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BEFORE THE ARIZONA CORPORATION

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COMMISSIONERS

MIKE GLEASON, Chairman  
WILLIAM A. MUNDELL  
JEFF HATCH-MILLER  
KRISTIN K. MAYES  
GARY PIERCE

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AZ CORP COMMISSION  
DOCUMENT CONTROL

Arizona Corporation Commission  
**DOCKETED**

MAR 15 2007

DOCKETED BY nr

1415

IN THE MATTER OF THE APPLICATION  
OF PERKINS MOUNTAIN WATER  
COMPANY FOR A CERTIFICATE OF  
CONVENIENCE AND NECESSITY  
IN MOHAVE COUNTY

DOCKET NO. W-20380A-05-0490

DOCKET NO. SW-20379A-05-0489

IN THE MATTER OF THE APPLICATION  
OF PERKINS MOUNTAIN UTILITY  
COMPANY FOR A CERTIFICATE OF  
CONVENIENCE AND NECESSITY  
IN MOHAVE COUNTY

**NOTICE OF FILING LATE  
EXHIBIT**

**Snell & Wilmer**

LLP  
LAW OFFICES  
One Arizona Center, 400 E. Van Buren  
Phoenix, Arizona 85004-2202  
(602) 382-6000

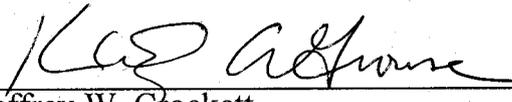
Perkins Mountain Water Company and Perkins Mountain Utility Company (“Companies”) hereby file a final copy of the most current Moody’s Credit Rating for the Rhodes Companies, LLC dated December 27, 2006 as a late filed exhibit. In response to the Administrative Law Judge’s March 6, 2007 request for any updates to the Standard & Poor’s Credit Rating, S&P has advised the Rhodes Companies that an update has not yet been done for the October 2005 Standard & Poor’s Credit Rating report that was filed in this docket on March 7, 2007.

On March 8, 2007, Commissioner Mundell requested a copy of the affidavit referenced in a 2003 news article contained in Mundell Exhibit 2 and a copy of a deposition referred to by Mr. Rhodes during his testimony. Mundell Exhibit 2 refers to two affidavits; one is an affidavit from Clark County Commissioner Mark James in response to a lawsuit brought against him and the other is an affidavit from Mr. Jim Rhodes alleging conflict of interest. We are continuing our efforts to locate these affidavits.

1 The deposition referred to by Mr. Rhodes during his testimony was in response to a  
2 FEC investigation. We have been unable to secure a copy of the deposition. The attorney  
3 representing Mr. Rhodes in that matter has advised us that Mr. Rhodes did not receive a  
4 copy of the deposition and to best of his knowledge, the deposition has not been made  
5 publicly available.

6 DATED this 15<sup>th</sup> day of March, 2007.

7 SNELL & WILMER L.L.P.

8  
9 By   
10 Jeffrey W. Crockett  
11 Kimberly A. Grouse  
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15 Attorneys for Perkins Mountain Water Company

16 ORIGINAL and 15 copies filed this  
17 15th day of March, 2007, with:

18 Docket Control  
19 Arizona Corporation Commission  
20 1200 West Washington  
21 Phoenix, Arizona 85007

22 COPY hand-delivered this 15th  
23 day of March, 2007, to:

24 Dwight Nodes, Administrative Law Judge  
25 Hearing Division  
26 Arizona Corporation Commission  
27 1200 West Washington  
28 Phoenix, Arizona 85007

Keith Layton, Staff Attorney  
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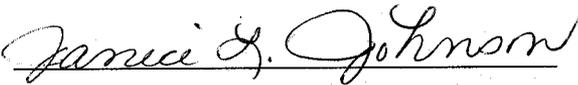
**Snell & Wilmer**

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1 COPY mailed this 15th day of  
2 March, 2007, to:

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Moody's Investors Service

Global Credit Research

Credit Opinion

27 DEC 2006

Credit Opinion: Rhodes Companies, LLC (The)

## Rhodes Companies, LLC (The)

Las Vegas, Nevada, United States

### Ratings

Category	Moody's Rating
Outlook	Stable
Corporate Family Rating	B1
Bkd Sr Sec Bank Credit Facility	B1/B3

### Contacts

Analyst	Phone
Joseph A. Snider/New York	1.212.553.1653
Tom Marshella/New York	

### Opinion

#### Company Profile

Headquartered in Las Vegas, Nevada, The Rhodes Companies, LLC and its co-borrowers (Heritage Land Company, LLC and Rhodes Ranch General Partnership) comprise the largest private community developer and homebuilder in Las Vegas. Revenues and net income (essentially pretax income, since the company pays no income taxes) for the nine months ended September 30, 2006 were \$284.2 million and \$64.2 million, respectively.

#### Recent Developments

On October 7, 2005, Moody's assigned first-time ratings to Rhodes, including a B1 corporate family rating, a Ba3 rating on the proposed \$450 million senior secured first lien term loan, and a B1 rating on the proposed \$150 million senior secured second lien term loan. The ratings outlook assigned at the time was stable. The transaction was downsized by \$100 million (to \$430 million 1st lien and \$70 million 2nd lien) and closed on November 21, 2005.

On September 22, 2006, Moody's implemented its Probability-of-Default (PD) and Loss-Given-Default (LGD) rating methodology for the homebuilding and construction-related sectors. As a result of this action, the ratings on the second-lien senior secured term loans of Rhodes and of four other publicly-rated land developers were dropped two notches. In the case of Rhodes, the rating on its second-lien senior secured term loan was lowered to B3 from B1. In addition, the rating on its first-lien senior secured term loan was lowered to B1 from Ba3. These rating reductions were not as a result of anything Rhodes did or failed to do. They were purely as a result of a change in the Moody's rating methodology.

