter flow		
48	8 Inch	\$	26.40 Scaled on 5/8 meter flow		
49	10 Inch	\$	37.95 Scaled on 5/8 meter flow		
50	12 Inch	\$	70.95 Scaled on 5/8 meter flow		
51					
52	<u>Customer Monthly Bill Impact</u>	<u>Current Mon. Bill</u>	<u>Mon. Surcharge</u>	<u>Total Mon. Bill</u>	<u>% Increase</u>
53	5/8 Inch metered customer at average use of 9,264 gals.	\$ 30.21	\$ 0.33	\$ 30.54	1.09%
54	3/4 Inch metered customer at average use of 10,243 gals.	\$ 38.15	\$ 0.50	\$ 38.65	1.30%
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**VALLEY WATER UTILITIES COMPANY
DOCKET NOS. W-01412A-07-0_____**

**DIRECT TESTIMONY
OF
ROBERT L. PRINCE**

**FILED
OCTOBER 1, 2007**

1 **DIRECT TESTIMONY OF ROBERT L. PRINCE**

2 Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

3 A. My name is Robert L. Prince. My business address is 6808 N. Dysart Road, Suite 112,
4 Glendale, Arizona 85307. I am President of Valley Water Utilities Company Inc.

5 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN OTHER PROCEEDINGS ON
6 BEHALF OF THE APPLICANT, VALLEY WATER UTILITIES COMPANY
7 (“VALLEY” OR “COMPANY”)?

8 A. Yes, I have.

9 Q. WILL YOU PLEASE STATE FOR THE RECORD THE SIZE AND LOCATION OF
10 THE COMPANY’S OPERATIONS?

11 A. Yes, Valley was first Certificated in about 1960, and serves approximately 1,400 primarily
12 residential customers in the Glendale area, just south and east of Luke Air Force Base.

13 Q. WILL YOU PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY IN THIS
14 DOCKET AND THE COMPANION EMERGENCY RATE CASE APPLICATION?

15 A. Yes, we have designed and built our system to serve our existing customers and
16 reasonable expectations of our growth, and toward that end have seven wells designed to
17 produce 1,725 gpm, with slightly over one million gallons of storage, with the requisite
18 booster facilities and approximately 133,000 feet of transmission mains. However, we
19 recently have had a catastrophic failure of our largest well and we must immediately
20 replace that lost capacity to meet the summer 2008 demand of our customers. We are
21 requesting the Commission’s assistance in obtaining financing approvals to obtain
22 construction and long term funding of the New Well. In the companion Application we
23 address the clear need an Emergency Surcharge to cover the interest payments until the

1 new well can be included in our rate base and permanent rates established to cover its
2 costs. My purpose is to explain the causes of the emergency, propose a solution, and
3 request the Commission's assistance in that regard.

4 Q. YOU SAY YOUR WELLS ARE DESIGNED TO PRODUCE 1,725 GPM, HAS
5 THAT BEEN THE EXPERIENCE?

6 A. No, and that is the very serious problem at hand. On August 24, 2007 number 6 well,
7 our supposed largest producer totally failed. Designed to produce 425 gpm to meet the
8 demand of a new subdivision of 517 homes, the well is presently, and permanently, out of
9 service.

10 Q. WILL YOU PLEASE GIVE THE COMMISSION A BRIEF HISTORY OF THAT
11 WELL?

12 A. Valley Utilities Water Co.'s number 6 well, well registration number 55-580082, was
13 drilled, developed and tested by Layne Christensen Company, as directed by Southwest
14 Ground-water Consultants, Inc. (SGC) in February 2001. The well was also designed by
15 SGC while contracted by the developer, Stardust Development, for that purpose. The well
16 tests took place over a three day period from March 21 through March 23, 2001. In the
17 well report from SGC, the conclusion was that the well would produce the needed amount
18 of water to serve the Dreaming Summit subdivision, 450 acre feet per year. As permitted
19 by ADWR, the well was approved as designed with a peaking capacity of 1,150 gpm, not to
20 exceed 450 AF per year. The well was placed in service August 30, 2002. I have attached
21 the ADWR Permit No. S-580082 and the ADWR Completion Report as **Exhibits 1 and 2**,
22 respectively.

23 Q. HOW HAS THAT WELL PERFORMED?

1 A. The well operated continuously from August of 2002, meeting demands of the system
2 at that time. However, the summer of 2003 revealed a reduction in the production of the
3 number 6 well during the highest demand months of May through August. This problem
4 was discussed with Steve Noel of SGC and the thought was that the submersible pump that
5 was operating may not have been sufficient to produce the desired amount of water at a
6 greater than anticipated draw down of the well during the summer months. The conclusion
7 being that a larger pump set deeper would produce the needed production during the peak
8 demand times.

9 Q. WERE THERE OTHER PROBLEMS?

10 A. Yes, in March of 2006, the thrust bearing failed in the 125 HP submersible and the
11 pump was pulled. Valley contracted with Longmire Well Services to video the well to have
12 a visual account of the well condition. The video revealed a problem with bio-fouling in
13 the well that was so bad that the condition of the casing could not be determined. Valley
14 reviewed the video with Frank Turek, geologist for PBS&J as well as Fred Tregaskes with
15 the Weber Group (a full service water well contractor). A plan for cleaning and
16 rehabilitation was developed and the Weber Group was contracted to implement the plan.
17 The process was to physically clean the well with a nylon brush in conjunction with
18 chemically cleaning the well with NSF approved chelated chemicals, product brand name
19 "Well Clean". This process resulted in marginal improvements, as determined by an
20 "after" video log of the well and the decision was made, with the advice of the contractor
21 that no further attempts at remediation would be made at this time.

22 Q. DID SUPPLY ISSUES REMAIN?
23

1 A. Because the time had advanced to May of 2006 and the system water demand was
2 increasing dramatically, it was decided to place the well back in service. A 125 HP US
3 vertical hollowshaft motor with an 8" National M10HC, 10 stage bowl assembly was
4 selected. This motor and pump combination is capable of producing 600 gpm at a total
5 discharge head of 600 feet. The turbine pump was installed by the Weber Group and the
6 well was started in June of 2006. The pump ran for 5 to 15 minutes, producing
7 approximately 700 gpm to waste, then it broke suction and had to be shut down. A restart
8 was done with a throttled discharge to reduce the flow to approximately 400 gpm, the result
9 was that the pump ran longer to waste, but again broke suction before being clean enough
10 to go to the system. Although the pump produced within the parameters of the engineering
11 curves the **well** was not producing the required flow. We attempted to resolve this problem
12 by using a variable frequency drive. The pump was started at a lower frequency, 45 Hz,
13 and ran at the slower rate and was slowly increased to a sustainable pumping rate. Running
14 the motor at a lower RPM caused the pump to produce at a rate equal to the wells
15 production capability, 250 to 350 gpm. This combination of equipment and close
16 monitoring of the dynamic level of the well was sufficient to get through the summer of
17 2006.

18 Q. DID YOU ATTEMPT A MORE PERMANENT FIX WHEN THE SEASONAL
19 DEMANDS DROPPED?

20 A. Yes, in March of 2007 it was decided to remove well number 6 from service, video the
21 well again and then to physically and chemically clean it again. This time we consulted
22 with Mike Schnieders, Hydrologist, with Water Systems Engineering Inc., located in
23 Ottawa, Kansas. Mike was recommended by Gary Gin who works for the City of Phoenix.

1 Gary is a Hydrologist in charge of the cities recharge wells among other projects. Gary is
2 highly regarded with respect to bio-fouled wells and he highly recommended Mike
3 Schnieders as the preeminent well rehabilitation hydrologist in the country, specializing in
4 bio-fouled wells. Valley took water samples per Water Systems Inc. specifications. After
5 the analysis was completed, recommendations were made by Water Systems Inc. for what
6 we hoped would be the last rehab for the number 6 well. I have attached that report as
7 **Exhibit 3.**

8 Q. DID YOU FOLLOW THEIR RECOMMENDATIONS?

9 A. After the Weber Group implemented the plan and the cleaning was complete, a video
10 log was again taken to determine the success or failure of the effort. It was discovered that
11 although the cleaning, this time, was exceptional there were holes in the wire wrapped
12 casing and if not addressed would present problems. If these holes were not repaired they
13 would be an ingress path for the gravel pack to enter the well. The holes appeared to be
14 corrosion caused as a function of the bacteriological contamination and the low carbon steel
15 make up of the casing. Again, Longmire Well Services was contracted to facilitate repairs
16 and five perforated patches were swaged to repair the holes. Another video log showed that
17 the patches were successful. The pump was reinstalled and the well was again returned to
18 service in June of 2007.

19 Q. HOW DID THAT WORK?

20 A. The well operated for 80 days losing production on a weekly basis. Production fell
21 from 350 gpm to 65 gpm over this period and the well was removed from service on
22 August 24, 2007. The pump was inspected and found to be completely destroyed with little
23 of the impellers intact. The pump was completely filled with filter pack, sand and clay silts

1 indicating a failure of the well casing. The video was inconclusive due to fill to a level of
2 657 feet but there was indication of corrosion and erosion in the wire screen that may have
3 allowed filter pack and other material to enter the well causing the damage found in the
4 pump.

5 Q. BASED ON YOUR EXPERIENCE AND THE ADVICE OF YOUR
6 CONSULTANTS. WHAT DID YOU CONCLUDE?

7 A. The number 6 well has been treated with the best available technology in order to
8 rehabilitate it and return it to useful service. All attempts have failed and Valley now has no
9 choice but to drill a new well to replace the lost 450 acre feet of annual water production
10 required for Valley to meet the current demand that comes in the hotter months, April to
11 September.

12 Q. HAS THE COMPANY ATTEMPTED TO RESOLVE THIS SUPPLY PROBLEM IN
13 ANY OTHER WAY?

14 A. Yes. We have entered into a wholesale water agreement for supply from Litchfield
15 Park Service Company (LPSCO), the utility immediately south of our service area.
16 However, LPSCO has had its own problems and has recently as August 24, 2007 has
17 advised us that they could not assist at this time.

18 Q. ARE THERE OTHER ALTERNATIVES?

19 A. We thought perhaps. I have contacted the City of Glendale representatives regarding a
20 mutual supply agreement, but have been told in no uncertain terms that the City is not
21 interested in such an arrangement. One positive note is that we were awarded a Central
22 Arizona Project Subcontract for 250 acre-feet, enough to serve about 500 customers. That
23 Subcontract is being finalized presently, but the wet water will not be available until a

1 delivery and treatment plan is negotiated, designed, financed and constructed, probably
2 several years away. The New Well is the only viable plan for summer 2008 supply.

3 Q. IS THE NEW WELL CRITICAL TO VALLEY AND YOUR CUSTOMERS?

4 A. I can not stress strongly enough, if Valley does not develop a water source equal to what
5 was lost, Valley will experience water shortages that will create serious public safety
6 concerns for all of the customers that we serve as well as extended outages with no water at
7 times. Even with a tie line connected to LPSCO, the availability of that water is subject to
8 their system needs and we have been turned down three times already when we requested
9 supplement water to augment what we were able to produce.

10 Q. WHAT IS YOUR REQUEST OF THE COMMISSION?

11 A. Valley is at a critical juncture. We must, I say, must, have a new well in service by
12 early spring 2008. If we do not, our storage tanks will go dry and we will not be able to serve
13 ANY of our customers. The only way the new well can be constructed is with WIFA funds and
14 with an interim commercial construction loan. To obtain approval of that "bridge" loan we
15 must have a WIFA take out of that line of credit. To obtain the WIFA long term loan we must
16 have an immediate surcharge to cover interest costs until a permanent rate case can recognize
17 the new well costs. The solution is not enjoyable for anyone, but it is very clear immediate
18 action by the Commission is essential.

19 Q. WHAT SPECIFICALLY IS NEEDED?

20 A. We need the Commission's approval of our proposed Line of Credit of up to \$250,000
21 (which would hopefully be for less than the twelve months during the construction period), and
22 in addition loan term approval of a WIFA loan to repay that Line of Credit, and an Emergency
23 Surcharge to cover interest payments to first the bank as set forth in Attachment Three to the

1 Emergency Rate Increase Application, and then to WIFA. When the new well comes on line
2 and we have operating experience with it, Valley would file a plenary rate application to drop
3 the Surcharge and recover those costs in new permanent rates.

