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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS

MIKE GLEASON, CHAIRMAN

WILLIAM A. MUNDELL

JEFF HATCH-MILLER

KRISTIN K. MAYES

GARY PIERCE

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Arizona Corporation Commission

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IN THE MATTER OF DIVERSIFIED
 WATER UTILITIES, INC. TO EXPAND ITS
 CERTIFICATE OF CONVENIENCE AND
 NECESSITY

DOCKET NO.: W-02859A-04-0844

DIVERSIFIED WATER UTILITIES, INC.
SECOND AMENDED APPLICATION

Diversified Water Utilities, Inc., ("Diversified"), by and through its attorneys, in accordance with its Statement of Intent filed November 15, 2006 and the Procedural Order dated December 28, 2006, hereby files its Second Amended Application to expand its Certificate of Convenience and Necessity. This Second Amended Application reduces the area of expansion to those areas where the landowner has made a written request for inclusion. In particular, Diversified, by this Second Amended Application, requests its Certificate of Convenience and Necessity be expanded to encompass Section 13, Township 3 South, Range 8 East; and the Eastern One-half of Section 14, Township 3 South, Range 8 East, of the Gila and Salt Rivers Base and Meridian in Pinal County, Arizona (the "Amended Expansion Area"). This Second Amended Application is supported by the following:

1. Diversified is an Arizona corporation, in good standing as reflected by the Certificate of Good Standing attached hereto as **Exhibit A**.
2. Diversified is authorized by the Arizona Corporation Commission (the "Commission") to provide domestic water service in nine sections of Pinal County, Arizona and presently serves approximately 927 service connections. Its current water production

1 capability and water demands are reflected in the Water Use Data Sheet attached hereto as
2 **Exhibit B.**

3 3. To the best of its knowledge and belief, Diversified is currently in
4 compliance with all regulatory requirements applicable to the provision of domestic water
5 service within its certificated area.

6 4. Mr. Scott Gray is the Company contact. His business address and
7 telephone number are:

8 Diversified Water Utilities, Inc.
9 2850 E. Camelback Rd., Ste. 200
10 Phoenix, Arizona 85016
11 (602) 840-9400

12 5. The operator certified by the Arizona Department of Environmental
13 Quality for Diversified is Fred T. Wilkinson, Operator ID 02336. He can be reached at:

14 Fred T. Wilkinson
15 First National Management, Inc.
16 Post Office Box 1020
17 Apache Junction, Arizona 85217
18 (480) 677-6080

19 6. Diversified has received requests for inclusion within its certificate of
20 convenience and necessity from the State Land Department (see, Letter from Mark
21 Winkleman, State Land Commissioner dated April 26, 2005 attached hereto as **Exhibit C**)
22 and from Wolfkin Farms L.L.C. (see, Letter from Penny Wolfswinkel dated October 26, 2006
23 attached hereto as **Exhibit D**).

24 7. A corporate resolution authorizing this Application is attached hereto as
25 **Exhibit E.**

 8. No public or private utility is authorized to provide domestic water
service within the Amended Expansion Area.

1 **9.** Diversified is a fit and proper entity to provide water service to the
2 Expansion Area.

3 **10.** In prior proceedings before the Arizona Corporation Commission, the
4 Utility Division and the Administrative Law Judge have found Diversified to be a fit and
5 proper entity to serve the Amended Expansion Area, as well as other land and recommended
6 that the land be included within Diversified's Certificate of Convenience and Necessity. See,
7 Pages 20 and 21 of the Staff Report attached hereto as **Exhibit F** and Pages 27 through 34 of
8 the Recommended Opinion and Order by Judge Stern dated August 15, 2001 attached hereto
9 as **Exhibit G**. At the time, the Board of Supervisors of Pinal County (the "Board") had
10 passed a resolution purporting to create the Skyline Domestic Water Improvement District
11 encompassing the Amended Expansion Area, as well as other land. "[B]ecause of uncertainty
12 with respect to the Skyline District and potential litigation in state court," the Commission left
13 the land uncertificated. See, Decision No. 64062, at page 33, a copy of which is attached
14 hereto as **Exhibit H**.

15 **11.** Diversified filed an action in Superior Court challenging Skyline's
16 formation and all actions taken in furtherance thereof. See, *Diversified Water Utilities, Inc. v.*
17 *Pinal County, et al*, Maricopa Superior Court Case No. CV2002-003724.

18 **12.** The Board, in furtherance of a Settlement Agreement with Diversified,
19 subsequently adopted Resolution number 033104-DWU (a copy of which is already a part of
20 this Docket) rescinding the resolution that formed Skyline and declaring all actions taken on
21 behalf of or in furtherance of Skyline to be void *ab initio*. Skyline has been dissolved and no
22 longer exists.

23 **13.** Diversified subsequently filed, in this Docket, its APPLICATION TO
24 EXPAND ITS CERTIFICATE EITHER BY AMENDING DECISION NO. 63960 (as
25 Amended), OR, ALTERNATIVELY, AS A NEW APPLICATION dated November 24,

1 2004, as corrected by letter dated December 9, 2004, and amended and supplemented
2 November 30, 2005.

3 **14.** On December 3, 2004, Johnson Utilities Company (“JUC”) filed an
4 application to expand its Certificate of Convenience and Necessity to a portion of the area
5 encompassed in Diversified’s Application. See, Docket No. WS-02987A-04-0869.

6 **15.** Diversified and JUC have entered into a Letter of Mutual Understanding,
7 Cooperation and Settlement dated June 7, 2005 (the “LMU”) and the same was filed in this
8 docket on June 30, 2005 with the Joint Settlement Statement of JUC and Diversified.
9 Pursuant to the LMU, JUC does not intend to provide water service and will not otherwise
10 interfere with Diversified’s effort to expand service within Sections 13, 14, 15 and that
11 portion of Section 16 East of the Union Pacific Railroad right-of-way, all within T3S, R8E,
12 Pinal County, Arizona, which includes the Amended Expansion Area.

13 **16.** Pinal County is experiencing phenomenal development. The Amended
14 Expansion Area is in the direct path of that development. A portion of the Amended
15 Expansion Area is part of a Master Planned Development approved by the Pinal County
16 Board of Supervisors as the Bella Vista Farms Development.

17 **17.** The Commission has previously recognized a need for utility service
18 within all or portions of the Amended Expansion Area with regard to sewer service (Decision
19 No. 64042, amending Decision No. 63960). It is unfathomable that a need for sewer service
20 exists in an area, without a concomitant need for water service.

21 **18.** The current balance sheet and profit and loss statement of Diversified for
22 the period ending December 31, 2006 is attached hereto as **Exhibit I**.

23 **19.** Diversified has secured a determination of physical availability from the
24 Arizona Department of Water Resources, which includes the Expansion Area. Diversified
25 believes that it has previously filed with the Commission, a copy of the approved

1 determination of physical availability. In the event it is determined that the approved
2 determination has not been previously filed, Diversified shall supplement this Amended
3 Application at that time. The landowners are responsible for securing a Certificate of Assured
4 Water Supply for their specific developments and subdivision plats.

5 **20.** The Amended Expansion Area is encompassed by Diversified's County
6 franchise, a copy of which is attached hereto as **Exhibit J**.

7 **21.** The owners of Bella Vista have provided Diversified with the revised
8 Bella Vista Development Plan attached hereto as **Exhibit K**. Based upon the revised
9 development plan and discussions with the owner/developer of Section 13 (Wolkin Farms
10 L.L.C.), Diversified's engineer has developed the projections for customers, water demand,
11 revenues and expenses, as well as the projected cost of the basic water infrastructure, for
12 Section 13 for the first five years after water service commences for the development as set
13 forth in the Preliminary Service Report attached hereto as **Exhibit L**.

14 **22.** The State of Arizona has indicated that it has no objection to having the
15 lands it owns within the Amended Expansion Area included within a water provider's
16 Certificate of Convenience and Necessity as reflected in **Exhibit C** attached hereto.

17 **23.** The public interest is served by granting a certificate of convenience and
18 necessity for the Amended Expansion Area to Diversified.

19 **24.** All correspondence and communications regarding this Application
20 should be addressed to:

21 William P. Sullivan
22 Larry K. Udall
23 Curtis, Goodwin, Sullivan, Udall & Schwab, PLC
24 501 East Thomas Road
25 Phoenix, Arizona 85012
 Phone (602) 393-1700
 Facsimile (602) 393-1703
 wsullivan@cgsuslaw.com
 ludall@cgsuslaw.com

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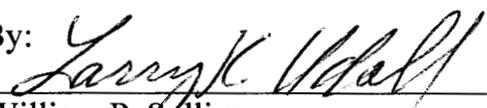
Scott Gray
Diversified Water Utilities, Inc.
2850 E. Camelback Rd., Ste. 200
Phoenix, Arizona 85016

WHEREFORE, Diversified Water Utilities, Inc. respectfully requests the Commission:

1. Issue a procedural order governing the processing of this Second Amended Application.
2. Issue an order either amending Decision No. 64062 or otherwise recognizing Diversified's certificated area as expanded to encompass the Amended Expansion Area as described above; and
3. Granting such further relief as the Commission deems just and proper based upon the record presented.

DATED this 27th day of March, 2007.

CURTIS, GOODWIN, SULLIVAN,
UDALL & SCHWAB, P.L.C.

By: 
William P. Sullivan
Larry K. Udall
501 East Thomas Road
Phoenix, Arizona 85012
Attorneys for Diversified Water Utilities,
Inc.