#### Recent Results

As a result of a weakening local housing market, Rhodes delivered 121 homes and generated \$64.6 million of revenues for its third quarter ended September 30, 2006 vs. 200 deliveries and \$111.6 million of revenues in its second quarter and 223 deliveries and \$118 million of revenues in its first quarter. The company maintained substantial liquidity and was comfortably in compliance with its financial covenants.

#### Rating Rationale

The ratings reflect the company's aggressive debt leverage, relatively small size and scale, limited geographic reach and product diversity, indications of speculative excess in the Las Vegas housing market, and the cyclical nature of the homebuilding and land development industries.

At the same time, the ratings recognize the significant collateral in the structure (as represented by a recent Cushman & Wakefield undiscounted asset appraisal of \$1.48 billion), the ongoing long-term strength of the Las Vegas housing market, the company's reasonably strong historical track record, and the considerable

infrastructure spending completed to date in the Rhodes Homes' master planned communities.

In accordance with Moody's rating methodology for homebuilding companies, Rhodes' overall performance measurements map to the upper end of the B category, which is consistent with its B1 corporate family rating.

Rhodes' key rating drivers and respective indicated ratings are as follows:

1) Operating and competitive position (strong B rating category) - Rhodes maps to B ratings in relative market share and geographic diversity in that even though it is the 12th largest builder in Las Vegas, it currently operates only in that one market. In cost structure, as measured by housing gross margin performance of 40.4% for the nine-month period ended September 30, 2006, the company maps to an A rating. However, the company's gross margin figure is expected to decline due to the housing slowdown as the company faces pricing challenges, the offering of additional incentives to buyers, and weakness in new orders. In product line and price point diversity, Rhodes performs at the B rating level as it primarily offers single-family homes and townhomes for first-time and the first-and second-time move-up buyers.

2) Capital structure (B rating category) - Given the company's negative net worth (from the capital withdrawn at the time of its financing in November 2005), the company's debt/capitalization ratio exceeded 100%, thus mapping to less than a B rating. However, since Rhodes is somewhat of a hybrid company, i.e., part homebuilder and part land developer, it is also measured on a debt/net value basis. On that basis, its metric was 31.5%, which was satisfactory.

3) Financial strength (Ba rating category) - The company's slightly better than 3x interest coverage for the 10 1/3 month period that began when the transaction was consummated on November 21, 2005 through September 30, 2006 maps to a weak Ba rating while its greater than 25% return on assets over the same period maps to an A rating. However, both metrics are expected to weaken as the housing slowdown continues and will probably return to levels more consistent with its current rating. In liquidity, the company maps to a Ba rating, given its nearly \$139 million of unrestricted cash on hand at 9/30/06. This metric, calculated at 29.8%, should strengthen if the company is successful in continuing to work down its spec inventories and build cash. In the two size metrics--total revenues and tangible net worth--the company maps to B ratings, given its \$284 million of nine-month revenue and negative tangible net worth.

4) Management quality (B rating category) - Despite the title of this category, it does not capture the multitude of qualitative rating factors that Moody's considers when evaluating management. It does capture the amount of land inventory (owned and optioned) that the company controls and the proportion of spec building in which it engages. The company maps to a B rating with regard to its estimated 10-year land supply and to a B in terms of its spec building practices (greater than 25% spec construction).

**Rating Outlook**

The stable ratings outlook is based on Moody's expectation that Rhodes 1) will maintain a satisfactory cushion in its financial covenants, 2) will maintain generally level collateral coverage through 2007 before beginning gradually to reduce debt/total net value in 2008 and beyond, and 3) will use the approximate \$139 million of unrestricted cash on hand largely for seasonal working capital needs and/or for future land purchases which will be added to the collateral package.

**What Could Change the Rating - Up**

Going forward, the ratings and outlook would be strengthened by the company's building additional headroom in its financial covenants, particularly interest coverage; by a significant build-up in its equity base; by successful diversification into other markets; and by a permanent reduction in the company's debt leverage metrics.

**What Could Change the Rating - Down**

The ratings and outlook would be stressed by a significant narrowing of the current cushion in the company's financial covenants, a misstep in its expansion process, a material increase in debt leverage, or use of the estimated \$139 million current cash balances for anything other than seasonal working capital needs and/or additional land purchases that would be added to the collateral package.

**Rating Factors**

**Rhodes Companies, LLC (The)**

**808785295**

*Fiscal Year Ends in December*

Homebuilding Industry	A	Baa	Ba	B
Factor 1: Operating & Competitive Position				

a) Relative Market Share				X
b) Geographic Diversity				X
c) Cost Structure (Gross Margin)	>30%			
d) Product Line & Price Point Diversity				X
<b>Factor 2: Capital Structure</b>				
a) Homebuilding Debt / HB Capitalization				>55%
<b>Factor 3: Financial Strength</b>				
a) EBIT / Interest Incurred			3X-6X	
b) EBIT / Total Assets	>20%			
c) Liquidity			25-40%	
d) Total Revenues				<\$1B
e) Tangible Net Worth				<\$500MM
<b>Factor 4: Management Quality</b>				
a) Supply of Lots in Inventory (Yrs)				>7 Yrs
b) Speculative Building Percentage				>25%
<b>Rating:</b>				
a) Indicated Rating from Methodology				B1
b) Actual Rating Assigned				B1

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