4 Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?

5 A. Yes it does.

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ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

VALLEY UTILITIES WATER CO., INC.
6808 N. DYSART ROAD, SUITE 112
GLENDALE, AZ 85307

ANNUAL REPORT

FOR YEAR ENDING

12	31	2006
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FOR COMMISSION USE

ANN 04	06
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PROCESSED BY:

SCANNED

ATTACHMENT SIX

COMPANY INFORMATION

Company Name (Business Name) <u>VALLEY UTILITIES WATER CO., INC.</u>			
Mailing Address <u>6808 N. DYSART ROAD, SUITE 112</u> <small>(Street)</small>			
<u>GLENDALE</u> <small>(City)</small>	<u>AZ</u> <small>(State)</small>	<u>85307</u> <small>(Zip)</small>	
<u>(623) 935-1100</u> <small>Telephone No. (Include Area Code)</small>	<u>(623) 935-7321</u> <small>Fax No. (Include Area Code)</small>	<u>(602) 672-9481</u> <small>Pager/Cell No. (Include Area Code)</small>	
Email Address _____			
Local Office Mailing Address <u>SAME AS ABOVE</u> <small>(Street)</small>			
<small>(City)</small>	<small>(State)</small>	<small>(Zip)</small>	
<small>Local Office Telephone No. (Include Area Code)</small>	<small>Fax No. (Include Area Code)</small>	<small>Pager/Cell No. (Include Area Code)</small>	
Email Address _____			

MANAGEMENT INFORMATION

Management Contact: <u>ROBERT PRINCE</u> <small>(Name)</small> <small>(Title)</small>			
<u>6808 N. DYSART ROAD, SUITE 112</u> <small>(Street)</small>	<u>GLENDALE</u> <small>(City)</small>	<u>AZ</u> <small>(State)</small>	<u>85307</u> <small>(Zip)</small>
<u>(623) 935-1100</u> <small>Telephone No. (Include Area Code)</small>	<u>(623) 935-7321</u> <small>Fax No. (Include Area Code)</small>	<small>Pager/Cell No. (Include Area Code)</small>	
Email Address _____			
On Site Manager: <u>SAME AS ABOVE</u> <small>(Name)</small>			
<small>(Street)</small>	<small>(City)</small>	<small>(State)</small>	<small>(Zip)</small>
<small>Telephone No. (Include Area Code)</small>	<small>Fax No. (Include Area Code)</small>	<small>Pager/Cell No. (Include Area Code)</small>	
Email Address _____			

Please mark this box if the above address(es) have changed or are updated since the last filing.

Statutory Agent: RICHARD L SALLQUIST

(Name)

2525 EAST ARIZONA BILTMORE CIRCLE #117
(Street)

PHOENIX
(City)

AZ
(State)

85016
(Zip)

(602) 224-9222

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

Attorney: SAME AS ABOVE

(Name)

(Street)

(City)

(State)

(Zip)

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

Please mark this box if the above address(es) have changed or are updated since the last filing.

OWNERSHIP INFORMATION

Check the following box that applies to your company:

Sole Proprietor (S)

C Corporation (C) (Other than Association/Co-op)

Partnership (P)

Subchapter S Corporation (Z)

Bankruptcy (B)

Association/Co-op (A)

Receivership (R)

Limited Liability Company

Other (Describe) _____

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

APACHE

COCHISE

COCONINO

GILA

GRAHAM

GREENLEE

LA PAZ

MARICOPA

MOHAVE

NAVAJO

PIMA

PINAL

SANTA CRUZ

YAVAPAI

YUMA

STATEWIDE

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

UTILITY PLANT IN SERVICE

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization			
302	Franchises			
303	Land and Land Rights	44,196		44,196
304	Structures and Improvements	18,907	12,860	6,047
307	Wells and Springs	1,095,291	302,349	792,942
311	Pumping Equipment	336,173	206,128	130,045
320	Water Treatment Equipment	19,258	1,969	17,289
330	Distribution Reservoirs and Standpipes	290,662	197,688	92,974
331	Transmission and Distribution Mains	2,552,353	1,170,280	1,382,073
333	Services	108,339	49,214	59,125
334	Meters and Meter Installations	394,008	126,176	267,832
335	Hydrants	147,204	18,570	128,634
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment	1,237	108	1,129
340	Office Furniture and Equipment	63,705	27,959	35,746
341	Transportation Equipment	82,788	21,528	61,260
343	Tools, Shop and Garage Equipment	29,533	13,911	15,622
344	Laboratory Equipment			
345	Power Operated Equipment	5,930	5,930	0
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	TOTALS	5,189,584	2,154,670	3,034,914

This amount goes on the Balance Sheet Acct. No. 108

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR

Acct. No.	DESCRIPTION	Original Cost (1)	Depreciation Percentage (2)	Depreciation Expense (1x2)
301	Organization			
302	Franchises			
303	Land and Land Rights	44,196		
304	Structures and Improvements	18,907	3.33%	630
307	Wells and Springs	1,095,291	3.33%	34,789
311	Pumping Equipment	336,173	12.50%	37,217
320	Water Treatment Equipment	19,258	3.33%	620
330	Distribution Reservoirs and Standpipes	290,662	2.22%	6,442
331	Transmission and Distribution Mains	2,552,353	2.00%	50,993
333	Services	108,339	3.33%	3,460
334	Meters and Meter Installations	394,008	8.33%	31,023
335	Hydrants	147,204	2.00%	2,944
336	Backflow Prevention Devices			
339	Other Plant and Misc. Equipment	1,237	6.67%	78
340	Office Furniture and Equipment	63,705	6.67%	3,891
341	Transportation Equipment	82,788	20.00%	13,584
343	Tools, Shop and Garage Equipment	29,533	5.00%	1,302
344	Laboratory Equipment			
345	Power Operated Equipment	5,930	5.00%	0
346	Communication Equipment			
347	Miscellaneous Equipment			
348	Other Tangible Plant			
	SUBTOTALS	5,189,584		186,973
	Less: Amortization of Contributions			14,329
	TOTALS	5,189,584		172,644

This amount goes on Comparative Statement of Income and Expense Acct. No. 403.

 **ULLMANN
& COMPANY P.C.**
Certified Public Accountants

To the Board of Directors of
Valley Utilities Water Co., Inc.
Glendale, Arizona

We have compiled the balance sheet of Valley Utilities Water Co., Inc. (a corporation) as of December 31, 2006 and 2005, and the comparative statement of income and expense for the years then ended included in the accompanying prescribed form in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

Our compilation was limited to presenting in the form prescribed by the Arizona Corporation Commission information that is the representation of management. We have not audited or reviewed the financial statements referred to above and, accordingly, do not express an opinion or any other form of assurance on them.

These financial statements are presented in accordance with the requirements of the Arizona Corporation Commission, which differ from generally accepted accounting principles. Accordingly, these financial statements are not designed for those who are not informed about such differences.

All other information contained in the accompanying prescribed form has not been audited, reviewed, or compiled by us and, accordingly, we assume no responsibility for that information.

Ullmann & Company

ULLMANN & COMPANY, P.C.
Certified Public Accountants

March 31, 2007

COMPANY NAME VALLEY UTILITIES WATER CO., INC.

BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	\$ 823,902	\$ 947,115
134	Working Funds		
135	Temporary Cash Investments		
141	Customer Accounts Receivable	78,227	71,201
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies	16,639	30,303
162	Prepayments		
174	Miscellaneous Current and Accrued Assets	55,767	46,972
	TOTAL CURRENT AND ACCRUED ASSETS	\$ 974,535	\$ 1,095,591
	FIXED ASSETS		
101	Utility Plant in Service	\$ 4,904,248	\$ 5,189,584
103	Property Held for Future Use	40,000	40,000
105	Construction Work in Progress	18,075	197,012
108	Accumulated Depreciation - Utility Plant	1,971,713	2,154,670
121	Non-Utility Property		
122	Accumulated Depreciation - Non Utility		
	TOTAL FIXED ASSETS	\$ 2,990,610	\$ 3,271,926
	TOTAL ASSETS	\$ 3,965,145	\$ 4,367,517

NOTE: The Assets on this page should be equal to Total Liabilities and Capital on the following page.

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

BALANCE SHEET (CONTINUED)

Acct. No.	LIABILITIES	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT LIABILITES		
231	Accounts Payable	\$ 15,818	\$ 16,329
232	Notes Payable (Current Portion)	7,958	11,590
234	Notes/Accounts Payable to Associated Companies		
235	Customer Deposits	53,775	80,189
236	Accrued Taxes	21,559	44,513
237	Accrued Interest		
241	Miscellaneous Current and Accrued Liabilities	5,421	7,198
	TOTAL CURRENT LIABILITIES	\$ 104,531	\$ 159,819
	LONG-TERM DEBT (Over 12 Months)		
224	Long-Term Notes and Bonds	\$ -	\$ 28,237
	DEFERRED CREDITS		
251	Unamortized Premium on Debt		
252	Advances in Aid of Construction	3,726,938	3,805,035
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction	865,157	1,018,717
272	Less: Amortization of Contributions	257,238	271,566
281	Accumulated Deferred Income Tax	30,689	29,820
	TOTAL DEFERRED CREDITS	\$ 4,365,546	\$ 4,582,006
	TOTAL LIABILITIES	\$ 4,470,077	\$ 4,770,062
	CAPITAL ACCOUNTS		
201	Common Stock Issued	\$ 110,000	\$ 110,000
211	Paid in Capital in Excess of Par Value	4,988	4,988
215	Retained Earnings	(619,920)	(517,533)
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	\$ (504,932)	\$ (402,545)
	TOTAL LIABILITIES AND CAPITAL	\$ 3,965,145	\$ 4,367,517

COMPANY NAME

VALLEY UTILITIES WATER CO., INC.

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR
461	Metered Water Revenue	\$ 883,022	\$ 1,111,620
460	Unmetered Water Revenue		
474	Other Water Revenues	38,959	114,795
	TOTAL REVENUES	\$ 921,981	\$ 1,226,415
	OPERATING EXPENSES		
601	Salaries and Wages	\$ 274,462	\$ 337,921
610	Purchased Water	0	16,051
615	Purchased Power	119,368	132,562
618	Chemicals	6,303	10,208
620	Repairs and Maintenance	11,178	9,511
621	Office Supplies and Expense	33,045	22,512
630	Outside Services	11,829	31,520
635	Water Testing	3,782	9,538
641	Rents	74,770	92,058
650	Transportation Expenses	26,726	19,203
657	Insurance - General Liability	19,343	29,052
659	Insurance - Health and Life	81,377	106,608
666	Regulatory Commission Expense - Rate Case	1,903	12,199
675	Miscellaneous Expense	40,497	49,465
403	Depreciation Expense	191,094	172,644
408	Taxes Other Than Income	21,844	26,105
408.11	Property Taxes	31,157	35,524
409	Income Tax	(587)	24,905
	TOTAL OPERATING EXPENSES	\$ 948,091	\$ 1,137,586
	OTHER INCOME/EXPENSE		
419	Interest and Dividend Income	\$ 7,912	\$ 22,455
421	Non-Utility Income	0	685
426	Miscellaneous Non-Utility Expenses	0	3,069
427	Interest Expense	1,423	6,513
	TOTAL OTHER INCOME/EXP	\$ 6,489	\$ 13,558
	NET INCOME/(LOSS)	\$ (19,621)	\$ 102,387

429

COMPANY NAME VALLEY UTILITIES WATER CO., INC.