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PROOF OF AND CERTIFICATE OF MAILING

I hereby certify that on this 27th day of March, 2007, I caused the foregoing document to be served on the Arizona Corporation Commission by delivering the original and thirteen (13) copies of the above to:

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

Copies of the foregoing hand-delivered this 27th day of March, 2007 to:

Dwight D. Nodes, Administrative Law Judge
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Christopher Kempley, Esq.
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

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

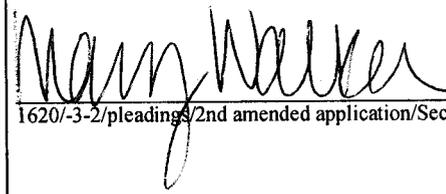

1620/-3-2/pleadings/2nd amended application/Second Amended App

EXHIBIT A

STATE OF ARIZONA



Office of the
CORPORATION COMMISSION
CERTIFICATE OF GOOD STANDING

To all to whom these presents shall come, greeting:

I, **Brian C. McNeil**, Executive Director of the Arizona Corporation Commission, do hereby certify that

*****DIVERSIFIED WATER UTILITIES, INC.*****

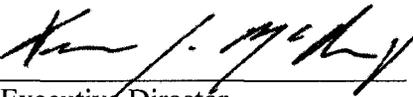
a domestic corporation organized under the laws of the State of Arizona, did incorporate on February 8, 1995.

I further certify that according to the records of the Arizona Corporation Commission, as of the date set forth hereunder, the said corporation is not administratively dissolved for failure to comply with the provisions of the Arizona Business Corporation Act; and that its most recent Annual Report, subject to the provisions of A.R.S. sections 10-122, 10-123, 10-125 & 10-1622, has been delivered to the Arizona Corporation Commission for filing; and that the said corporation has not filed Articles of Dissolution as of the date of this certificate.

This certificate relates only to the legal existence of the above named entity as of the date issued. This certificate is not to be construed as an endorsement, recommendation, or notice of approval of the entity's condition or business activities and practices.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Arizona Corporation Commission. Done at Phoenix, the Capital, this 26th Day of March, 2007, A. D.




Executive Director

Order Number: 132142

EXHIBIT B

WATER USE DATA CHART

NAME OF COMPANY	Diversified Water Utilities, Inc.
ADEQ Public Water System No.	11-043

MONTH/YEAR (Last 13 Months)	NUMBER OF CUSTOMERS	Gallons Sold (Thousands)
01-2006	430	3,840,700
02-2006	480	3,647,700
03-2006	593	4,091,100
04-2006	623	5,178,800
05-2006	647	7,132,200
06-2006	681	8,364,900
07-2006	664	7,605,300
08-2006	687	6,246,400
09-2006	702	6,454,300
10-2006	742	7,151,600
11-2006	799	6,389,700
12-2006	809	6,005,000
01-2007	883	5,365,700
Total		77,473,400

STORAGE TANK CAPACITY (Gallons)	NUMBER OF EACH	ARIZONA DEPT. OF WATER RESOURCES WELL I.D. NUMBER	WELL PRODUCTION (Gallons per Minute)
200,000	1	55-609350	200
20,000	1		
1,000,000	1	55-627093	1,210
1,000,000	1	55-627092*	1,500*
Other Water Sources in Gallons per Minute			GPM None
Fire Hydrants on System			Yes
Total Water Pumped Last 13 Months (Gallons in Thousands)			77,473,400

*Currently in design.

EXHIBIT C

Janet Napolitano
Governor

Mark Winkleman
State Land
Commissioner

Arizona
State Land Department



1616 West Adams Street Phoenix, AZ 85007 www.land.state.az.us

April 26, 2005

Diversified Water Utilities, Inc.
Attn: Scott W. Gray
2850 E. Camelback Rd., Suite 200
Phoenix, AZ 85016-4316

RE: Request to add State Trust land to a service area

Dear Mr. Gray:

On March 22, 2005, you notified the Arizona State Land Department of your application to the Arizona Corporation Commission (ACC) to add Section 14, Township 3 South, Range 8 East to your certificated area. A portion of this section is State Trust land, consisting of 325.46 acres.

After considering comments from within the agency, it has been determined it is in the best interest of the State Trust land to be included in a certificated area for water delivery. However, we wish to remain neutral as to who the water provider should be for this land, so we leave the decision on the holder of the certificated area to the ACC.

If you have any questions, please contact Cynthia Stefanovic, Water Rights and Agriculture Section at (602)542-2669.

Sincerely,

A handwritten signature in black ink, appearing to read "Mark Winkleman", is written over the word "Sincerely,".

Mark Winkleman
State Land Commissioner

HAK/

EXHIBIT D

WOLFKIN FARMS, L.L.C.

3850 E. Baseline Road, Suite 123
Mesa, AZ 85206
Phone (480) 969-8000
Fax (480) 539-7321

October 24, 2006

Scott W. Gray
Diversified Water Utilities, Inc.
2850 East Camelback Road, Suite 200
Phoenix, AZ 85016

Re: Request for Water Service

Dear Mr. Gray:

Please accept this letter as a formal request for water service from Diversified Water Utilities, Inc. to approximately 640 acres, more particularly described as follows:

Section 13, Township 3 South, Range 8 East, of the Gila and Salt Rivers Base and Meridian, Pinal County, Arizona (the "Property").

Wolfkin Farms, L.L.C., an Arizona limited liability company, is the owner of the Property and has the authority to make this request. The project will consist of approximately 2,100 lots to be developed in multiple phases.

The Property is contiguous to your existing certificated area and outside of any existing water service area. Please take the necessary steps to extend your certificate of convenience and necessity to include the Property.

Sincerely,



Penny Wolfswinkel
Manager

PW:dt

EXHIBIT E

**UNANIMOUS CONSENT OF ACTION
BY THE BOARD OF DIRECTORS OF
DIVERSIFIED WATER UTILITIES, INC.**

March 15, 2007

The Board of Directors of the above-name Corporation intends, by the following preambles and resolutions, to consent to and approve past, present and future actions, either taken by, or to be taken by, the Officers or Directors of this Corporation, as are reflected in the preambles and resolutions contained herein.

The undersigned Director, being the sole Director of this Corporation, by signing this Unanimous Consent waives notice of a Board of Directors' meeting, waives the necessity of having a formal Board of Directors' meeting and unanimously approves and consents to the acts reflected by the preambles and resolutions contained herein.

**EXTENSION OF CERTIFICATE OF
CONVENIENCE AND NECESSITY**

WHEREAS, Diversified Water Utilities, Inc. is a public service corporation subject to the regulation of the Arizona Corporation Commission; and

WHEREAS, Diversified Water Utilities, Inc. has received requests that its Certificate of Convenience and Necessity be expanded to encompass Section 13, Township 3 South, Range 8 East; and Eastern One-half of Section 14, Township 3 South, Range 8 East, of the Gila and Salt Rivers Base and Meridian in Pinal County, Arizona, encompassing approximately nine hundred sixty (960) acres contiguous to but outside of the Certificate of Convenience and Necessity described in decisions of the Arizona Corporation Commission.

THEREFORE BE IT RESOLVED, that the staff and legal counsel of Diversified Water Utilities, Inc. be and hereby are authorized to take such actions as they deem are necessary and appropriate to extend the Certificate of Convenience and Necessity to encompass Section 13, Township 3 South, Range 8 East; and Eastern One-half of Section 14, Township 3 South, Range 8 East, of the Gila and Salt Rivers Base and Meridian in Pinal

County, Arizona, including, without limitation, the filing of an application with the Arizona Corporation Commission.

FURTHER RESOLVED, that Scott W. Gray as President of this Corporation be, and hereby is, authorized and directed to perform such acts and execute and deliver such instruments and documents as may be necessary or appropriate in order to carry out the purpose of the foregoing resolution.

The undersigned Director of the Corporation hereby approves and consents to the acts of the Officer and Director of the Corporation reflected in the preambles and resolutions.

DATED this 15th day of March, 2007.

DIRECTOR:



Scott W. Gray, Director

EXHIBIT F

Staff further recommends that Johnson Utilities, Inc. be ordered to charge its existing rates and charges in the approved extension areas.

Diversified Water Utilities

Staff recommends that the water CC&N of Diversified Water Utilities, Inc. be conditionally extended to include Parcels 2 and 24.

Staff further recommends that Diversified Water Utilities file in this docket, within two (2) years from the effective date of this Decision, documentation that indicates that developers have joined the Central Arizona Groundwater Replenishment District.

Staff further recommends that Diversified Water Utilities file in this docket, within two (2) years from the effective date of this Decision, copies of its Approval to Construct.

Staff further recommends Diversified Water Utilities file in this docket, within two (2) years from the effective date of this Decision, a copy of its franchise from Pinal County for the extension areas.

Staff further recommends that within two years from the effective date of this Decision, Diversified Water Utilities file a CC&N review with the Commission containing the following information: a) number of customers being served in the extension areas, b) amount of plant facilities installed to serve extension areas, c) number of gallons sold in the extension areas, d) amount of revenue generated by the extension areas, e) master plan of extension areas showing all plant installed and customer locations and f) any other information Staff deems relevant. At the time of the CC&N review, Staff should have the discretion to perform a physical plant inspection. Should the Staff inspection indicate that no development has commenced at the two year review period or if the information as listed above has not been timely supplied, the conditional CC&N extension granted in this proceeding should become null and void without further order of the Commission, and future CC&N extensions into the areas deemed null and void would require a new CC&N extension filing. Staff should have 120 days from the two-year anniversary date of the Decision to file a report containing one of the following three recommendations:

1. Final approval of the CC&N for all areas requested in this proceeding;
2. Final approval of the CC&N for portions of areas requested in this proceeding with the cancellation of the remainder areas; or
3. Disapproval of the CC&N extension for all areas requested in this proceeding.