SUPPLEMENTAL FINANCIAL DATA
Long-Term Debt

	LOAN #1	LOAN #2	LOAN #3	LOAN #4
Date Issued	01/05/2006			
Source of Loan	CHASE BANK			
ACC Decision No.				
Reason for Loan	VEHICLE PURCHASE			
Dollar Amount Issued	\$35,309	\$	\$	\$
Amount Outstanding	\$28,237	\$	\$	\$
Date of Maturity	2/19/2010			
Interest Rate	7.99%	%	%	%
Current Year Interest	\$2,460	\$	\$	\$
Current Year Principle	\$7,072	\$	\$	\$

Meter Deposit Balance at Test Year End \$ 262,798

Meter Deposits Refunded During the Test Year \$ 43,208

COMPANY NAME	VALLEY UTILITIES WATER CO., INC.
Name of System	ADEQ Public Water System Number (if applicable)

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
#1 55-639720	25	75	650	12	3	1942
#2 55-639721	30	125	650	10	3	1969
#3 55-639723	25	125	425	8	4	1965
#4 55-639722	25	125	800	12	4	1970
#5 55-503273	75	480	850	20	6	1982
#6 55-580082	125	425	810	12	8	2001

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
15	4	12	
20	2		
40	6		
50	2		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
100,000	3	5,000	2
200,000	1	7,500	1
560,000	1	10,000	1

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME	VALLEY UTILITIES WATER CO., INC.
Name of System	ADEQ Public Water System Number (if applicable)

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2		
3		
4	AC & PVC	10,000
5		
6	AC & DIP	64,514
8	AC & DIP	50,010
10	DIP	2,952
12	AC & DIP	5,925

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	191
3/4	765
1	403
1 1/2	6
2	48
Comp. 3	5
Turbo 3	
Comp. 4	
Tubo 4	
Comp. 6	
Tubo 6	

For the following three items, list the utility owned assets in each category for each system.

TREATMENT EQUIPMENT:

- 1 - 3" Tablet Chlorinator
- 3 - 50 Gallon Liquid Chlorinator

STRUCTURES:

OTHER:

Note: If you are filing for more than one system, please provide separate sheets for each system.

COMPANY NAME:	VALLEY UTILITIES WATER CO., INC.
Name of System	ADEQ Public Water System Number (if applicable)

WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2006

MONTH/YEAR	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	1358	22,417	25,143	
FEBRUARY	1383	19,655	20,240	
MARCH	1395	19,078	19,975	
APRIL	1403	30,089	31,376	
MAY	1413	31,422	32,254	
JUNE	1401	38,113	39,141	
JULY	1412	43,111	44,030	
AUGUST	1421	28,420	29,621	
SEPTEMBER	1419	27,623	28,070	
OCTOBER	1420	30,577	31,615	
NOVEMBER	1417	24,406	25,635	
DECEMBER	1418	18,713	19,514	
TOTALS →		333,624	346,614	

What is the level of arsenic for each well on your system? WELL #1 - 11.50 ppb mg/l
(If more than one well, please list each separately.)
 WELL #2 - 12.50 ppb
 WELL #3 - 6.8 ppb
 WELL #4 - 12 ppb
 WELL #5 - 13 ppb
 WELL #6 - 11 ppb

If system has fire hydrants, what is the fire flow requirement? 1000 GPM for 2 hrs

If system has chlorination treatment, does this treatment system chlorinate continuously?
 Yes No

Is the Water Utility located in an ADWR Active Management Area (AMA)?
 Yes No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?
 Yes No

If yes, provide the GPCPD amount: _____

Note: If you are filing for more than one system, please provide separate data sheets for each system.

COMPANY NAME VALLEY UTILITIES WATER CO., INC. YEAR ENDING 12/31/2006

PROPERTY TAXES

Amount of actual property taxes paid during Calendar Year 2006 was: \$ 34,234

Attach to this annual report proof (e.g. property tax bills stamped "paid in full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calendar year.

If no property taxes paid, explain why. _____

**VERIFICATION
AND
SWORN STATEMENT
Taxes**

VERIFICATION

STATE OF ARIZONA
I, THE UNDERSIGNED
OF THE

COUNTY OF (COUNTY NAME)	MARICOPA
NAME (OWNER OR OFFICIAL) TITLE	ROBERT L. PRINCE, PRESIDENT
COMPANY NAME	VALLEY UTILITIES WATER CO., INC.

DO SAY THAT THIS ANNUAL UTILITY PROPERTY TAX AND SALES TAX REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2006

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

I HEREBY ATTEST THAT ALL PROPERTY TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

I HEREBY ATTEST THAT ALL SALES TAXES FOR SAID COMPANY ARE CURRENT AND PAID IN FULL.

SIGNATURE OF OWNER OR OFFICIAL

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

DAY OF

COUNTY NAME	
MONTH	.20__

(SEAL)

SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES _____

COMPANY NAME VALLEY UTILITIES WATER CO., INC. YEAR ENDING 12/31/2006

INCOME TAXES

For this reporting period, provide the following:

Federal Taxable Income Reported	<u>77,119</u>
Estimated or Actual Federal Tax Liability	<u>14,470</u>

State Taxable Income Reported	<u>162,302</u>
Estimated or Actual State Tax Liability	<u>11,304</u>

Amount of Grossed-Up Contributions/Advances:

Amount of Contributions/Advances	<u>0</u>
Amount of Gross-Up Tax Collected	<u>0</u>
Total Grossed-Up Contributions/Advances	<u>0</u>

Decision No. 55774 states, in part, that the utility will refund any excess gross-up funds collected at the close of the tax year when tax returns are completed. Pursuant to this Decision, if gross-up tax refunds are due to any Payer or if any gross-up tax refunds have already been made, attach the following information by Payer: name and amount of contribution/advance, the amount of gross-up tax collected, the amount of refund due to each Payer, and the date the Utility expects to make or has made the refund to the Payer.

CERTIFICATION

The undersigned hereby certifies that the Utility has refunded to Payers all gross-up tax refunds reported in the prior year's annual report. This certification is to be signed by the President or Chief Executive Officer, if a corporation; the managing general partner, if a partnership; the managing member, if a limited liability company or the sole proprietor, if a sole proprietorship.

SIGNATURE

DATE

PRINTED NAME

TITLE

**VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only**

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME) MARICOPA
NAME (OWNER OR OFFICIAL) TITLE ROBERT L. PRINCE, PRESIDENT
COMPANY NAME VALLEY UTILITIES WATER CO., INC.

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2006

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2006 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)
\$ <u>1,294,697</u>

**(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 68,282
IN SALES TAXES BILLED, OR COLLECTED)**

****REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)**

SIGNATURE OF OWNER OR OFFICIAL

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS **DAY OF**

(SEAL)

COUNTY NAME	
MONTH	.20__

SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES _____

**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
Intrastate Revenues Only**

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

<small>COUNTY OF (COUNTY NAME)</small> MARICOPA	
<small>NAME (OWNER OR OFFICIAL)</small> ROBERT L. PRINCE	<small>TITLE</small> PRESIDENT
<small>COMPANY NAME</small> VALLEY UTILITIES WATER CO., INC.	

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

<small>MONTH</small>	<small>DAY</small>	<small>YEAR</small>
12	31	2006

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2006 WAS:

<small>ARIZONA INTRASTATE GROSS OPERATING REVENUES</small>
\$ 859,155

**THE AMOUNT IN BOX AT LEFT
INCLUDES \$ 45,312
IN SALES TAXES BILLED, OR COLLECTED)**

***RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.**

SIGNATURE OF OWNER OR OFFICIAL

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS **DAY OF**

<small>NOTARY PUBLIC NAME</small>	
<small>COUNTY NAME</small>	
<small>MONTH</small>	<small>, 20__</small>

(SEAL)

MY COMMISSION EXPIRES

X _____
SIGNATURE OF NOTARY PUBLIC

PROPERTY DESCRIPTION

SEC/LOT TWN/BLK RNG/TR

TOTAL VALUE OF OPERATING PROPERTY

*Property address: SITUS ADDRESS NOT AVAILABLE.

MARICOPA COUNTY
2006 PROPERTY TAX
STATEMENT

MARICOPA COUNTY
TREASURER
DAVID SCHWEIKERT, TREASURER
301 W JEFFERSON ST - RM 100
PHOENIX, AZ 85003-2199
TO UPDATE YOUR MAILING ADDRESS
please go to:
<http://treasurer.maricopa.gov>

SIGN UP FOR "PARCEL WATCH"
and receive an e-mail reminder for
second half payments.
<http://treasurer.maricopa.gov>



1662 1724 *****AUTO**5-DIGIT 85340
VALLEY UTILITIES WATER CO INC
12540 W BETHANY HOME RD
LITCHFIELD PARK, AZ 85340-9303

\$25.00 CHARGE IF CHECK
FAILS TO CLEAR BANK.
YOUR CHECK IS YOUR RECEIPT.

Primary (limited) Assessed Value 366,520

Secondary Assessed Value 366,520

Tax Area Code: 790000

	CONTACT #	COMPARATIVE 2005 AMT	RATE / 100	2006 AMT DUE
PRIMARY				
LITCHFIELD ELEMENTARY	(623) 535-8000	6080.87	20284	7434.50
AGUA FRIA HIGH SCHOOL	(623) 932-7000	7228.39	22412	8214.45
GENERAL COUNTY FUND	(602) 506-8511	3857.65	11794	4322.74
COMMUNITY COLLEGE DIST.	(480) 731-8621	2879.62	8815	3230.87
EDUCATION EQUALIZATION	(602) 506-8511	1404.37	0000	.00
SUBTOTAL		21450.90	63305	23202.56
SECONDARY				
FLOOD CONTROL OF MARICOPA COUNTY	(602) 506-1501	79.72	2047	76.00
CENTRAL ARIZONA WATER CONSV. DIST.	(623) 869-2333	386.70	1200	439.82
FIRE DISTRICT ASSISTANCE	(602) 506-8511	22.24	0068	24.92
COUNTY LIBRARY	(602) 652-3000	167.90	0507	185.82
COUNTY HEALTHCARE DISTRICT	(602) 344-5978	388.62	1184	433.96
*BONDS**				
-COUNTY		00	0000	.00
-CITY		00	0000	.00
-SCHOOLS		6097.62	17089	6263.46
-COMMUNITY COLLEGE		444.38	1831	671.10
SCHOOL DISTRICT OVERRIDES		2866.94	8773	3215.48
SUBTOTAL		10554.12	32699	11310.56
SPECIAL DISTRICT				
WEST-MEC	DISTRICT # 30002 (623) 873-1860	181.12	0500	183.26
PAID OCT 30 2006 CL#5039 \$17,348.19				
			TOTAL FOR 2006	34696.38

*Property address is provided by the Maricopa County Assessor's Office.

(505493 = PRTCNTL)

DETACH AND RETURN WITH PAYMENT

2

PARCEL/ACCOUNT # 628-57-900-1

2006 SECOND HALF PAYMENT STUB
DUE MARCH 1, 2007
DELINQUENT AFTER MAY 1, 2007

MAKE CHECK PAYABLE TO:

PRINT THE ABOVE PARCEL / ACCOUNT
NUMBER ON YOUR CHECK

U.S. FUNDS ONLY

Maricopa County Treasurer
P O Box 52133
Phoenix, AZ 85072-2133

SECOND HALF	\$17,348.19
-------------	-------------

VALLEY UTILITIES WATER CO INC

MAKE CHANGES TO MAILING ADDRESS BELOW
OR GO TO <http://treasurer.maricopa.gov>

PLEASE REMEMBER YOUR SECOND HALF PAYMENT IS DUE IN MARCH
AND THAT NO ADDITIONAL NOTIFICATION IS SENT.

060000000200034696380001734819628579000013

65000069582925560000002556000000E0000000090

Your total tax bill is one hundred dollars (\$100.00)
 or less and must be paid in full on or
 before November 1, 2006. ARS 42-18052-C

PARCEL/ACCOUNT # 628-58-900-5

**MARICOPA COUNTY
 TREASURER**
 DAVID SCHWEIKERT, TREASURER
 301 W JEFFERSON ST - RM 100
 PHOENIX, AZ 85003-2199

PROPERTY DESCRIPTION
 SEC/LOT TWN/BLK RNG/TR
TOTAL VALUE OF OPERATING PROPERTY
 *Property address: SITUS ADDRESS NOT AVAILABLE.