H2O, Inc., Johnson Utilities Company,
Diversified Water Utilities and Queen Creek Water Company
Docket Nos. W-02234A-00-0371, et al.
Page 21

Staff further recommends that Diversified Water Utilities file in this docket to the Commission for the next two years, documentation from ADEQ indicating that it has been in full compliance with ADEQ for each year. This documentation must be submitted within 30 days of the anniversary date of this Decision each year.

Staff further recommends that the Commission's Decision covering the extension be considered null and void without further order from the Commission should Diversified Water Utilities fail to meet the above conditions within the time specified.

Staff further recommends that Diversified Water Utilities be ordered to charge its existing rates and charges in the approved extension areas.

Queen Creek Water Company

Staff recommends that Queen Creek Water Company's request to provide water service to Parcels 15, 16, 17, 18, 22 and part of Parcel 11 be denied.

EXHIBIT G

1 applicants and their continuing to charge their existing rates and charges in their respective extension
2 areas in the respective parcels as further delineated in Exhibit A. Staff also recommended the denial
3 of applications for certain parcels.

4 149. However, due to the ongoing nature of these proceedings, Staff amended a number of
5 its recommendations and, in a post-hearing filing on March 27, 2001, memorialized the amendments
6 which it made during the actual hearing.

7 150. Staff's witness, Mr. Mark DiNunzio, emphasized that he is not convinced that
8 development will take place in a timely manner as previously stated because he believes that there
9 has been a good deal of speculation presented by developers who would be able to capitalize on the
10 increased value of their property if it is included in a utility's Certificate. Therefore, Mr. DiNunzio
11 recommends that any Certificate from this proceeding be granted conditionally and subject to a
12 review after two years to determine the extent of development. As part of the two-year review, Staff
13 would have an additional period of time to review the development, or lack thereof, and file a report
14 either recommending final approval of the Certificate as requested, final approval of the Certificate
15 for the portions of the areas requested where development has taken place with a cancellation of the
16 remaining areas, and/or disapproval of the Certificate for all areas requested if no development has
17 taken place.

18 151. Staff indicates that since 1998, JUC has had 15 complaints, H₂O has had ten
19 complaints, Diversified has had no complaints and Queen Creek has had four complaints.

20 152. With respect to compliance issues, Staff found that JUC, H₂O, Diversified and Queen
21 Creek are current on their property taxes and filings with the Commission and are presently in
22 compliance with the rules of ADEQ with the exception of securing various approvals and permits to
23 construct and/or the filing of franchises for the requested parcels herein.

24 JUC

25 153. With respect to JUC's application for the extension of its water and wastewater
26 Certificate, Staff is recommending the following:

- 27 • that JUC's wastewater Certificate be conditionally extended to include parcels
28 2, 14, 15, 16, 17, 18, 19, 20, and 22;

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- that JUC's water and wastewater Certificates be conditionally extended to include parcels 3, 4, 5, 6, 7, 8, 9, 11, 12, 21 and 23;
- that JUC's application for parcel 1 be denied;
- that JUC's application with respect to its request to provide service for parcels 10 and 13 be withdrawn as requested by JUC;
- that JUC file a copy for a request for service to parcel 8 within 90 days of the effective date of this Decision;
- that JUC file with the Commission in this Docket, within two years of the effective date of this Decision, a copy of its franchise from Pinal County for the extension of its Certificate for the areas authorized herein;
- that JUC file with the Commission in this Docket, within two years of the effective date of this Decision, copies of all Certificates of Approval to Construct ("CAC") and Certificates of Approval of Construction for development in each of the respective approved parcels as authorized hereinafter;
- that JUC file, within two years of the effective date of this Decision, a request for Certificate review after which, Staff, at its discretion, shall perform a physical plant inspection to determine the extent to which development has commenced.⁸

After submission of JUC's request for review, Staff shall have 120 days to file a report containing one of the following three recommendations:

- ◆ final approval of the Certificate for all parcels approved in this proceeding;
- ◆ final approval of the Certificate for portions of the parcels approved in this proceeding with the cancellation of the undeveloped portions of the parcels; or
- ◆ disapproval of the Certificate for the parcel approved in this proceeding.

⁸ The Certificate review should include the following data: number of customers in the extended area, amount of plant installed to serve the extended area, number of gallons sold in the extended area, the amount of revenue generated in the extended area, the Master Plan for the parcels showing all plant installed and customer location, and any other information Staff deems relevant.

1 154. Staff further recommends that JUC file, within 30 days of the anniversary date of this
2 Decision each year for the next two years, documentation from ADEQ indicating that JUC has been
3 in compliance with ADEQ for each year, and that failure to submit this documentation in the Docket
4 or failure to correct any major or minor violation within 30 days from the date of notice of violation
5 should result in the Certificate authorized hereinafter becoming null and void without further order of
6 the Commission.

7 155. Staff further recommends that JUC file, within 30 days from the effective date of this
8 Decision, an amended waste water tariff schedule which includes language for its wastewater rates
9 and charges to state that said charges shall not become effective until wastewater first flows into the
10 collection system.

11 156. Staff further recommends that, if JUC fails to meet any of the aforementioned
12 conditions within the time specified, the Certificate authorized hereinafter for the respective parcel be
13 considered null and void without further order by the Commission.

14 H₂O

15 157. With respect H₂O's application for the extension of its Certificate to provide public
16 water service, Staff is recommending the conditional approval of the application to extend service to
17 that portion of parcel 14 not previously certificated and parcels 15, 16, 17, 18, 22 and Section 13,
18 Township 2 South, Range 7 East in Maricopa County, Arizona.

19 158. Staff further recommends that H₂O file, within two years of the effective date of this
20 Decision, a copy of the developers' Certificates of Assured Water Supply ("CAWS") to be issued by
21 the Arizona Department of Water Resources ("ADWR") for the respective parcels and sections.

22 159. Staff further recommends that H₂O file, within two years of the effective date of this
23 Decision, a copy of its CAC to be issued by the ADWR for the main extension for the Combs School.

24 160. Staff also recommends that H₂O file, within two years from the effective date of this
25 Decision, a copy of its franchise from Pinal County for the extension areas represented by the
26 aforementioned parcels and Section 13.

27 161. Staff is also recommending the following:
28

- 1 • that H₂O file with the Commission in this Docket within two years of the effective
2 date of this Decision, a copy of its franchise from Pinal County for the extension of its
3 Certificate for the areas authorized hereinafter;
- 4 • that H₂O file with the Commission in this Docket, within two years of the effective
5 date of this Decision, copies of all Certificates of Approval to Construct ("CAC") and
6 Certificates of Approval of Construction for development in each of the respective
7 approved parcels as authorized hereinafter;
- 8 • that H₂O file, within two years of the effective date of this Decision, a request for
9 Certificate review after which, Staff, at its discretion, shall perform a physical plant
10 inspection to determine the extent to which development has commenced.⁹

11 After submission of H₂O's request for review, Staff shall have 120 days to file a report
12 containing one of the following three recommendations:

- 13 ♦ final approval of the Certificate for all parcels approved in this proceeding;
- 14 ♦ final approval of the Certificate for portions of the parcels approved in this proceeding
15 with the cancellation of the undeveloped portions of the parcels; or
- 16 ♦ disapproval of the Certificate for the parcel approved in this proceeding.

17 162. Staff further recommends that H₂O file, within 30 days of the anniversary date of this
18 Decision each year for the next two years, documentation from ADEQ indicating that H₂O has been
19 in compliance with ADEQ for each year, and that failure to submit this documentation in the Docket
20 or failure to correct any major or minor violation within 30 days from the date of notice of violation
21 should result in the Certificate authorized hereinafter becoming null and void without further order of
22 the Commission.

23 163. Staff further recommends that, if H₂O fails to meet any of the aforementioned
24 conditions within the time specified, the Certificate authorized hereinafter for the respective parcel be
25 considered null and void without further order by the Commission.

26 _____

27 ⁹ The Certificate review should include the following data: number of customers in the extended area, amount of
28 plant installed to serve the extended area, number of gallons sold in the extended area, the amount of revenue generated in
the extended area, the Master Plan for the parcels showing all plant installed and customer location, and any other
information Staff deems relevant.

1 DIVERSIFIED

2 164. With respect to Diversified's application for an extension of its Certificate, Staff is
3 recommending that the Commission approve the extension of its Certificate to include parcels 2 and
4 24.

5 165. Staff is further recommending that Diversified file, within two years of the effective
6 date of this Decision, the following: the developers' CAWS to be issued by ADWR; copies of its
7 CAC's to be issued by ADEQ; and a copy of its franchise for parcels 2 and 24 which are to be issued
8 by the Pinal County Board.

9 166. Staff is also recommending the following:

- 10
- 11 • that Diversified file with the Commission in this Docket, within two years of the
12 effective date of this Decision, copies of all Certificates of Approval to Construct
13 ("CAC") and Certificates of Approval of Construction for development in each of the
14 respective approved parcels as authorized hereinafter;
 - 15 • that Diversified file, within two years of the effective date of this Decision, a request
16 for Certificate review after which, Staff, at its discretion, shall perform a physical
17 plant inspection to determine the extent to which development has commenced.¹⁰

18 After submission of Diversified's request for review, Staff file a report containing one of the
19 following three recommendations:

- 20 ♦ final approval of the Certificate for all parcels approved in this proceeding;
- 21 ♦ final approval of the Certificate for portions of the parcels approved in this proceeding
22 with the cancellation of the undeveloped portions of the parcels; or
- 23 ♦ disapproval of the Certificate for the parcel approved in this proceeding.