**MARICOPA COUNTY
 2006 PROPERTY TAX
 STATEMENT**

TO UPDATE YOUR MAILING ADDRESS
 please go to:
<http://treasurer.maricopa.gov>

1662 1724 *****AUTO**5-DIGIT 85340
 VALLEY UTILITIES WATER CO INC
 12540 W BETHANY HOME RD
 LITCHFIELD PARK, AZ 85340-9303

SIGN UP FOR "PARCEL WATCH"
 and receive an e-mail reminder for
 second half payments.
<http://treasurer.maricopa.gov>

\$25.00 CHARGE IF CHECK
 FAILS TO CLEAR BANK.
 YOUR CHECK IS YOUR RECEIPT.

Primary (limited) Assessed Value 980

Secondary Assessed Value 980

Tax Area Code: 890000

	CONTACT #	COMPARATIVE 2005 AMT	RATE / 100	2006 AMT DUE
PRIMARY				
DYSART UNIFIED	(623) 876-7000	54.63	51144	50.12
GENERAL COUNTY FUND	(602) 506-8511	11.97	11794	11.56
COMMUNITY COLLEGE DIST.	(480) 731-8621	8.94	8815	8.64
EDUCATION EQUALIZATION	(602) 506-8511	4.36	0000	.00
SUBTOTAL		79.90	71753	70.32
SECONDARY				
FLOOD CONTROL OF MARICOPA COUNTY	(602) 506-1501	2.12	2047	2.00
CENTRAL ARIZONA WATER CONSV. DIST.	(623) 869-2333	1.20	1200	1.18
FIRE DISTRICT ASSISTANCE	(602) 506-8511	.06	0068	.06
COUNTY LIBRARY	(602) 652-3000	.52	0507	.50
COUNTY HEALTHCARE DISTRICT	(602) 344-5978	1.20	1184	1.16
*BONDS**				
- COUNTY		.00	0000	.00
- CITY		.00	0000	.00
- SCHOOLS		5.24	5419	5.31
- COMMUNITY COLLEGE		1.38	1831	1.79
SCHOOL DISTRICT OVERRIDES		11.68	12959	12.70
SUBTOTAL		23.40	25215	24.70
SPECIAL DISTRICT	DISTRICT #			
WEST-MEC	30002	(623) 873-1860	.50	.50
PAID OUT 30 2006				
CHK# 5041 \$95.52				
		103.80	TOTAL FOR 2006	95.52

*Property address is provided by the Maricopa County Assessor's Office.

Valley Utilities Water Company
Year Ended December 31, 2006 and Projected Year
Summary of Capital Structure

	<u>December 31, 2006</u>		<u>End of Projected Year</u>		
Line No.	Item of Capital	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total
1	Long-Term Debt ¹	\$ 28,237	-5.92%	\$ 2,169,666	106.11%
2					
3	Stockholder's Equity	\$ (504,932)	105.92%	\$ (124,932)	-6.11%
4					
5	Totals	(476,695)	100.00%	2,044,734	100.00%
6					
7					
8					

¹ Includes projected year includes new WFA debt of \$1,926,100 less amortization. See page 2.

² Includes projected new debt of \$250,000 for well replacement.

² Details of Equity Capital

	<u>December 31, 2006</u>		<u>End of Projected Year</u>	
13	Capital Stock	\$ 110,000	300,000 A	\$ 410,000
14	Additional Paid-in-Capital	4,988		4,988
15	Retained Earnings	(619,920)	80,000 B	(539,920)
16		\$ (504,932)		\$ (124,932)
17				

A Change due to issuance of 4,000 shares of common stock for \$300,000 for purchase of land and equipment.

B Projected year net income of \$80,000.

CERTIFICATE OF SECRETARY

I, the undersigned, being the Secretary of Valley Utilities Water Company, Inc. do hereby certify the foregoing to be duly adopted resolutions of the Corporation's Board of Directors as adopted at a Special Meeting of the Directors held on September 24, 2004.

By: Barbara Prince
Secretary

VALLEY UTILITIES WATER COMPANY, INC.
RESOLUTION OF THE BOARD OF DIRECTORS

September 24, 2007

The President reported on the need to construct a replacement well for Well # 6, which well has totally failed, the construction loan and long-term financing of those replacement facilities, and the need for an Arizona Corporation Commission (the "Commission") Order authorizing that financing and to establish rates to support that financing and plant. Discussion of those matters ensued.

Thereafter, upon motion duly made, seconded and unanimously carried, it was:

RESOLVED, that the Board hereby authorizes the officers of the Corporation to file Application(s) with a commercial bank or lender and the Water Infrastructure Finance Authority of Arizona (WIFA) for a loan(s) at terms favorable to the Corporation for the purpose of funding construction and long-term financing of a new production well and appurtenant facilities, and

FURTHER RESOLVED, that the Board hereby authorizes the officers of the Corporation to seek short-term construction financing from a commercial bank or lender through a Line of Credit, or other similar credit facility, in an amount not to exceed \$250,000 for the purpose of constructing the plant and equipment described in Exhibit A hereto, and

FURTHER RESOLVED, that the Board hereby authorizes the officers of the Corporation to seek long term financing from WIFA in an amount not to exceed \$250,000 for the purpose of repayment of the above referenced Line of Credit and the long term funding of the plant and equipment described in Exhibit A hereto, and

FURTHER RESOLVED, that the Board hereby authorizes the officers of the Corporation to file an application with the Commission for authority to issue Promissory Note(s) and evidence of indebtedness upon the terms and conditions hereinbelow mentioned, and the filing of any and all amendments and supplements to said application, and

FURTHER RESOLVED, that the Board hereby authorized the officers of the Corporation to file an Application with the Commission for an emergency rate increase seeking authority to increase its rates and charges by way of a surcharge on its customers monthly statements sufficient to recover the Corporation's interest and related expenses associated with the above financing, such surcharge to be in effect until such time the Commission can establish a reasonable rate of return on the rate base additions associated with the new well can be duly recovered, and the filing of any and all amendments and supplements to said application, and

FURTHER RESOLVED, that the Board hereby authorized the officers of the Corporation to file an Application with the Commission for a permanent rate increase seeking authority to increase its rates and charges providing recovery of the Corporation's operating expenses and a reasonable rate of return on the Corporation's rate base, including the rate base additions associated with the new well, or sufficient Operating Margins to continue operation of the Corporation and provide a reasonable profit to the Corporation, and the filing of any and all amendments and supplements to said application, and

FURTHER RESOLVED, that upon receiving the requisite authority from the Commission, and subject to other legal requirements, the Corporation shall issue Promissory Note(s) and such evidence of the Line of Credit and long-term indebtedness for up to \$250,000 under terms and conditions advantageous to the Corporation for the purpose of funding certain plant and equipment additions, as hereinabove described, and

FURTHER RESOLVED, that the proper officers of the Corporation be, and each of them hereby is, authorized to deliver Promissory Note(s) and other evidence of indebtedness upon receipt by the Corporation of the full purchase price or loan proceeds therefore, all in the manner and in the terms and conditions provided in the above-mentioned resolutions, and

FURTHER RESOLVED, that the proper officers of the Corporation be and each of them hereby is, authorized, in the name and on behalf of the Corporation, to conduct any and all negotiations, to make any and all arrangements, do and perform any and all acts and things and to execute and deliver any and all officer's certificates and other documents and instruments as they deem necessary or appropriate in order to consummate the issuance and otherwise to effectuate the purposes of each and all of the foregoing resolutions.

**PUBLIC NOTICE
OF
AN APPLICATION FOR AN ORDER AUTHORIZING
THE ISSUANCE OF PROMMISORY NOTES AND OTHER EVIDENCE OF
INDEBTEDNESS
AND
AN EMERGENCY INCREASE IN IT RATES BY A SURCHARGE
FOR
VALLEY UTILITIES WATER COMPANY INC.**

Valley Utilities Water Company, Inc. (Applicant) has filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue a total of \$250,000 in short term and long term debt for the purpose of drilling a replacement well for a failed well. The Applicant has also requested approval of a two-step Surcharge necessary to support those loans as follows:

Meter Size	Monthly	Surcharge
	During Short Term Loan	During Long Term Loan
5/8 inch	\$0.33	\$0.89
¾ inch	\$0.50	\$1.34
1 inch	\$0.83	\$2.23
1 ½ inch	\$1.65	\$4.45
2 inch	\$2.64	\$7.13
3 inch	\$5.28	\$14.25
4 inch	\$8.25	\$22.27
6 inch	\$16.50	\$44.54
8 inch	\$26.40	\$71.27
10 inch	\$37.95	\$102.45
12 inch	\$70.95	\$191.53

The Applications are available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, and Applicant's offices at 6880 N. Dysart Road, Suite 112 Glendale, Arizona 85307.

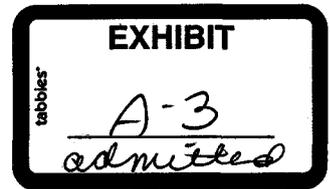
Intervention in the Commission's proceedings on the Financing Application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon the Applicant and which, at a minimum, shall contain the following information:

1. The name, address and telephone of the proposed intervenor and of any person 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 proceedings.

3. Whether the proposed intervenor desires a formal evidentiary hearing on the Application and the reasons for such a hearing.
4. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant.

The granting of Motions to Intervene shall be governed by A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.

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



SALLQUIST, DRUMMOND & O'CONNOR P.C.
ATTORNEYS AT LAW
TEMPE OFFICE
4500 S. LAKESHORE DRIVE
SUITE 339
TEMPE, ARIZONA 85282

RICHARD L. SALLQUIST

PHONE (480) 839-5202
FACSIMILE (480) 345-0412
E-MAIL dick@sd-law.com

November 9, 2007

HAND DELIVERY

Shauna Lee-Rice
Arizona Corporation Commission
Docket Control;
1200 W. Washington
Phoenix, AZ 85007

Re: Valley Utilities Water Company; Docket No W-01412A-07-0560 and Docket No W-01412A-07-0560; Compliance filing:

Dear Ms. Lee-Rice:

Enclosed please find the originals and fifteen (15) copies of the Affidavit of Publication and Affidavit of Mailing as required by the October 17, 2007 Revised Procedural Order in this Docket.

In the event you have any questions regarding these matters please do not hesitate to contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard L. Sallquist".

Richard L. Sallquist

Enclosures

cc: Bob Prince
Tom Bourassa

THE RECORD REPORTER

~ SINCE 1914 ~

1505 N CENTRAL AVE #200, PHOENIX, AZ 85004-1725
Telephone (602) 417-9900 / Fax (602) 417-9910

JENNIFER PUHALLA
SALLQUIST, DRUMMOND & O'CONNOR,
1430 E MISSOURI AVE #B125
PHOENIX, AZ - 85014-2467

RR# 1224621

PUBLIC NOTICE OF AN APPLICATION FOR AN ORDER AUTHORIZING THE ISSUANCE OF PROMISSORY NOTES AND OTHER EVIDENCE OF INDEBTEDNESS AND AN EMERGENCY INCREASE IN RATES BY A SURCHARGE FOR VALLEY UTILITIES WATER COMPANY, INC.
(DOCKET NO. W-01412A-07-0560 ET AL.)

If you have any questions or concerns about these applications or have any objections to their approval, or wish to make a statement in support of them, you may contact the Consumer Services section of the Commission at 1200 West Washington, Phoenix, Arizona 85007 or call 1-800-222-7000.
10/31/07

RR-1224621#

AFFIDAVIT OF PUBLICATION

Reference #: 93055-00000

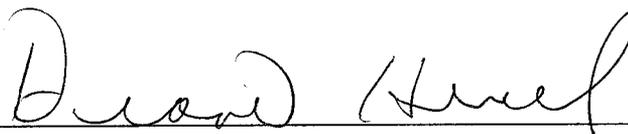
Notice Type: MN - MISCELLANEOUS NOTICE

Ad Description: VALLEY UTILITIES WATER COMPANY, INC. DOCKET W-01412A-07-0560

I, DIANE HEUFL, am authorized by the publisher as agent to make this affidavit. Under oath, I state that the following is true and correct.