24 167. Staff further recommends that Diversified file, within 30 days of the anniversary date
25 of this Decision each year for the next two years, documentation from ADEQ indicating that
26 Diversified has been in compliance with ADEQ for each year and that failure to submit this

27 ¹⁰ The Certificate review should include the following data: number of customers in the extended area, amount of
28 plant installed to serve the extended area, number of gallons sold in the extended area, the amount of revenue generated in
the extended area, the Master Plan for the parcels showing all plant installed and customer location, and any other
information Staff deems relevant.

1 documentation in the Docket or failure to correct any major or minor violation within 30 days from
2 the date of notice of violation should result in the Certificate authorized hereinafter becoming null
3 and void without further order of the Commission.

4 168. Staff further recommends that, if Diversified fails to meet any of the aforementioned
5 conditions within the time specified, the Certificate authorized hereinafter for the respective parcel be
6 considered null and void without further order by the Commission.

7 QUEEN CREEK

8 169. With respect to Queen Creek's application for an extension of its Certificate, Staff is
9 recommending the approval of Queen Creek's request for the extension of its Certificate to provide
10 water service to the eastern three-quarters of Section 14, Township 2 South, Range 17 East for which
11 it is not yet certificated subject only to the condition that Queen Creek files, within 365 days of the
12 effective date of this Decision, a copy of its Maricopa County franchise issued by the Maricopa
13 County Board of Supervisors or the approval granted hereinafter will be rendered null and void. Staff
14 is also recommending that the Country Thunder parcel, located in Section 30, Township 2 South,
15 Range 3 East, Pinal County, Arizona, be deleted from H₂O's Certificate and transferred to Queen
16 Creek's Certificate.

17 170. After reviewing the evidence in its entirety, we commend Staff at the end of this long
18 and complex proceeding and find the majority of their recommendations are reasonable in light of the
19 speculative nature of the purported development which is to take place in large undeveloped areas in
20 Pinal County, Arizona. Based on this speculation, we believe that Staff has made well-reasoned
21 unbiased recommendations with respect to recommending the issuance of conditional Certificates
22 which will be subject to further Commission review in the future.

23 171. For the present, we will adopt Staff's recommendations with respect to the approvals
24 granted hereinafter for the respective parcels as are described in Exhibits A and B attached hereto.
25 However, with respect to Staff's recommendation that an affected utility (JCU, H₂O, Queen Creek,
26 and Diversified) shall cure any minor or major violation of a requirement of ADEQ within 30 days
27 from the date of notice of violation, thus resulting in the nullification of an extension of that utility's
28 Certificate, we find Staff's recommendation to be too extreme and will allow the violating utility a

1 period of 90 days from the date of notice of the violation to either cure the violation or to request an
2 extension of time in which to resolve the problem with ADEQ. We shall also require JUC, H₂O,
3 Diversified and Queen Creek to file the correct legal descriptions for the respective parcels within 30
4 days of the effective date of this Decision.

5 CONCLUSIONS OF LAW

6 1. Applicants, JUC, H₂O, Diversified and Queen Creek are public service corporations
7 within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-252, 40-281 and 40-
8 282.

9 2. The Commission has jurisdiction over JUC, H₂O, Diversified and Queen Creek and of
10 the subject matter of the applications as amended.

11 3. Notice of the applications as amended and described herein was given in the manner
12 prescribed by law.

13 4. The public convenience and necessity require the public would benefit by the
14 amendment of the Certificates of JUC, H₂O, Diversified and Queen Creek so that their certificated
15 service areas include the parcels and sections more fully described in Exhibits A and B.

16 5. JUC, H₂O, Diversified and Queen Creek are fit and proper entities to receive amended
17 Certificates which encompass the areas more fully described in Exhibits A and B.

18 6. Staff's recommendations with respect to the applications of JUC, H₂O, Diversified and
19 Queen Creek, as set forth in Findings of Fact Nos. 153, 154, 155, 156, 157, 158, 159, 160, 161, 162,
20 163, 164, 165, 166, 167, 168, 169, and 171 for the amendment of their respective Certificates, should
21 be approved subject to the recommendations of Staff with the exception that a utility cited for either a
22 minor or major violation by ADEQ within the two year period of review following the effective date
23 of this Decision should have 90 days from the date of the notice of violation to cure the defect or
24 request an extension from the Commission in order to remedy the violation.

25 ORDER

26 IT IS THEREFORE ORDERED that the applications of Johnson Utilities, L.L.C., dba
27 Johnson Utilities Company, H₂O, Inc., Diversified Water Utilities, Inc., and Queen Creek Water
28 Company for amendment of their Certificates of Convenience and Necessity for the operation of the

1 applicable water and/or waste water facilities in the areas more fully described in the parcels as set
2 forth in Exhibits A and B attached hereto be, and are hereby, conditionally approved subject to the
3 respective utilities meeting the applicable conditions as set forth in Findings of Fact Nos. 153, 154,
4 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168, 169, and 171 and Conclusions
5 of Law Nos.4, 5 and 6 above.

6 IT IS FURTHER ORDERED that in the event Johnson Utilities, L.L.C. dba Johnson Utilities
7 Company, H₂O, Inc., Diversified Water Utilities, Inc. and Queen Creek Water Company do not
8 timely meet the requirements according to Staff's recommendations as set forth in Findings of Fact
9 Nos. 153, 154, 155, 156, 157, 158, 159, 160, 161, 162, 163, 164, 165, 166, 167, 168 169, and 171, or
10 fail to cure any major or minor violations cited by ADEQ within 90 days from the date of notice or
11 request an extension therefrom, then such conditional Certificate granted herein for the respective
12 parcel shall be rendered null and void without further order of the Commission.

13 IT IS FURTHER ORDERED that Johnson Utilities, L.L.C. dba Johnson Utilities Company,
14 H₂O, Inc., Diversified Water Utilities, Inc. and Queen Creek Water Company shall file, if not
15 previously filed, correct legal descriptions for the parcels and/or sections amending their Certificates
16 of Convenience and Necessity as described herein.

17 IT IS FURTHER ORDERED that Johnson Utilities, L.L.C. dba Johnson Utilities Company,
18 H₂O, Inc., Diversified Water Utilities, Inc. and Queen Creek Water Company shall charge those
19 customers in the areas more fully described in Exhibits A and B their existing rates and charges until
20 further Order of the Commission:

21 ...
22 ...
23 ...
24 ...
25 ...
26 ...
27 ...
28 ...

EXHIBIT H

DOCKET NO. W-02234A-00-0371 ET AL.

1 170. After reviewing the evidence in its entirety, we commend Staff at the end of this long
2 and complex proceeding and find the majority of their recommendations are reasonable in light of the
3 speculative nature of the purported development which is to take place in large undeveloped areas in
4 Pinal County, Arizona. Based on this speculation, we believe that Staff has made well-reasoned
5 unbiased recommendations with respect to recommending the issuance of conditional Certificates
6 which will be subject to further Commission review in the future.

7 171. For the present, we will adopt Staff's recommendations with the exception of Parcel 2
8 with respect to the approvals granted hereinafter for the respective parcels, except that we find Parcel
9 1 should be certificated to JUC, as are described in Exhibits A and B attached hereto. With respect to
10 Parcel 2, because of uncertainty with respect to the Skyline District and potential litigation in state
11 court, we shall deny all water applications for this parcel at this time, but shall approve JUC's
12 application to provide wastewater service. However, with respect to Staff's recommendation that an
13 affected utility (JUC, H₂O, Queen Creek, and Diversified) shall cure any minor or major violation of
14 a requirement of ADEQ within 30 days from the date of notice of violation, thus resulting in the
15 nullification of an extension of that utility's Certificate, we find Staff's recommendation to be too
16 extreme and will allow the violating utility a period of 90 days from the date of notice of the violation
17 to either cure the violation or to request an extension of time in which to resolve the problem with
18 ADEQ. We shall also require JUC, H₂O, Diversified and Queen Creek to file the correct legal
19 descriptions for the respective parcels within 30 days of the effective date of this Decision.

20 CONCLUSIONS OF LAW

- 21 1. Applicants, JUC, H₂O, Diversified and Queen Creek are public service corporations
22 within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-252, 40-281 and 40-
23 282.
- 24 2. The Commission has jurisdiction over JUC, H₂O, Diversified and Queen Creek and of
25 the subject matter of the applications as amended.
- 26 3. Notice of the applications as amended and described herein was given in the manner
27 prescribed by law.
- 28 4. The public convenience and necessity require the public would benefit by the

EXHIBIT I

2:17 PM
03/21/07
Accrual Basis

Diversified Water Utilities, Inc.
Profit & Loss
January through December 2006

	<u>Jan - Dec 06</u>
Income	
461.00 · Water Revenue	449,219.41
461.50 · Sales Tax	-25,032.93
474.00 · Other Revenue	16,355.21
419.00 · Interest Income	6,141.21
Total Income	<u>446,682.90</u>
Expense	
403.00 · Depreciation Expense	54,170.00
408.10 · Property Taxes	14,764.61
408.50 · Payroll Taxes	21,434.05
427.00 · Interest Expense	72.10
601.00 · Salaries & Wages	55,007.27
603.00 · Officer Salaries	59,328.00
615.00 · Purchased Power	27,619.23
618.00 · Chemicals	4,307.75
619.00 · Repairs & Maintenance	32,962.27
630.00 · Billing Fees	34,835.00
631.00 · Legal & Professional	63,003.76
635.00 · Testing	7,944.79
640.00 · Rents	23,259.57
650.00 · Transportation	17,072.52
655.00 · Insurance	10,803.80
659.00 · Insurance - Medical	28,475.95
675.05 · Bank Charges	1,305.58
675.10 · Miscellaneous	3,893.22
675.15 · Office Expense	2,757.48
675.20 · Telephone	5,533.88
675.25 · Licenses & Fees	865.26
675.35 · Publications	347.78
Total Expense	<u>469,763.87</u>
Net Income	<u><u>-23,080.97</u></u>

4:56 PM

03/22/07

Accrual Basis

Diversified Water Utilities, Inc.