THE RECORD REPORTER is a newspaper of general circulation published Monday, Wednesday and Friday except legal holidays, in the County of Maricopa, State of Arizona. The copy hereto attached is a true copy of the advertisement as will be/has been published on the following dates:

10/31/2007



Subscribed and sworn to before me on the 31ST day of OCTOBER, 2007





VELVET C. WASHINGTON
Notary Public - Arizona
Maricopa County
Expires 07/30/10

Valley Utilities Water Company, Inc. (Applicant) has filed an application with the Arizona Corporation Commission (Commission) for an order authorizing Applicant to issue a total of \$250,000 in short term and long term debt for the purpose of drilling a replacement well for a filed well. The applicant has also requested approval of a two-step surcharge necessary to support those loans as follows:
Meter Size, Monthly Surcharge:
During Short Term Loan, During Long Term Loan
5/8 inch, \$ 0.33, \$ 0.89
3/4 inch, \$ 0.50, \$ 1.34
1 inch, \$ 0.83, \$ 2.23
1-1/2 inch, \$ 1.65, \$ 4.45
2 inch, \$ 2.64, \$ 7.13
3 inch, \$ 6.28, \$ 14.25
4 inch, \$ 8.25, \$ 22.27
6 inch, \$ 16.50, \$ 44.54
8 inch, \$ 26.40, \$ 71.27
10 inch, \$ 27.95, \$102.45
12 inch \$ 70.95, \$191.53
The Commission will hold a hearing on the applications on November 16, 2007, at 9:30 a.m. at the Commission's offices, 1200 West Washington, Phoenix, Arizona. The applications are available for inspection during regular business hours at the office of the Commission, 1200 West Washington Street, Phoenix, Arizona 85007, and Applicant's offices at 6880 North Dysart Road, Suite 112, Glendale, Arizona 85807.

Intervention in the commission's proceedings on the emergency surcharge and financing applications shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a motion to intervene with the commission which must be served upon the applicant and which, at a minimum, shall contain the following information:

1. The name, address, and telephone of the proposed intervenor and of any person 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.
 3. Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing.
 4. A statement certifying that a copy of the motion to intervene has been mailed to applicant.
- The granting of motions to intervene shall be governed by A.A.C. R-14-3-105, except that all motions to intervene must be filed on, or before, November 14, 2007.

1 Richard L. Sallquist (002677)
SALLQUIST & DRUMMOND, P.C.
2 4500 S. Lakeshore Drive, Suite 339
Tempe, Arizona 85282
3 Telephone: (480) 839-5202
Fax: (480) 345-0412
4 Attorneys for Valley Utilities Water Company, Inc.

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

6 IN THE MATTER OF THE APPLICATION)
OF VALLEY UTILITIES WATER) DOCKET NO. W-01412A-07-560
7 COMPANY, INC. FOR AN EMERGENCY)
RATE INCREASE AND AUTHORITY TO)
8 IMMEDIATELY IMPLEMENT A WELL)
SURCHARGE.)

9)
10 IN THE MATTER OF THE APPLICATION) DOCKET NO. W-1412A-07-0561
OF VALLEY UTILITIES WATER)
11 COMPANY, INC. FOR AUTHORITY TO) **AFFIDAVIT OF MAILING**
ISSUE ADDITIONAL COMMON STOCK.)

12 STATE OF ARIZONA)
County of Maricopa)ss
13)

- 14 1. I am Robert L. Prince, President of Valley Utilities Water Company, Inc. My business
15 address is 6808 N. Dysart Road, Glendale, Arizona 85307.
- 16 2. On November 1, 2007, I caused the Notice in the form attached hereto as Attachment
17 1 and incorporated herein by reference for all purposes, to be mailed by first class mail,
18 postage prepaid, to all customers of record of the Company.
- 19 3. Further affiant sayeth naught.

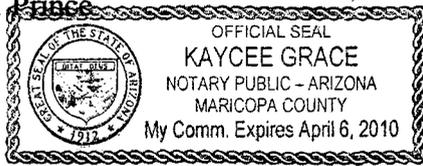
20 DATED this 6 day of November, 2007.

21 VALLEY UTILITIES WATER
COMPANY, INC

22 By: 
23 Robert L. Prince, President

1 The foregoing instrument was acknowledged before me this 06 day of November, 2007,

2 by Robert L. ~~Prince~~



4



5 Notary Public

6 My Commission Expires:

7 April 6, 2010

8 Original and ten copies of the
9 foregoing filed this 9th day
10 of November, 2007:

11 Docket Control
12 Arizona Corporation Commission
13 1200 West Washington
14 Phoenix, Arizona 85007

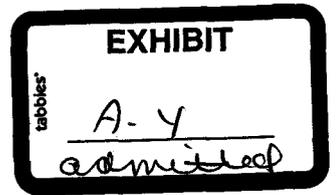
15 Copies of the foregoing Hand Delivered this 9th
16 day of November, 2007 to:

17 Hearing Division
18 Arizona Corporation Commission
19 1200 West Washington
20 Phoenix, Arizona 85007

21 Legal Division
22 Arizona Corporation Commission
23 1200 West Washington
Phoenix, Arizona 85007

Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007





SALLQUIST, DRUMMOND & O'CONNOR P.C.
ATTORNEYS AT LAW
TEMPE OFFICE
4500 S. LAKESHORE DRIVE
SUITE 339
TEMPE, ARIZONA 85282

RICHARD L. SALLQUIST

PHONE (480) 839-5202
FACSIMILE (480) 345-0412
E-MAIL dick@sd-law.com

November 16, 2007

HAND DELIVERY

Shauna Lee-Rice
Arizona Corporation Commission
Docket Control;
1200 W. Washington
Phoenix, AZ 85007

Re: Valley Utilities Water Company; Docket No W-01412A-07-0560 and Docket No W-01412A-07-0561; Late Filed Exhibit:

Dear Ms. Lee-Rice:

Enclosed please find fifteen (15) copies of the Construction Bid for the New Well as referenced in the Subject Dockets. Although docketed today, this Exhibit was hand delivered to the Commission's Engineering Division on November 13, 2007.

In the event you have any questions regarding these matters please do not hesitate to contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Sallquist".

Richard L. Sallquist

Enclosures

cc: Judge Marc Stern (via email)
Robin Mitchell (via email)
Crystal Brown (via email)
Bob Prince
Tom Bourassa

Weber Group L.C.

11-12-07

TO: Bob Prince
Valley Utilities

FROM: Fred Tregaskes

RE: Replacement Well for Valley #6

We are pleased to submit the following proposal for your consideration.

Drill replacement well

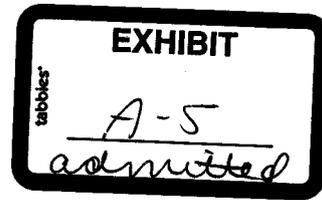
Mobilization of cable tool rig	\$ 7500.00
Furnish and install 20 feet of 24" conductor	\$ 3000.00
Drilling 20 inch well Estimate 800 feet @ \$132	\$ 105600.00
Install 20" x .312 blank well casing Estimate 400 feet @ \$44	\$ 17600.00
Install 20" x .312 perforated casing Estimate 400 feet @ \$54	\$ 21600.00
Furnish and install 20 inch drive shoe	\$ 2900.00
Furnish and install 20 inch starter section	\$ 500.00
Swab and develop well Estimate 24 hrs. @ \$185	\$ 4440.00
Furnish, install and remove turbine test pump	\$ 12000.00
Run development, stop test, constant rate test Estimate 44 hrs. @ \$175	\$ 7700.00
TOTAL	\$ 182840.00

Prices do not include tax. We assume adequate site access, drilling water provided by your firm, an adequate place to dispose of test pump discharge water. We also assume that your firm will construct the concrete well pad, etc. for installation of a turbine pump. We exclude any materials or labor to install the permanent pump and motor. The plan would be to use the pump from the old well #6.

If the drilling rate falls below 1.5 feet per hour for 2 days, we will go on an hourly rate of \$185 per hour. I don't expect that to be a problem since we drilled Well 7 in a nearby location but we may run into unforeseen difficulty. The well may take additional hours of development, you will be billed for actual hours of swabbing and test pumping.

As you know, a well drilling permit will be required before work can start. We can also abandon the existing well if you need it done.

Thank you for this opportunity to be of service. Let me know if you have any questions.



1 Richard L. Sallquist
Sallquist, Drummond & O'Connor, P.C.
2 Tempe Office
4500 S. Lakeshore Drive
3 Suite 339
Tempe, Arizona 85282
4 Phone: (480) 839-5202
Fax: (480) 345-0412
5

6 **BEFORE THE ARIZONA CORPORATION COMMISSION**

7
8 _____)
IN THE MATTER OF THE APPLICATION)
OF VALLEY UTILITIES WATER)
9 COMPANY INC. FOR AN INCREASE IN)
ITS WATER RATES FOR CUSTOMERS)
10 WITHIN MARICOPA COUNTY, ARIZONA)
_____)

DOCKET NO. W-01412A-04-0736

11 _____)
IN THE MATTER OF THE APPLICATION)
OF VALLEY UTILITIES WATER)
12 COMPANY, INC. FOR AUTHORITY TO)
ISSUE PROMISSORY NOTE(S) AND)
13 OTHER EVIDENCES OF INDEBTEDNESS)
PAYABLE AT PERIODS OF MORE THAN)
14 TWELVE MONTHS AFTER THE DATE OF)
ISSUANCE.)
15 _____)

DOCKET NO. W-01412A-04-0849

**WIFA LOAN SURCHARGE
CALCULATION AND NOTICE OF
IMPLEMENTATION**

16 1. On November 14, 2005 the Commission issued Decision No. 68309 (the
17 "Decision"), which Decision, among other things, required the Company to file a WIFA Loan
18 Surcharge calculation based on the debt service of the new WIFA Loan, net of certain "set
19 asides" authorized in Decision No. 62908, dated September 18, 2000, and Arsenic Impact Fees
20 authorized in Decision No. 67669 dated March 9, 2005.

21 2. Attached hereto as **Attachment One**, and incorporated herein by this reference, is
22 a schedule setting forth that calculation. Due to the balances in the above referenced accounts,
23

1 the WIFA Loan Surcharge for the first fiscal year of the WIFA Loan will be \$0.00 per 1,000
2 gallons usage.

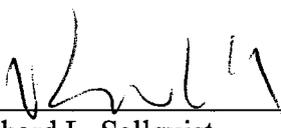
3 3. It is anticipated that the WIFA Loan Surcharge for the second fiscal year will
4 remain at that level, but will become positive in the third fiscal year. Annual filings will be made
5 no less than 30 days before the anniversary of the implementation.

6 4. The Decision is silent as to the procedure for implementing the WIFA Loan
7 Surcharge beyond the compliance filing. The Company would propose to commence showing a
8 "WIFA Loan Surcharge" line item on its monthly billings to customers at the \$0.00 level with the
9 June 2007 billings.

10 WHEREFORE, the Company hereby files this compliance item as required by Decision
11 No. 68309, and notifies the Commission of the implementation of a \$0.00 WIFA Loan Surcharge
12 with its June 1, 2007 billings.