Balance Sheet

As of December 31, 2006

	<u>Dec 31, 06</u>
Equity	
201.00 · Common Stock	2,000.00
211.00 · Additional Paid in Capital	198,260.79
215.00 · Retained Earnings	1,625.20
Net Income	-23,080.97
Total Equity	<u>178,805.02</u>
TOTAL LIABILITIES & EQUITY	<u><u>3,256,442.18</u></u>

4:56 PM

03/22/07

Accrual Basis

Diversified Water Utilities, Inc.

Balance Sheet

As of December 31, 2006

	Dec 31, 06
ASSETS	
Current Assets	
Checking/Savings	
131.10 · Cash - Checking	82,990.77
131.20 · Capital Improvement Account	266,969.45
Total Checking/Savings	349,960.22
Other Current Assets	
141.00 · Accounts Receivable	5,583.07
Total Other Current Assets	5,583.07
Total Current Assets	355,543.29
Fixed Assets	
Plant in Service	
303.00 · Land	6,444.24
304.00 · Structures & Improvements	47,954.95
307.00 · Wells & Springs	223,829.73
311.00 · Pumping Equipment	592,271.79
330.00 · Distribution Reservoirs	163,037.82
331.00 · T&D Mains	1,146,988.38
333.00 · Services	98,403.09
334.00 · Meters	159,627.14
340.00 · Office Furniture & Equipment	10,235.28
348.00 · Other Plant	48,178.33
Total Plant in Service	2,496,970.75
108.00 · Accumulated Depreciation	-315,575.39
Total Fixed Assets	2,181,395.36
Other Assets	
105 · Construction Work in Progress	719,503.53
Total Other Assets	719,503.53
TOTAL ASSETS	3,256,442.18
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Other Current Liabilities	
232.00 · Current Portion of L/T Debt	56,000.00
235.00 · Customer Deposits	26,109.93
236.20 · Sales Tax Payable	-3,263.00
236.30 · Property Tax Payable	6,379.64
Total Other Current Liabilities	85,226.57
Total Current Liabilities	85,226.57
Long Term Liabilities	
224.20 · Note Payable - WIFA	230,004.97
AIAC	
252.00 · Advances in aid of Constr.	1,038,876.10
252.10 · AIAC in Progress	74,745.42
252.50 · Refundable Meter Deposits	590,471.00
Total AIAC	1,704,092.52
CIAC	
271.00 · Contributions in aid of Constr	1,134,844.10
272.00 · Accum. Amort. - CIAC	-20,531.00
Total CIAC	1,114,313.10
290.00 · Less Current Portion L/T Debt	-56,000.00
Total Long Term Liabilities	2,992,410.59
Total Liabilities	3,077,637.16

EXHIBIT J

Clerk of Court Office
PO Box 827
Florence, Az
85232



OFFICIAL RECORDS OF
PINAL COUNTY RECORDER
LAURA DEAN-LYTLE

DATE/TIME: 04/03/06 1534
FEE: \$0.00
PAGES: 45
FEE NUMBER: 2006-047527

**Expansion and Amendment Of The Diversified
Water Utilities Water Franchise**

WHEREAS, Diversified Water Utilities, Inc., had received a water franchise from Pinal County to establish and maintain domestic water services on October 26, 1995, a copy of which is attached as Exhibit "A" (hereinafter "Original Franchise"); and

WHEREAS, Diversified Water Utilities, Inc., an Arizona corporation, is duly authorized to conduct business in the State of Arizona, has filed and presented to the Board of Supervisors of the County of Pinal, State of Arizona, its application for expansion of the Original Franchise for the purpose of constructing, operating and maintaining domestic water system lines and related appurtenances along, under and across the public streets, alleys and highways, except federal and state highways, within the unincorporated area of Pinal County, Arizona, as described in Exhibit "B" attached hereto (hereinafter "Expansion").

WHEREAS, upon filing of Diversified Water Utilities' application for the Expansion, the Board of Supervisors of Pinal County ordered a public notice of its intent to consider the granting of the Expansion to be published in a newspaper of general circulation, in Pinal County, Arizona, stating the time and place for consideration of the Expansion was set for 9:30 a.m. on March 29, 2006, at the Pinal County Board of Supervisors' Hearing Room, Administration Building A, Florence, Arizona.

WHEREAS, said application for the Expansion and Amendment having come on regularly for hearing at 9:30 a.m. on March 29, 2006; and it appearing from the affidavit of the publisher of the Florence Reminder & Blade-Tribune that due and regular notice of said time and place set for the consideration of such action has been published for at least once a week for three consecutive weeks prior to said hearing date, to-wit: in the issues of the Florence Reminder & Blade-Tribune published on March 9, 2006, March 16, 2006, and March 23, 2006, and the matter being called for hearing at 9:30 a.m. on March 29, 2006, an opportunity having been given to all interested parties to be heard.

WHEREAS, the Board of Supervisors of Pinal County has the power to amend an existing franchise under its general police powers in such matters.

NOW, THEREFORE,

First Amended
Diversified Water Utilities, Inc. Franchise 1

Section 1: DEFINITIONS

The following terms used in this expansion and amendment of the Original Franchise shall have the following meanings:

- A. County: Pinal County, Arizona
- B. Board: Board of Supervisors of Pinal County, Arizona.
- C. Grantor: Pinal County, by and through its Board of Supervisors
- D. Grantee: Diversified Water Utilities, Inc., an Arizona corporation, its successors and assigns
- E. Grantee's Facilities: domestic water lines and related appurtenances

Section 2: GRANT

A. Grantor, on March 29, 2006, hereby grants to Grantee, for a period of time not to exceed the Original Franchise, this expanded and amended franchise (hereinafter "First Amended Franchise") for the purpose of constructing, operating and maintaining domestic water system lines and related appurtenances along, under and across public streets, alleys and highways, except federal and state highways, under the terms and conditions set forth herein within the unincorporated area of Pinal County, Arizona, as described in the Expansion and the Original Franchise (hereinafter "Franchise Area").

B. Nonexclusive Franchise.

(1) The First Amended Franchise granted hereby shall not be exclusive and shall not restrict in any manner the right of County in the exercise of any regulatory power which it now has or which may hereafter be authorized or permitted by the laws of the State of Arizona. Nothing herein shall be construed to prevent County from granting other like or similar franchises to any other person, firm or corporation. County retains and shall ever be considered as having and retaining the right and power to allow and to grant to any other person, firm, corporation or other companies, franchise rights and privileges to be exercised in and upon its public streets, alleys, highways and public places, and such of the same and parts thereof as County may deem best or choose to allow, permit, give or grant.

(2) Nothing herein shall be construed to prevent County and its proper authorities from constructing and installing sewers, gutters, or improvements to its public highways,

First Amended
Diversified Water Utilities, Inc. Franchise2

streets and alleys, and for that purpose, to require the Grantee at Grantee's own expense to remove Grantee's facilities to conform thereto and facilitate the same.

C. Reservation of Rights.

(1) County reserves the right to alter and amend the First Amended Franchise at any time and in any manner necessary for the safety or welfare of the public or to protect the public interests, and County reserves the right to impose at any time restrictions and limitations upon the use of the public streets, alleys and highways as County deems best for the public safety or welfare.

(2) County expressly reserves the right, after due notice to grantee, to modify, amend, alter, change or eliminate any of the provisions of the First Amended Franchise which may become obsolete or impractical; and to impose such additional conditions upon the grantee as may be just and reasonable, such conditions to be those deemed necessary for the purpose of insuring adequate service to the public; provided however, County shall not modify, amend, alter, change or eliminate any of said provisions until after a public hearing, if such is legally required or requested by grantee.

Section 3: RENEWAL/SUBSEQUENT APPLICATION/REMOVAL OF SYSTEM

A. The First Amended Franchise herein granted shall expire on the date provided for in the Original Franchise, or upon any prior forfeiture; and upon its termination, Grantee shall cease to exercise under the terms of the First Amended Franchise the privileges herein granted. In the event Grantee desires a renewal of the First Amended Franchise herein granted, or a new franchise for a subsequent period, Grantee shall apply to and open negotiations with County for that purpose at least six (6) months before the expiration of the First Amended Franchise herein granted; but nothing herein shall be construed to bind County to grant such renewal or subsequent franchise.

B. Upon termination of the First Amended Franchise, or any renewal thereof, the grantee shall remove its facilities from the streets, alleys, ways, highways and bridges within the Franchise Area and shall restore the areas to their original condition. If such removal is not completed within six months of such termination, County may deem any property not removed as having been abandoned.

Section 4: REGULATION

Grantee, its successors and assigns shall be subject to reasonable regulations for the maintenance by grantee, its successors and assigns, of such portion of the public streets, alleys and highways used for the purpose of the First Amended Franchise now in force or that may hereafter be enacted and inconsistent herewith.

Section 5: CONSTRUCTION, INSTALLATION AND REPAIRS

A. Prior to the beginning of any construction for installation of water lines and related appurtenances, the Grantee, its successors and assigns will submit a plan of proposed construction to the Pinal County Engineer and will not commence any construction until the plan of construction is approved by the County Engineer or his designate.

B. All work performed by Grantee under the First Amended Franchise shall be done in the manner prescribed by County and subject to the supervision of County, and in strict compliance with all laws, ordinances, rules and regulations of federal, state and local governments.

C. No construction, reconstruction, repair, or relocation under the First Amended Franchise shall be commenced until written permits have been obtained from the proper county officials. In any permit so issued, such officials may impose such conditions and regulations as a condition of the granting of the same as are necessary for the purpose of protecting any structures in the highways or streets and for the proper restoration of such highways, streets and structures, and for the protection of the public and the continuity of pedestrian and vehicular traffic.

D. No construction under the First Amended Franchise by grantee shall impose upon County the duty to maintain any public street, alley or highway unless County accepts said public street, alley or highway into the county maintenance system as provided by law.

Section 6: INSPECTION

County shall, if it deems it necessary, have the right to inspect the construction, operation and maintenance of Grantee's facilities to insure the proper performance of the terms of the First Amended Franchise granted herein.

Section 7: SUFFICIENCY, LOCATION AND MAINTENANCE

All of Grantee's Facilities shall be in all respects adequate, efficient, substantial and permanent in design and workmanship, and shall be so located, erected and maintained so as not to interfere with the use and enjoyment of the public streets, alleys and highways. All of Grantee's Facilities erected by Grantee shall be maintained in a safe, suitable, substantial condition and in good order and repair.

Section 8: EXPANSION

Grantee will, from time to time, during the term of the First Amended Franchise make such enlargements and extensions of its water system as are necessary to adequately provide for the requirements of County and the inhabitants of the Franchise Area; provided that nothing herein shall compel Grantee to expand or enlarge its system beyond the economic and operating limits thereof. Such enlargements and extensions shall be made in accordance with company rules and regulations.

Section 9: RELOCATION

A. During the term of the First Amended Franchise whenever County or any qualified authority having jurisdiction in the Franchise Area alters, repairs, improves, or changes the grade of, any public streets, alleys and highways in the Franchise Area during the term of the First Amended Franchise, then and in such event, Grantee, its successors or assigns, at its own expense, shall promptly, upon reasonable notice, make such changes in the location, structure or alignment of its water lines and related appurtenances as the public officials in charge of such work may deem necessary.

B. After thirty (30) days notice to Grantee, of needed changes or corrections and upon the failure of Grantee, to make such changes set forth in Section 9(A) above or to correct any damage to the right-of-way of any public street, alley or highway within the Franchise Area caused directly or indirectly by Grantee, its agents, successors or assigns, County or its successors shall have the right to make such changes or corrections at the expense of said Grantee, its successors or assigns, and such expenses shall be due and payable upon written demand by County or its successors to Grantee, its successors or assigns.

Section 10: LIABILITY

A. If any streets, highways, alleys, ways, bridges, sidewalks, public place, or other public facility should be disturbed, altered, damaged or destroyed by Grantee, its employees, contractors, subcontractors or agents in the construction, installation, operation and maintenance of Grantee's Facilities under the First Amended Franchise, the same shall be promptly repaired, reconstructed, replaced or restored by Grantee, without cost to County, as soon as practicable and in as good condition as before Grantee's entry and to the satisfaction of County. If Grantee fails to make such restoration and repairs within a reasonable time as determined by County, then County may fix a reasonable time for such restoration and repairs and shall notify Grantee in writing of the restoration and repairs required and the time fixed for the performance thereof. Upon failure of Grantee to comply within the time specified, County may cause proper restoration and repairs to be made, and the expense of such work shall be paid by Grantee upon demand by County.

B. Grantee shall be responsible to every owner of property which shall be injured by the work of construction, installation, operation or maintenance of Grantee's Facilities under the First Amended Franchise, all physical damage which shall be done to such injured property through any act or omission of Grantee, its employees, contractors, subcontractors or agents arising out of said construction, installation, operation or maintenance.

C. It is a condition of the First Amended Franchise that County shall not and does not by reason of the First Amended Franchise assume any liability of the Grantee whatsoever for injury to persons or damage to property.

Section 11: INDEMNIFICATION

Grantee by its acceptance of the First Amended Franchise agrees for itself, its successors and assigns that throughout the entire term of this franchise, Grantee, its successors and assigns, at its sole cost and expense, shall indemnify, defend, save and hold harmless Pinal County, its elected officers, employees and agents from any and all lawsuits, judgments and claims for injury, death and damage to persons and property, both real and personal, caused by the construction, design, installation, operation or maintenance of any structure, equipment, water lines or related appurtenances by Grantee within the Franchise Area. Indemnified expenses shall include, but not be limited to, litigation and arbitration expenses, and attorneys' fees.

Section 12: ACCEPTANCE BY GRANTEE / EFFECTIVE DATE FRANCHISE

The First Amended Franchise shall be accepted by Grantee by written instrument in the form attached hereto as Exhibit "C" (hereinafter "Acceptance"), executed and acknowledged by it as a deed is required to be, and filed with the Clerk of the Pinal County Board of Supervisors within thirty days after the date this First Amended Franchise is accepted by County. This First Amended Franchise shall be effective upon delivery of the Acceptance to the Clerk of the Pinal County Board of Supervisors in the form required and within the time specified above.

Section 13: LIMITS ON GRANTEE'S RECOURSE

A. Grantee by its acceptance of the First Amended Franchise acknowledges such acceptance relies upon grantee's own investigation and understanding of the power and authority of the County to grant said franchise. Grantee by its acceptance of the First Amended Franchise accepts the validity of the terms and conditions of the First Amended Franchise in their entirety and agrees it will not, at any time, proceed against County in any claim or proceeding challenging any term or provision of the First Amended Franchise as unreasonable, arbitrary or void, or that County did not have the authority to impose such term or condition.

B. Grantee by accepting the First Amended Franchise acknowledges that it has not been induced to accept the same by any promise, verbal or written, by or on behalf of County or by any third person regarding any term or condition of the First Amended Franchise not expressed therein. Grantee by its acceptance of the First Amended Franchise further pledges that no promise or inducement, oral or written, has been made to any employee or official of County regarding receipt of the First Amended Franchise.

C. Grantee by its acceptance of the First Amended Franchise further acknowledges that it has carefully read the terms and conditions of the First Amended Franchise and accepts without reservation the obligations imposed by the terms and conditions herein.

D. In case of conflict or ambiguity between the First Amended Franchise and the Original Franchise, the provision which provides the greatest benefit to County, as determined solely by County, shall prevail.

E. The Board's decision concerning its selection and awarding of the First Amended Franchise shall be final.

Section 14: FAILURE TO ENFORCE FRANCHISE

Grantee shall not be excused from complying with any of the terms and conditions of the First Amended Franchise by any failure of County, upon any one or more occasions, to insist upon the Grantee's performance or to seek Grantee's compliance with any one or more of such terms or conditions.

Section 15: COMPLIANCE WITH THE LAW

Grantee shall at all times, conduct its business under the First Amended Franchise in accordance with all federal, state and local laws, rules and regulations, as amended, including any future amendments thereto as may, from time to time, be adopted.

Section 16: INTERPRETATION/GOVERNING LAW

The interpretation and performance of the First Amended Franchise and of the general terms and conditions shall be in accordance with and governed by the laws of the State of Arizona.

Section 17: VENUE

Exclusive venue for any legal action to enforce the provisions, terms and conditions of the First Amended Franchise shall be the Superior Court of the State of Arizona in and for the County of Pinal, Florence, Arizona.

Section 18: SEVERABILITY

If any section, provision, term or covenant or any portion of any section, provision, term or covenant of the First Amended Franchise is determined to be illegal, invalid or unconstitutional, by any court of competent jurisdiction or by any state or federal regulatory agency having jurisdiction thereof, such determination shall have no effect on any remaining portion of such section, provision, term or covenant or the remaining sections, provisions, terms or covenants of the First Amended Franchise, all of which will remain in full force and effect for the term of the First Amended Franchise or any renewal or renewals thereof.

Section 19: FORFEITURE

A. If Grantee fails to comply with any of the provisions of this agreement or defaults in any of its obligations hereunder, except for causes beyond the reasonable control of Grantee; and shall fail within thirty (30) days after written notice from County to commence, and within a reasonable time, complete the correction of such default or noncompliance, County shall have the right to revoke this agreement and all rights of Grantee hereunder. In the event Grantee makes a general assignment or general arrangement for the benefit of creditors; or a trustee or receiver is appointed to take possession of substantially all of Grantee's Facilities within the Franchise Area or of Grantee's interest in this First Amended Franchise, where possession is not restored to Grantee within thirty (30) days; or Grantee's Facilities within the Franchise Area are subject to an attachment, execution or other seizure of substantially all of the Grantee's Facilities within the Franchise Area or this First Amended Franchise, where such seizure is not discharged within thirty (30) days, County may declare the First Amended Franchise, along with the Original Franchise, forfeited and terminated.

B. Nothing herein contained shall limit or restrict any other legal rights that County may possess arising from such violations.

Section 20: REVOCATION OF FRANCHISE

The First Amended Franchise, along with the Original Franchise, may, after due notice and hearing, be revoked by County for any of the following reasons:

- A. For material false or misleading statements in, or material omissions from the application for and the hearing for the granting of the First Amended Franchise.
- B. For any transfer or assignment of the First Amended Franchise or control thereof without County's written consent.
- C. For failure to comply with any of the terms and conditions of the First Amended Franchise, except as provided in Section 19 above, and after written notice to

Grantee from County of the default and Grantee's fails to correct such default within the time period and procedures as set forth in Section 19 above.