13 RESPECTFULLY submitted this 9th day of May 2007.

14 SALLQUIST, DRUMMOND & O'CONNOR, P.C.

15 By 
16 Richard L. Sallquist
17 4500 S. Lakeshore Drive, Suite 339
18 Tempe, Arizona 85282
19 Attorneys for Valley Utilities Water Company

20 Original and fifteen copies of the
21 foregoing filed this 9th day
22 of May 2007:

23 Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

1 A copy of the foregoing
mailed/hand delivered this
2 9th day of May 2007, to:

3 Utilities Division
Arizona Corporation Commission
4 1200 West Washington
Phoenix, Arizona 85007

5
6 Legal Division
Arizona Corporation Commission
1200 West Washington
7 Phoenix, Arizona 85007

8 Hearing Division
Arizona Corporation Commission
9 1200 West Washington
Phoenix, Arizona 85007

10 
11 _____

12

13

14

15

16

17

18

19

20

21

22

23

Valley Utilities Water Company
Computation of Arsenic Recovery Surcharge

Exhibit

Line			
<u>No.</u>			
1			
2	WIFA Debt Service Requirements (May 2007 to April 2008) ¹	\$	247,849
3	Reductions		
4	Arsenic Impact Fees to be used ²	\$	(247,849)
5	WIFA Loan Set Asides to be Used ³		-
6	Total Reductions		<u>\$ (247,849)</u>
7	Amount to be Collected via Arsenic Recovery Surcharge	\$	(0)
8			
9	Gallons Sold (in 1,000's) during Prior Year (2006)		333,624
10			
11	Surcharge per 1,000 gallons	\$	-
12			
13	<u>Computation of Impact on Average 5/8 Inch metered Customer</u>		
14	Average Use (in gallons)		9,251
15	Average Bill (without surcharge)	\$	30.18
16	Arsenic Recovery Surcharge at Average Use	\$	-
17	Average Bill (with surcharge)	\$	30.18
18	Percent Increase in Average Bill		0.00%
19			
20	¹ WIFA Debt Service Requirements (May 2007 to April 2008) (From Loan Repayment Schedule)		
21	May '07	\$	66,537
22	June		16,483
23	July		16,483
24	August		16,483
25	September		16,483
26	October		16,483
27	November		16,483
28	December		16,483
29	January '08		16,483
30	February		16,483
31	March		16,483
32	April		16,483
33	Total	\$	<u>247,849</u>
34			
35	² Arsenic Impact Fees Collected and Used		
36	Fees Collected	\$	314,171
37	Less: Funds Previously Used for Arsenic Plant or Debt Service		(44,355)
38	Less: Funds used for Current Year's Debt Service		(247,849)
39	Balance of Arsenic Impact Fee Fund to be used in Future	\$	<u>21,967</u>
40			
41	³ WIFA Loan Set Asides(Collected between Nov. 2000 and Sept. 2005)		
42	Loan Set Asides	\$	141,129
43	Less: Funds Previously Used for Plant or Debt Service		-
44	Less: Funds used for Current Year's Debt Service		-
45	Balance of WIFA Loan Set Asides to be used in Future	\$	<u>141,129</u>
46			

VALLEY UTILITIES WATER COMPANY, INC.

DECEMBER, 2005

WIFA LOAN SET ASIDES FROM
NOVEMBER, 2000 TO SEPTEMBER, 2005

Year & Month	Number of Accounts		Set Aside		TOTAL SET ASIDES
2000					
November	635		\$6.35		\$4,032.25
December	635		\$6.35		\$4,032.25
2001					
January	635		\$6.35		\$4,032.25
February	635		\$6.35		\$4,032.25
March	635		\$6.35		\$4,032.25
April	635		\$6.35		\$4,032.25
May	635		\$6.35		\$4,032.25
June	635		\$6.35		\$4,032.25
July	635		\$6.35		\$4,032.25
August	635		\$6.35		\$4,032.25
September	635		\$6.35		\$4,032.25
October	635		\$6.35		\$4,032.25
November	635		\$6.35		\$4,032.25
December	635		\$6.35		\$4,032.25
2002					
January	635		\$6.35		\$4,032.25
February	635		\$6.35		\$4,032.25
March	635		\$6.35		\$4,032.25
April	635		\$6.35		\$4,032.25
May	635		\$6.35		\$4,032.25
June	635		\$6.35		\$4,032.25
July	635		\$6.35		\$4,032.25
August	635		\$6.35		\$4,032.25
September	635		\$6.35		\$4,032.25
October	635		\$6.35		\$4,032.25
November	635		\$6.35		\$4,032.25
December	635		\$6.35		\$4,032.25
2003					
January	635		\$6.35		\$4,032.25
February	635		\$6.35		\$4,032.25
March	635		\$6.35		\$4,032.25
April	635		\$6.35		\$4,032.25
May	635		\$6.35		\$4,032.25
June	635		\$6.35		\$4,032.25
July	635		\$6.35		\$4,032.25
August	635		\$6.35		\$4,032.25
September	635		\$6.35		\$4,032.25
TOTAL					\$141,128.75

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MEMORANDUM

RECEIVED

TO: Docket Control

FROM: Ernest G. Johnson
Director
for Utilities Division

2007 NOV 14 P 4: 01

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: November 14, 2007

RE: STAFF REPORT FOR VALLEY UTILITIES WATER COMPANY'S APPLICATION FOR AN EMERGENCY RATE INCREASE AND AUTHORITY TO IMMEDIATELY IMPLEMENT A WELL SURCHARGE (DOCKET NO. W-01412A-07-0560)

STAFF REPORT FOR VALLEY UTILITIES WATER COMPANY'S APPLICATION FOR AN APPROVAL OF A \$250,000 LINE OF CREDIT AND AUTHORITY TO ISSUE LONG-TERM PROMISSORY NOTES OR BONDS AND OTHER EVIDENCE OF INDEBTEDNESS AS PERMANENT REFINANCING OF THAT LINE OF CREDIT (DOCKET NO. W-01412A-07-0561)

Attached is the Staff Report for Valley Utilities Water Company's ("Company") applications for an emergency rate increase and a financing approval. Staff recommends denial of the \$250,000 revolving line of credit and its related surcharge. Staff recommends approval of the \$250,000 loan through the Water Infrastructure Finance Authority ("WIFA"). Further, Staff recommends that the surcharge go into effect after the WIFA loan has closed and the Company has drawn on the loan. Staff recommends the Company file a full rate case by no later than June 1, 2008, using a 2007 test year.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before November 26, 2007.

EGJ:CSB:red

Originator: Crystal S. Brown

Attachment: Original and sixteen copies

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NOV 14 2007

LEGAL DIV.
ARIZ CORPORATION COMMISSION



Service List for: Valley Utilities Water Company
Docket Nos. W-01412A-07-0560 & W-01412A-07-0561

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

VALLEY UTILITIES WATER COMPANY

**DOCKET NOS. W-01412A-07-0560
&
W-01412A-07-0561**

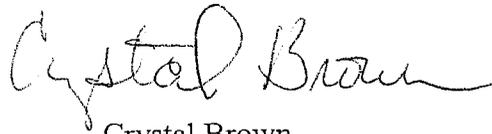
**APPLICATION FOR AN
EMERGENCY RATE INCREASE AND
AUTHORITY TO IMMEDIATELY
IMPLEMENT A WELL SURCHARGE**

**APPLICATION FOR AN APPROVAL
OF A \$250,000 LINE OF CREDIT AND
AUTHORITY TO ISSUE LONG-TERM
PROMISSORY NOTES OR BONDS AND
OTHER EVIDENCE OF INDEBTEDNESS AS
PERMANENT REFINANCING OF THAT LINE OF CREDIT**

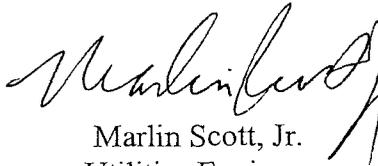
NOVEMBER 14, 2007

STAFF ACKNOWLEDGMENT

The Staff Report for Valley Utilities Water Company, Docket Nos. W-01412A-07-0560 & W-01412A-07-0561, was the responsibility of the Staff members listed below. Crystal Brown was responsible for the financial review and analysis of the Company's application. Marlin Scott, Jr. was responsible for the engineering and technical analysis. Guadalupe Ortiz was responsible for reviewing the Commission's records on customer complaints filed with the Commission.



Crystal Brown
Public Utilities Analyst V



Marlin Scott, Jr.
Utilities Engineer



Guadalupe Ortiz
Public Utilities Consumer Analyst I

**EXECUTIVE SUMMARY
VALLEY UTILITIES WATER COMPANY
DOCKET NOS. W-01412A-07-0560 AND W-01412A-07-0561**

On October 1, 2007, Valley Utilities Water Company ("Valley Utilities" or "Company") filed an application for emergency rates and a financing application. The Company's rate application asserts that a sudden and unexpected well failure and problems with other wells has resulted in production levels that are too low to meet its 2008 summer peak demand for its 1,400 customers.

Recommendations

Emergency Rate Surcharge

Staff recommends approval of Staff's recommended emergency rate surcharges as shown on Schedule CSB-3.

Staff further recommends that the monthly surcharge rate be conditional upon Staff's recommended cost of the well.

Staff further recommends that the surcharge be implemented only after the Company closes on the loan and has drawn funds to begin construction of the plant.

Staff further recommends that if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding, that approval of the loan and surcharge be rescinded.

Staff further recommends that the Company post a bond in an amount of \$1,500¹ prior to implementing the emergency rate increase authorized in this proceeding.

Staff further recommends that the emergency rate increase be interim.

Staff further recommends that the Company be directed to file within 30 days of the Order a revised rate schedule reflecting the emergency rate increase with Docket Control, as a compliance item in this docket.

Staff further recommends that the Company notify its customers of the revised rates, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.

¹ Decision No. 67990, dated July 18, 2005, required a bond from Sabrosa Water Company in the amount of \$3,000. The amount was approximately 5 percent of the annual increase in the emergency rate application. Staff's recommended bond amount for Valley Utilities is equal to approximately 5 percent of the \$30,369 annual increase in revenue.

Staff further recommends that the Company file a full rate case by no later than June 1, 2008, using a 2007 test year.

Financings

Staff recommends denial of the Company's \$250,000 revolving line of credit. Staff recommends approval of the Company's application for authority to issue debt to the Water Infrastructure Finance Authority not to exceed \$250,000.

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Introduction

On October 1, 2007, Valley Utilities Water Company ("Valley Utilities" or "Company") filed an application for emergency rates and a financing application. Also, concurrently with the emergency rate and financing applications, the Company filed a Motion to Consolidate. On October 17, 2007, the Company's request to consolidate the applications was approved by Procedural Order.

Valley Utilities' rate application asserts that a sudden and unexpected well failure and problems with other wells has resulted in production levels that are too low to meet its 2008 summer peak demand for its 1,400 customers. The Company has concluded that the only remedy for this urgent problem is to begin drilling a replacement well as soon as possible. Consequently, it has requested an emergency rate increase and authority to immediately implement a two-phased well surcharge.

The Company proposes that the first phase of the well surcharge will recover only the interest expense on a revolving \$250,000 line of credit that will be used to construct the new well. The line of credit will be from a commercial bank and the \$250,000 balance is intended to be temporary.

Once the Company can refinance the \$250,000 line of credit through WIFA² (which the Company anticipates will be within one year), then the second phase would be implemented. The second phase surcharge, under the Company's proposal, would recover the principal, interest, annual debt reserve payment, and income taxes on the \$250,000 WIFA loan. The terms and conditions of both loans are discussed in greater detail in the "Financing" section of this Report.

Background

Valley Utilities is an Arizona class B utility engaged in the business of providing potable water service to a community located within a County strip, just east of Luke Air Force Base in Maricopa County, Arizona. Valley Utilities provides service to over 1,400 customers of which just over half (i.e., 795) are serviced by 3/4-inch meters. The current rates were authorized in Decision No. 68309, dated November 14, 2005.

Engineering Analysis

Introduction

Valley Utilities Water Company, Inc. ("Company") has submitted emergency rates and financing applications to drill a new well at a cost of \$250,000. The Company operates a water system in the Phoenix West Valley in Maricopa County.

² Water Infrastructure Finance Authority of Arizona ("WIFA")

Existing Water System

The Company's system serves a community located within a County strip, just east of Luke Air Force Base and consists of seven wells (totaling 1,655 gallons per minute ("GPM")), five storage tanks (totaling 1,060,000 gallons), four booster stations and a distribution system serving 1,422 service connections as of August 2007.

Company's Application Filings

Emergency Rates

In August 2007, Well No. 6 was taken out of service due to loss of production. Due to Well No. 6's production of 425 GPM removed from the Company's operation, the total well production of 1,655 GPM has decreased to 1,230 GPM (See section entitled Staff's Analysis below for further discussion of this reduced well production impact).

Financing

The Company is requesting financing approval for a \$250,000 loan from the WIFA. This loan is needed to finance the construction of a replacement well for Well No. 6. According to the application, a bid from a well drilling company estimated the cost of a new well at approximately \$200,000, with the remaining \$50,000 to cover undetermined contingency costs associated with drilling and equipping the new well. As stated in the application, the well driller's bid will be filed as a late-filed exhibit.