Section 21: ASSIGNMENT/TRANSFER

Grantee shall not assign or transfer any interest in the First Amended Franchise without the prior written consent of County. Said Board shall not unreasonably withhold its consent to a proposed transfer.

Section 22: NOTICE

Notices required under the First Amended Franchise shall be delivered or sent by certified mail, postage prepaid to:

Grantor:

Clerk of the Pinal County Board of Supervisors
P.O. Box 827
31 N. Pinal Street
Florence, Arizona 85232

Grantee:

Diversified Water Utilities, Inc.
2850 E. Camelback Rd., Suite 200
Phoenix, Arizona 85016-4316

The delivery or mailing of such notice shall be equivalent to direct personal notice and shall be deemed to have been given at the time of delivery. Either party may change its address under this section by written notice to the other party.

Section 23: REMEDIES

Rights and remedies reserved to the parties by the First Amended Franchise are cumulative and shall be in addition to and not in derogation of any other rights or remedies which the parties may have with respect to the subject matter of the First Amended Franchise and a waiver thereof at any time shall not affect any other time.

Section 24: RIGHT OF INTERVENTION

County hereby reserves to itself, and Grantee hereby grants to County, the right to intervene in any suit, action or proceeding involving any provision in the First Amended Franchise.

First Amended
Diversified Water Utilities, Inc. Franchise9

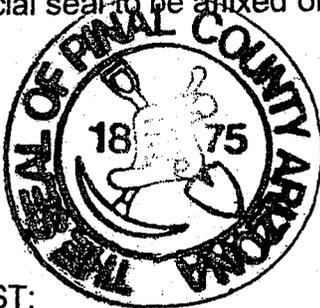
Section 25: BOOKS AND RECORDS

Grantee shall maintain books and records that identify all of Grantee's underground facilities by type and location within the Franchise Area. Grantee will make such books and records available to County upon County's request and without cost to County.

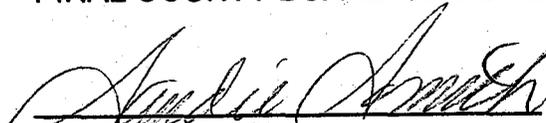
Section 26: AD VALOREM TAXES

Grantee shall pay its ad valorem taxes before they become delinquent.

IN WITNESS WHEREOF, the Board of Supervisors of Pinal County, Arizona, by its Chairman and its Clerk, thereunto duly authorized, has hereunto set its hand and cause its official seal to be affixed on this 29th day of March, 2006.



PINAL COUNTY BOARD OF SUPERVISORS


Sandie Smith, Chairman

ATTEST:


Sheri Cluff, Deputy Clerk of the Board

APPROVED AS TO FORM:

ROBERT CARTER OLSON
PINAL COUNTY ATTORNEY

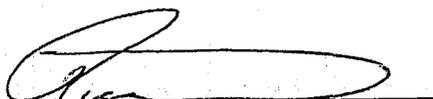

Rick V. Husk
Deputy County Attorney

Exhibit A

Transfer Of The Quail Hollow Water Distribution System Franchise

WHEREAS, Quail Hollow Water Company had received a water distribution system franchise from Pinal County to establish and maintain water distribution system services on February 23, 1987, a copy of which is attached as Exhibit "A" (hereinafter "Franchise").

WHEREAS, Quail Hollow Water Company, an Arizona corporation, duly authorized to conduct business in the State of Arizona, has duly filed and presented to the Board of Supervisors of the County of Pinal, State of Arizona, its application for transfer of the Franchise to Diversified Water Utilities, Inc., f.k.a. Quail Hollow Water Company, Inc., pursuant to a(n) Bill of Sale and Deed attached hereto as Exhibit B.

WHEREAS, Quail Hollow Water Company, Inc. merged with Diversified Water Utilities, Inc., an Arizona corporation, on August 28, 1995 with Quail Hollow Water Company, Inc. being the surviving corporation.

WHEREAS, Quail Hollow Water Company, Inc. changed its corporate name to Diversified Water Utilities, Inc. as a part of the merger.

WHEREAS, upon filing of Quail Hollow Water Company's application for the transfer of the Franchise, the Board of Supervisors of Pinal County ordered a public notice of its intent to consider the granting of the Transfer to be published in a newspaper of general circulation, in Pinal County, Arizona, stating the time and place for consideration of the transfer was set for 10:00 a.m. on October 26, 1995, at the Pinal County Board of Supervisors' Hearing Room, Administration Building No. 1, Florence, Arizona.

WHEREAS, said application for the transfer of the Franchise having come on regularly for hearing at 10:00 a.m. on October 26, 1995; and it appearing from the affidavit of the publisher of the Independent Newspapers, Inc. that due and regular notice of said time and place set for the consideration of such action has been published for at least once a week for three consecutive weeks prior to said hearing date, to-wit: in the issues of the Apache Junction Independent published on October 4, 1995, October 11, 1995, and October 18, 1995; and the matter being called for hearing at 10:00 a.m., and an opportunity having been given to all interested parties to be heard.

WHEREAS, the Board of Supervisors of Pinal County has the power to transfer an existing franchise under its general police powers in such matters.

Quail Hollow Water Company to Diversified Water Utilities, Inc. Transfer
Quail Hollow Water Distribution System Franchise

NOW, THEREFORE,

Section 1: DEFINITIONS

The following terms used in this transfer of the Franchise shall have the following meanings:

- A. County: Pinal County, Arizona
- B. Board: Board of Supervisors of Pinal County, Arizona.
- C. Grantor: Pinal County, by and through its Board of Supervisors
- D. Grantee: Diversified Water Utilities, Inc., f.k.a. Quail Hollow Water Company, Inc., its successors and assigns
- E. Grantee's Facilities: Water distribution system lines and related appurtenances

Section 2: GRANT

A. Grantor, on October 26, 1995, hereby grants to Grantee, for a period of time not to exceed the Franchise, this transferred franchise (hereinafter "Transferred Franchise") for the purpose of constructing, operating and maintaining water distribution system lines and related appurtenances along, under and across public streets, alleys and highways, except federal and state highways, under the terms and conditions set forth herein within the unincorporated area of Pinal County, Arizona, as described in the Franchise (hereinafter "Franchise Area").

B. Nonexclusive Franchise.

(1) The Transferred Franchise granted hereby shall not be exclusive and shall not restrict in any manner the right of County in the exercise of any regulatory power which it now has or which may hereafter be authorized or permitted by the laws of the State of Arizona. Nothing herein shall be construed to prevent County from granting other like or similar franchises to any other person, firm or corporation. County retains and shall ever be considered as having and retaining the right and power to allow and to grant to any other person, firm, corporation or other companies, franchise rights and privileges to be exercised in and upon its public streets, alleys, highways and public places, and such of the same and parts thereof as County may deem best or choose to allow, permit, give or grant.

(2) Nothing herein shall be construed to prevent County and its proper authorities from constructing and installing water distribution system lines, gutters, or improvements to its public highways, streets and alleys, and for that purpose, to require the Grantee at Grantee's own expense to remove Grantee's facilities to conform thereto and facilitate the same.

Quail Hollow Water Company to Diversified Water Utilities, Inc. Transfer
Quail Hollow Water Distribution System Franchise

C. Reservation of Rights. County reserves the right to impose at any time restrictions and limitations upon the use of the public streets, alleys and highways as County deems best for the public safety or welfare and does not conflict with regulations of the Arizona Corporation Commission.

Section 3: RENEWAL/SUBSEQUENT APPLICATION/REMOVAL OF SYSTEM

A. The Transferred Franchise herein granted shall expire on the date provided for in the Franchise, or upon any prior forfeiture; and upon its termination, Grantee shall cease to exercise under the terms of the Transferred Franchise the privileges herein granted. In the event Grantee desires a renewal of the Transferred Franchise herein granted, or a new franchise for a subsequent period, Grantee shall apply to and open negotiations with County for that purpose at least six (6) months before the expiration of the Transferred Franchise herein granted; but nothing herein shall be construed to bind County to grant such renewal or subsequent franchise.

B. Upon termination of the Transferred Franchise, or any renewal thereof, the grantee shall remove its facilities from the streets, alleys, ways, highways and bridges within the Franchise Area and shall restore the areas to their original condition. If such removal is not completed within six months of such termination, County may deem any property not removed as having been abandoned.

Section 4: REGULATION

Grantee, its successors and assigns shall be subject to reasonable regulations for the maintenance by grantee, its successors and assigns, of such portion of the public streets, alleys and highways used for the purpose of the Transferred Franchise now in force or that may hereafter be enacted and inconsistent herewith.

Section 5: CONSTRUCTION, INSTALLATION AND REPAIRS

A. Prior to the beginning of any construction for installation of water distribution system lines and related appurtenances, the Grantee, its successors and assigns will submit a plan of proposed construction to the Pinal County Engineer and will not commence any construction until the plan of construction is approved by the County Engineer or his designate.

B. All work performed by Grantee under the Transferred Franchise shall be done in strict compliance with all laws, ordinances, rules and regulations of federal, state and local governments.

C. No construction, reconstruction, repair, or relocation under the Transferred Franchise shall be commenced until written permits have been obtained from the proper county officials. In any permit so issued, such officials may impose such conditions and regulations as a condition of the granting of the same as are necessary for the purpose of protecting any structures in the highways or streets and for the proper restoration of such highways, streets

and structures, and for the protection of the public and the continuity of pedestrian and vehicular traffic.