Staff's Analysis

According to the Water Use Data Sheet submitted by the Company, the Company has six operating wells producing a total of 1,230 GPM, 1,060,000 gallons of storage capacity, and a distribution system serving 1,422 service connections as of August 2007. Using the historical growth rates, it is projected that the existing service area could grow to approximately 1,520 connections by mid 2008.

Based on the existing six well production and storage tank capacities, the system cannot adequately serve its over 1,400 service connections.

Maricopa County Environmental Services Department ("MCESD") Compliance

MCESD regulates the water system under Public Water System No. 07-079. Based on compliance information provided by the MCESD, the system has no deficiencies and MCESD has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

Conclusions

The existing six well production and storage tank capacities cannot adequately serve the existing service connections. As of August 2007, the Company was serving 1,422 service connections. Therefore, the construction of the replacement well for Well No. 6 is needed.

Compliance

The Utilities Division Compliance Section reports the following.

According to Decision #68309, the Company was ordered to:

The Company will file with Docket Control an application for approval of an arsenic removal surcharge tariff, if a surcharge is necessary to allow the Company to meet its principal and interest obligations on the amount of the WIFA loan and income taxes on the surcharges.

Compliance with this Decision is contingent upon the Company having drawn on the loan and its ability to repay the loan. The Company has not made a filing regarding this matter. Further, Staff is not aware, at this time, of any monies being drawn on the loan.

The MCESD regulates the water system under Public Water System No. 07-079. Based on compliance information provided by the MCESD, the system has no deficiencies and MCESD has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, and Chapter 4.

Consumer Services

A review of the Consumer Services Section database from January 1, 2004 to October 10, 2007 showed the following:

2004 - three complaints (one billing, one rates/tariffs, one construction costs) and two inquiries were reported,

2005 - two complaints (both billing) and two inquiries were reported,

2006 - two complaints (one billing and one service) and two inquiries were reported,

2007 - one inquiry was reported. There were no complaints or opinions.

All complaints and inquiries have been resolved and closed.

Conditions Necessary for Emergency Rate Relief

General conditions necessary for interim emergency rates³ include:

1. A sudden change that causes hardship to a company
2. A company is insolvent, and
3. A company's ability to maintain service (pending a formal rate determination) is in serious doubt.

According to the Company's application, a sudden well failure and the Company's impending shortage of water production capacity are the conditions that comprise the emergency. Further, Mr. Robert L. Prince, the President of Valley Utilities Water Company, indicated that if the Company did not have a new well in service by early spring 2008, the Company's storage tanks would go dry and the Company would not be able to serve any of its customers (page 7 of Exhibit 2, Direct Testimony of Robert L. Prince, lines 11-13). Staff does not agree with this statement.

Conclusion

Staff concludes, based on review of the Company's unaudited application, that Valley Utilities' condition satisfies the third criteria to qualify for emergency rates listed above. Based on review of the information provided by the Company, it will not be able to provide proper and adequate service during peak periods without additional water source.

Positive Equity Position Plan

Decision No. 68309, dated November 14, 2005, ordered Valley Utilities to file and implement a plan to improve its equity position. The Decision stated on page 11, line 21 the following:

Staff recommended that the Company be required to institute a plan that would produce a positive equity position by December 31, 2010, such plan to be filed with Docket Control within 90 days from the date of the Commission's Decision. The Company's FVRB in its last rate case was negative \$292,898 (see Decision No. 62908, p.11), and in this case, has deteriorated further, to negative \$539,804. As stated at page 4 above, we are concerned that this Company continues to operate the utility in such a way that although equity is not being invested, ratepayers are required to generate cash sufficient to show an operating income.

³ According to Attorney General Opinion No. 71-17, interim or emergency rates are proper when either all or any of the following conditions occur: when sudden change brings hardship to a Company; when the Company is insolvent; or when the condition of the Company is such that its ability to maintain service pending a formal rate determination is in serious doubt.

On February 13, 2006, in compliance with Decision No. 68309, the Company filed its Positive Equity Position Plan. The plan listed seven steps the Company would take to build positive equity as follows:

1. File a request for an accounting order authorizing the Company to defer any and all arsenic operating and maintenance expense for recovery in future rate proceedings.
2. Attempt to maintain the operating margin authorized by the Commission by filing new rate applications as often as necessary.
3. File a new rate application using a 2007 test year.
4. File emergency rate applications in order to maintain its authorized operating margin.
5. Reinvest available operating income in new plant and equipment.
6. Apply for accounting orders as necessary, to defer expenses for consideration of recovery in subsequent rate cases.
7. Continue to suspend paying dividends.

Rescinded \$452,080 Loan (Decision No. 62908, Dated 9/18/2000)

On January 11, 2000, Valley Utilities requested approval for two items of long-term debt: \$452,080 from WIFA and \$289,675 from Robert Prince, President and CEO of Valley Utilities and Barbara Prince, Secretary and Treasurer of Valley Utilities. Staff recommended denial of the proposed Prince loan of \$289,675 because the Company had negative equity of \$264,404 and the approval of the Prince loan would be detrimental to the Company's capital structure. Staff recommended that the Company's shareholders finance the remaining projects with equity. At the hearing, the Company had no objection to Staff's recommendation. Staff's recommendations were approved in Decision No. 62908, dated September 18, 2000. Decision No. 62908 also authorized a \$6.35 monthly customer surcharge to service the \$452,080 WIFA loan.

The loan and the related \$6.35 surcharge were later rescinded in a subsequent rate proceeding as discussed below.

Existing \$1.92 Million Loan (Decision No. 68309, Dated 11/14/2005)

Decision No. 68309, dated November 14, 2005, rescinded approval of the \$452,080 WIFA loan because the Company had never drawn on it. At the same time, the Decision authorized approval of a \$1.92 million WIFA loan to construct arsenic treatment plant. Further, the Decision ordered the Company to file an application for an arsenic removal surcharge tariff if a surcharge is necessary to allow the Company to pay the debt.

Additionally, the Decision ordered the Company to file a report on the \$6.35 surcharge that it had begun collecting in the year 2000. In compliance with Decision No. 68309, the Company filed a report of the activity and balance of the WIFA set aside. The balance at the November 30, 2005 was \$101,725. While this fund was meant only to service the WIFA debt, Staff notes that the Company used funds from this account to pay general operating expenses as follows:

10/9/2003	\$10,000	To fund payroll cash shortfall
10/15/2003	\$12,000	LX Payback
11/17/2003	\$10,000	To fund accounts payable cash shortfall
4/2/2004	\$20,000	To fund accounts payable cash shortfall
5/2/2004	\$ 5,000	To fund payroll cash shortfall
2/10/2005	\$10,000	To fund payroll cash shortfall
3/11/2005	\$10,000	To fund payroll and income tax cash shortfall
3/28/2005	\$20,000	To pay for insurance, liability, vehicle, and well repair
4/6/2005	\$10,000	To fund payroll cash shortfall

Financing Application

Introduction

On October 1, 2007, Valley Utilities filed an application with the Commission requesting authorization (1) to obtain a \$250,000 revolving line of credit from a commercial bank and (2) to later refinance the \$250,000 revolving line of credit to a fixed rate, fixed term loan with WIFA.

Public Notice

Per Procedural Order issued October 18, 2007, a copy of the Public Notice shall be mailed to each customer and published in a newspaper of general circulation in the Company's service area on or before November 5, 2007. The Company filed the Affidavit of Publication on November 9, 2007.

Purpose and Terms of the Proposed Financing

The purpose of the \$250,000 revolving line of credit is to provide the initial funds to drill the new well. The Company anticipates that the line of credit will be temporary and will be converted to fixed rate, fixed term debt once it can be refinanced with WIFA. The Company expects that the rate for the revolving line of credit will be nine percent.

Under the Company's proposal, the purpose of the long-term debt is to refinance the \$250,000 revolving line of credit with a fixed rate, fixed term loan through WIFA. Under Staff's proposal, the purpose of the long-term WIFA debt is to reimburse funds to the water system for

drilling a new well. The Company proposed financing is a 20-year amortizing loan at a 6.00⁴ percent interest rate.

Financial Analysis and Recommendation for \$250,000 Revolving Line of Credit

For financial analysis purposes, Staff considers the \$250,000 revolving line of credit to be long-term debt because its repayment term is greater than one year. Staff does not recommend approval of the \$250,000 revolving line of credit and recommends that the Company obtain the initial funds for the well construction with a cash infusion from the shareholders. This action would be consistent with item number five of the Company's "Positive Equity Position Plan" as discussed earlier. The investment in plant would move the Company's negative rate base in a positive direction.

As an alternative to the line of credit, the Company can obtain short-term debt that does not exceed seven percent of total capitalization in accordance with Arizona Revised Statute 40-302 D. Staff's analysis, based on unaudited information provided by the Company, shows that Valley Utilities has sufficient cash flow to pay for such debt. At December 31, 2006, the Company reported \$88,824 in operating income and \$172,644 in depreciation expense resulting in a positive cash flow of over \$255,000 as shown on Schedule CSB-1. Also, for the year ended December 31, 2006, the Company reported a cash balance of \$794,000.

Financial Analysis of \$250,000 WIFA Loan

Staff's analysis is based on Valley Utilities' unaudited financial statements dated December 31, 2006. The financial analysis shown on Schedule CSB-1 presents selected financial information from the financial statements and the pro forma effect of the proposed \$250,000 loan. Schedule CSB-1 also shows the capital structure and debt service coverage ("DSC") and times interest earned ("TIER") ratios.

Capital Structure

Staff's capital structure analysis includes advances in aid of construction ("AIAC") and contributions in aid of construction ("CIAC"). At December 31, 2006, Valley Utilities' capital structure consisted of no debt⁵; 86.65 percent AIAC, 22.52 percent CIAC, and a negative 9.17 percent equity. Valley Utilities' drawing the entire proposed loan of \$250,000 would result in a pro forma capital structure comprised of 0.14 percent short-term debt, 5.25 percent long-term

⁴ The Company's application stated a 6.66% interest rate. However, the Company used a 6.00 percent rate in its surcharge calculation as shown on "Attachment Three" of the Company's application. Further the Company stated that the WIFA subsidy rate was 85 percent but used 75 percent in its surcharge calculation. Staff used 75 percent in its calculation in order to be conservative.

⁵ Staff did not include the Company's proposed \$28,237 in long-term debt as it was not Commission authorized. Also, Staff did not include the Company's \$1.92 million WIFA loan because the Company had not drawn any funds as of 12/31/2006 and the Company will obtain a surcharge to pay for the debt service payments for the loan.

debt, 81.98 percent AIAC; 21.31 percent CIAC, and a negative 8.67 percent equity as shown on Schedule CSB-1.

Capital structure is an indicator of financial soundness. Valley Utilities has no equity and its over-reliance on AIAC and CIAC to fund plant construction has resulted in a negative rate base. As discussed previously, Decision No. 68309 stated “. . .we are concerned that this Company continues to operate the utility in such a way that although equity is not being invested, ratepayers are required to generate cash sufficient to show an operating income and customers were required to pay an operating income when the shareholders had no investment in plant.” The same concern remains in the instant proceeding. Therefore, Staff continues to recommend that the shareholders infuse equity into the water company and follow its “Positive Equity Position Plan” discussed earlier.

Interest and Debt Service Coverage

Staff also examined the effects of the proposed financing on the Company’s TIER and DSC.

DSC represents the number of times internally generated cash (i.e., earnings before interest, income tax, depreciation and amortization expenses) covers required principle and interest payments on debt. A DSC greater than 1.0 means operating cash flow is sufficient to cover debt obligations.

TIER represents the number of times earnings before income tax expense covers interest expense on debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not necessarily mean that debt obligations cannot be met in the short term.

Valley Utilities’ TIER and DSC resulting from its 2006 Staff adjusted financial statements are not meaningful as the Company had no debt. Including Staff’s recommended revenue requirement and fully drawing the proposed \$250,000 loan results in a pro forma TIER and DSC of 7.45 and 13.13, respectively. The pro forma TIER and DSC show that Valley Utilities would have adequate cash flow to meet all Commission authorized obligations including the proposed debt.

Conclusions and Recommendations

WIFA Loan

Staff concludes that the project the Company proposes to construct and the \$250,000 in long-term debt from WIFA is reasonable and appropriate.

Staff concludes that the proposed financing is within Valley Utilities' powers as a corporation, is compatible with the public interest and would not impair its ability to provide public service.

Therefore, Staff recommends approval of the Company's application for authority to issue debt to WIFA not to exceed \$250,000.

Staff further recommends authorizing Valley Utilities to engage in any transactions and to execute any documents necessary to effectuate the authorizations granted.

Staff further recommends that one copy of executed loan documents be filed with Docket Control, as a Compliance item, within 60 days of the execution of any transactions.

Company Proposed Emergency Rate Surcharge

The Company has requested an emergency rate of \$0.89 per month surcharge for each 5/8 x 3/4-inch meter; \$1.34, 3/4-inch; \$2.23, 1-inch; \$4.45, 1.5-inch; \$7.13, 2-inch; \$14.25, 3-inch; \$22.27, 4-inch; \$44.54, 6-inch; \$71.27, 8-inch; \$102.45, 10-inch; \$191.53, 12-inch, as shown on Schedule CSB-3.

Staff Adjustments to the Emergency Rate Surcharge

Decision No. 68309 authorized an arsenic remediation surcharge mechanism ("ARSM") for Valley Utilities. The ARSM prescribes a methodology to calculate a surcharge for arsenic treatment plant that was financed through a WIFA loan. The Company has modified the Commission approved methodology to calculate the surcharge for the new well. The Company proposes to add \$4,539 for the annual WIFA debt reserve payment.

Staff has reviewed the Company's calculation and recommends two changes. First, Staff recommends removal of the \$4,539 for the annual WIFA debt reserve payment. WIFA requires a monthly or quarterly payment into a debt reserve account to ensure payments on loans. The debt reserve account is similar to a forced savings account. It is an asset to the borrower and interest on the reserve accrues to the borrower. There is a very high likelihood that all payments will be made because of the Staff recommended surcharge and the Company's operating income. Consequently, when the loan is fully paid, the cash in the reserve account will become available to shareholders as equity. Therefore, Staff's methodology removes the reserve component from the surcharge and allows only the principal and interest on the loan amount to be recovered from customers.

Second, Staff recommends removal of the income taxes from the surcharge calculation. The ARSM, which includes income taxes, was designed to recover extraordinary costs of plant needed to comply with federally mandated drinking water standards. The cost of the new well for which the Company seeks recovery is routine in nature. Therefore, recovery of income taxes

is inappropriate. Normal approvals for financings by this Commission do not include an allowance for income taxes.

Staff's adjustments decreased the emergency surcharge by \$0.25, from \$0.89 to \$0.64 for the 5/8-inch x 3/4-inch metered customer. Staff recommends approval of Staff's recommended emergency rate surcharges as shown on Schedule CSB-3.

Staff further recommends that the monthly surcharge be conditional upon Staff's recommended cost of the well.

Staff further recommends that the surcharge be implemented only after the Company closes on the loan and has drawn funds to begin construction of the plant.

Staff further recommends that if the Company has not drawn funds from the loan within one year of the date of the Decision resulting from this proceeding, that approval of the loan and surcharge be rescinded.

Staff further recommends that the Company post a bond in an amount of \$1,500⁶ prior to implementing the emergency rate increase authorized in this proceeding.

Staff further recommends approval of the emergency rate increase sought by Valley Utilities Water Company.

Staff further recommends that the emergency rate increase be interim, subject to "true up" at the Company's next full rate case.

Staff further recommends that the Company be directed to file within 30 days of the Order a revised rate schedule reflecting the emergency rate increase with Docket Control, as a compliance item in this docket.

Staff further recommends that the Company notify its customers of the revised rates, and its effective date, in a form acceptable to Staff, by means of an insertion in the Company's next regularly scheduled billing.

Staff further recommends that the Company file a full rate case by no later than June 1, 2008, using a 2007 test year.

⁶ Decision No. 67990, dated July 18, 2005, required a bond from Sabrosa Water Company in the amount of \$3,000. The amount was approximately 5 percent of the annual increase in the emergency rate application. Staff's recommended bond amount for Valley Utilities is equal to approximately 5 percent of the \$30,369 annual increase in revenue.

MEMORANDUM

TO: Docket Control

2007 NOV 15 P 2:45

FROM: Ernest G. Johnson
for Director
Utilities Division

AZ CORP COMMISSION
DOCUMENT CONTROL

DATE: November 15, 2007

RE: VALLEY UTILITIES WATER COMPANY'S APPLICATION FOR AN EMERGENCY RATE INCREASE AND AUTHORITY TO IMMEDIATELY IMPLEMENT A WELL SURCHARGE (DOCKET NO. W-01412A-07-0560)

STAFF REPORT FOR VALLEY UTILITIES WATER COMPANY'S APPLICATION FOR AN APPROVAL OF A \$250,000 LINE OF CREDIT AND AUTHORITY TO ISSUE LONG-TERM PROMISSORY NOTES OR BONDS AND OTHER EVIDENCE OF INDEBTEDNESS AS PERMANENT REFINANCING OF THAT LINE OF CREDIT (DOCKET NO. W-01412A-07-0561)

The Staff Report that was docketed on November 14, 2007, was inadvertently docketed without the Attachments. Attached are the Attachments that go along with the Staff Report.

EGJ:CSB:red

Originator: Crystal S. Brown

Attachment: Original and sixteen copies

Service List for: Valley Utilities Water Company
Docket Nos. W-01412A-07-0560 & W-01412A-07-0561

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Mr. Ernest G. Johnson
Director, Utilities 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

FINANCIAL ANALYSIS

Selected Financial Information
Pro forma Includes Immediate Effects of the Proposed Long-term Debt

	[A]		[B]	
	12/31/2006		12/31/2006	
	<u>Without Loan</u>		<u>Includes Full Amount of Proposed \$250,000 Loan</u>	
1	Operating Income	\$ 88,924	\$ 88,924	
2	Depreciation & Amortization Expense	\$ 172,644	\$ 172,644	
3	Income Tax Expense	\$ 24,905	\$ 24,905	
4	Interest Expense on Debt	\$ -	\$ 15,286 (a)	
5	Repayment of Principal	\$ -	\$ 6,533	
Cash Flow				
6	(1+2-5)	\$ 261,568	\$ 255,035	
TIER				
7	[1+3] ÷ [4]	-	7.45	
DSC				
8	[1+2+3] ÷ [4+5]	-	13.13	
9	Short-term Debt	\$ -	\$ 6,533 (c)	0.00% 0.14%
10	Long-term Debt	\$ - (b)	\$ 243,467	0.00% 5.25%
11	Advances in Aid of Construction	\$ 3,805,035	\$3,805,035	86.65% 81.98%
12	Net Contributions in Aid of Constr.	\$ 988,897	\$ 988,897	22.52% 21.31%
13	Equity	\$ (402,545)	\$ (402,545)	-9.17% -8.67%
14	Total Capital	\$ 4,391,387	\$4,641,387	100.00% 100.00%

(a) Includes the first year interest on the entire proposed loan.

(b) Staff did not include the Company's reported \$28,237 in long-term debt as it was not Commission authorized. Also, Staff did not include the Company's \$1.92 million WIFA loan as the Company had not drawn any funds as of 12/31/06 and the Company will obtain a surcharge to cover debt service payments for the loan.

(c) Includes \$0 in short-term debt and \$6,230 in current maturities on long-term debt at 12/31/06 and first year principal repayment on the full amount of the proposed loan.

Loan Amount Requested	\$250,000		
Down Payment:	\$0		
Amount Financed:	\$250,000		
Wifa Subsidy	75%		
Unsubsidized Interest Rate	8.25%		
Number of years:	20	Compounding Periods:	12
Interest rate (r):	6.18%	APR:	6.37%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning-of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$1,818.22	\$250,000.00	\$1,289.06	\$529.16	\$249,470.84			
2	1,818.22	249,470.84	1,286.33	531.89	248,938.95			
3	1,818.22	248,938.95	1,283.59	534.63	248,404.31			
4	1,818.22	248,404.31	1,280.83	537.39	247,866.92			
5	1,818.22	247,866.92	1,278.06	540.16	247,326.76			
6	1,818.22	247,326.76	1,275.28	542.95	246,783.82			
7	1,818.22	246,783.82	1,272.48	545.75	246,238.07			
8	1,818.22	246,238.07	1,269.67	548.56	245,689.51			
9	1,818.22	245,689.51	1,266.84	551.39	245,139.12			
10	1,818.22	245,139.12	1,263.99	554.23	244,583.89			
11	1,818.22	244,583.89	1,261.14	557.09	244,026.80			
12	1,818.22	244,026.80	1,258.26	559.96	243,466.84	15,285.54	6,533.16	21,818.70

Valley Utilities Surcharge Calculation

Line		
No.	Loan Amount:	\$250,000
1	Term:	20 Years
2	Unsubsidized Interest Rate	8.25%
3	Wifa Subsidy	75%
4	Subsidized Interest Rate (L2 x L3)	6.188%
5		
6		
7	Calculation of Annual Surcharge Revenue Requirement Needed for the Loan	
8	\$6,533.16	Annual Principal Payment (Schedule CSB-1, Page 2)
9	\$15,285.54	Plus: Annual Interest Payment (Schedule CSB-1, Page 2)
10	\$21,818.70	Total Annual Surcharge Revenue Requirement for the Loan
11		
12		
13		

14 Calculation of Equivalent Bills

16	Col A	Col B	Col C	Col D	Col E	Col F
17	Meter Size	NARUC Multiplier	Number of Customers	Monthly Equivalent Bills Col B x C	Number of Months in Year	Annual Equivalent Bills Col D x E
18	5/8"x 3/4" Meter	1	191	191	12	2,292
19	3/4" Meter	1.5	765	1,148	12	13,770
20	1" Meter	2.5	403	1,008	12	12,090
21	1 1/2" Meter	5	6	30	12	360
22	2" Meter	8	48	384	12	4,608
23	3" Meter	16	5	80	12	960
24	4" Meter	25	0	-	12	-
25	6" Meter	50	0	-	12	-
26			0	2,840		34,080

34 Calculation of Monthly Surcharge

36	\$21,818.70	Total Annual Surcharge Revenue Requirement for the Loan (from Step 8)
37	34,080	Divided by: Total Number of Annual Equivalent Bills
38	\$ 0.64	Monthly Surcharge for 5/8" x 3/4" Customers

41 Calculation of Monthly Surcharge for the Remaining Meter Size Customers

43 Equivalent Bills

44	Col A	Col B	Col C	Col D
45	Meter Size	NARUC Multiplier	5/8" x 3/4" Customers' Surcharge	Surcharge by Meter Size Col B x C
46	5/8"x 3/4" Meter	1	\$ 0.64	\$ 0.64
47	3/4" Meter	1.5	\$ 0.64	\$ 0.96
48	1" Meter	2.5	\$ 0.64	\$ 1.60
49	1 1/2" Meter	5	\$ 0.64	\$ 3.20
50	2" Meter	8	\$ 0.64	\$ 5.12
51	3" Meter	15	\$ 0.64	\$ 9.60
52	4" Meter	25	\$ 0.64	\$ 16.01
53	6" Meter	50	\$ 0.64	\$ 32.01
54	6" Meter	50	\$ 0.64	\$ 32.01
55	8" Meter	80	\$ 0.64	\$ 51.22
56	10" Meter	115	\$ 0.64	\$ 73.63
57	12" Meter	215	\$ 0.64	\$ 137.65

**EMERGENCY RATES
SURCHARGE**

Monthly Usage Charge	Company		Staff	
	Proposed		Recommended	
5/8" x 3/4" Meter	\$	0.89	\$	0.64
3/4" Meter	\$	1.34	\$	0.96
1" Meter	\$	2.23	\$	1.60
1½" Meter	\$	4.45	\$	3.20
2" Meter	\$	7.13	\$	5.12
3" Meter	\$	14.25	\$	9.60
4" Meter	\$	22.27	\$	16.01
6" Meter	\$	44.54	\$	32.01
8" Meter	\$	71.27	\$	32.01
10" Meter	\$	102.45	\$	51.22
12" Meter	\$	191.53	\$	73.63