D. No construction under the Transferred Franchise by grantee shall impose upon County the duty to maintain any public street, alley or highway unless County accepts said public street, alley or highway into the county maintenance system as provided by law.

Section 6: INSPECTION

County shall, if it deems it necessary, have the right to inspect the construction, operation and maintenance of Grantee's facilities to insure the proper performance of the terms of the Transferred Franchise granted herein.

Section 7: SUFFICIENCY, LOCATION AND MAINTENANCE

All of Grantee's Facilities shall be in all respects adequate, efficient and substantial and shall be so located, erected and maintained so as not to interfere with the use and enjoyment of the public streets, alleys and highways. All of Grantee's Facilities erected by Grantee shall be maintained in a safe, suitable, substantial condition and in good order and repair.

Section 8: EXPANSION

Grantee will, from time to time, during the term of the Transferred Franchise make such enlargements and extensions of its water distribution system as are necessary to adequately provide for the requirements of County and the inhabitants of the Franchise Area; provided that nothing herein shall compel Grantee to expand or enlarge its system beyond the economic and operating limits thereof. Such enlargements and extensions shall be made in accordance with company rules and regulations.

Section 9: RELOCATION

A. During the term of the Transferred Franchise whenever County or any qualified authority having jurisdiction in the Franchise Area alters, repairs, improves, or changes the grade of, any public streets, alleys and highways in the Franchise Area during the term of the Transferred Franchise, then and in such event, Grantee, its successors or assigns, at its own expense, shall promptly, upon reasonable notice, make such changes in the location, structure or alignment of its water distribution system lines and related appurtenances as the public officials in charge of such work may deem necessary.

B. After thirty (30) days notice to Grantee, of needed changes or corrections and upon the failure of Grantee, to make such changes set forth in Section 9(A) above or to correct any damage to the right-of-way of any public street, alley or highway within the Franchise Area caused directly or indirectly by Grantee, its agents, successors or assigns, County or its successors shall have the right to make such changes or corrections at the expense of said Grantee, its successors or assigns, and such expenses shall be due and payable upon written demand by County or its successors to Grantee, its successors or assigns.

Section 10: LIABILITY

A. If any streets, highways, alleys, ways, bridges, sidewalks, public place, or other public facility should be disturbed, altered, damaged or destroyed by Grantee, its employees, contractors, subcontractors or agents in the construction, installation, operation and maintenance of Grantee's Facilities under the Transferred Franchise, the same shall be promptly repaired, reconstructed, replaced or restored by Grantee, without cost to County, as soon as practicable and in as good condition as before Grantee's entry and to the satisfaction of County. If Grantee fails to make such restoration and repairs within a reasonable time as determined by County, then County may fix a reasonable time for such restoration and repairs and shall notify Grantee in writing of the restoration and repairs required and the time fixed for the performance thereof. Upon failure of Grantee to comply within the time specified, County may cause proper restoration and repairs to be made, and the expense of such work shall be paid by Grantee upon demand by County.

B. Grantee shall be responsible to every owner of property which shall be injured by the work of construction, installation, operation or maintenance of Grantee's Facilities under the Transferred Franchise, all physical damage which shall be done to such injured property through any act or omission of Grantee, its employees, contractors, subcontractors or agents arising out of said construction, installation, operation or maintenance.

C. It is a condition of the Transferred Franchise that County shall not and does not by reason of the Transferred Franchise assume any liability of the Grantee whatsoever for injury to persons or damage to property.

Section 11: INDEMNIFICATION

Grantee by its acceptance of the Transferred Franchise agrees for itself, its successors and assigns that throughout the entire term of this franchise, Grantee, its successors and assigns, at its sole cost and expense, shall indemnify, defend, save and hold harmless Pinal County, its elected officers, employees and agents from any and all lawsuits, judgments and claims for injury, death and damage to persons and property, both real and personal, caused by the construction, design, installation, operation or maintenance of any structure, equipment, water distribution system lines or related appurtenances by Grantee within the Franchise Area. Indemnified expenses shall include, but not be limited to, litigation and arbitration expenses, and attorneys' fees.

Section 12: ACCEPTANCE BY GRANTEE / EFFECTIVE DATE FRANCHISE

The Transferred Franchise shall be accepted by Grantee by written instrument in the form attached hereto as Exhibit "C" (hereinafter "Acceptance"), executed and acknowledged by it as a deed is required to be, and filed with the Clerk of the Pinal County Board of Supervisors within thirty days after the date this Transferred Franchise is accepted by County. This Transferred Franchise shall be effective upon delivery of the Acceptance to the Clerk of the Pinal County Board of Supervisors in the form required and within the time specified above.

Section 13: LIMITS ON GRANTEE'S RECOURSE

A. Grantee by its acceptance of the Transferred Franchise acknowledges such acceptance relies upon grantee's own investigation and understanding of the power and authority of the County to grant said franchise. Grantee by its acceptance of the Transferred Franchise accepts the validity of the terms and conditions of the Transferred Franchise in their entirety and agrees it will not, at any time, proceed against County in any claim or proceeding challenging any term or provision of the Transferred Franchise as unreasonable, arbitrary or void, or that County did not have the authority to impose such term or condition.

B. Grantee by accepting the Transferred Franchise acknowledges that it has not been induced to accept the same by any promise, verbal or written, by or on behalf of County or by any third person regarding any term or condition of the Transferred Franchise not expressed therein. Grantee by its acceptance of the Transferred Franchise further pledges that no promise or inducement, oral or written, has been made to any employee or official of County regarding receipt of the Transferred Franchise.

C. Grantee by its acceptance of the Transferred Franchise further acknowledges that it has carefully read the terms and conditions of the Transferred Franchise and accepts without reservation the obligations imposed by the terms and conditions herein.

D. In case of conflict or ambiguity between the Transferred Franchise and the Franchise, the provision which provides the greatest benefit to County, as determined solely by County, shall prevail.

E. The Board's decision concerning its selection and awarding of the Transferred Franchise shall be final.

Section 14: FAILURE TO ENFORCE FRANCHISE

Grantee shall not be excused from complying with any of the terms and conditions of the Transferred Franchise by any failure of County, upon any one or more occasions, to insist upon the Grantee's performance or to seek Grantee's compliance with any one or more of such terms or conditions.

Section 15: COMPLIANCE WITH THE LAW

Grantee shall at all times, conduct its business under the Transferred Franchise in accordance with all federal, state and local laws, rules and regulations, as amended, including any future amendments thereto as may, from time to time, be adopted.

Section 16: INTERPRETATION/GOVERNING LAW

The interpretation and performance of the Transferred Franchise and of the general terms and conditions shall be in accordance with and governed by the laws of the State of Arizona.

Section 17: VENUE

Exclusive venue for any legal action to enforce the provisions, terms and conditions of the Transferred Franchise shall be the Superior Court of the State of Arizona in and for the County of Pinal, Florence, Arizona..

Section 18: SEVERABILITY

If any section, provision, term or covenant or any portion of any section, provision, term or covenant of the Transferred Franchise is determined to be illegal, invalid or unconstitutional, by any court of competent jurisdiction or by any state or federal regulatory agency having jurisdiction thereof, such determination shall have no effect on any remaining portion of such section, provision, term or covenant or the remaining sections, provisions, terms or covenants of the Transferred Franchise, all of which will remain in full force and effect for the term of the Transferred Franchise or any renewal or renewals thereof.

Section 19: FORFEITURE

A. If Grantee fails to comply with any of the provisions of this agreement or defaults in any of its obligations hereunder, except for causes beyond the reasonable control of Grantee; and shall fail within thirty (30) days after written notice from County to commence, and within a reasonable time, complete the correction of such default or noncompliance, County shall have the right to revoke this agreement and all rights of Grantee hereunder. In the event Grantee makes a general assignment or general arrangement for the benefit of creditors; or a trustee or receiver is appointed to take possession of substantially all of Grantee's Facilities within the Franchise Area or of Grantee's interest in this Transferred Franchise, where possession is not restored to Grantee within thirty (30) days; or Grantee's Facilities within the Franchise Area are subject to an attachment, execution or other seizure of substantially all of the Grantee's Facilities within the Franchise Area or this Transferred Franchise, where such seizure is not discharged within thirty (30) days, County may declare the Transferred Franchise, along with the Franchise, forfeited and terminated.

B. Nothing herein contained shall limit or restrict any other legal rights that County may possess arising from such violations.

Section 20: REVOCATION OF FRANCHISE

A. The Transferred Franchise, along with the Franchise, may after due written notice specifying any deficiencies and hearing, be revoked by County for any of the following reasons:

1. For material detrimental false or misleading statements in, or material adverse omissions from the application for the Transferred Franchise which are not cured within thirty (30) days of any finding of such hearing.

2. For failure to comply with any of the material terms and conditions of the Transferred Franchise which result in material and adverse consequence to the County that are not cured within thirty (30) days of any finding of such hearing.

B. Nothing herein contained shall limit or restrict any other legal rights that County may possess arising from such violations.

Section 21: ASSIGNMENT/TRANSFER/MERGER

A. Transferred Franchise may be assigned or transferred in whole, but not partially, subject to the approval of the County.

B. Grantee shall notify County of any intent to assign or transfer this Transferred Franchise prior to any hearings before the Arizona Corporation Commission.

C. Assignee or transferee is required to file with the Clerk of the Pinal County Board of Supervisors a writing acknowledging their unconditionally acceptance of the Transferred Franchise and any other expansion or amendments, and a covenant to faithfully comply with and perform all the provisions, terms and conditions of said franchise.

D. County shall be notified of any merger by Grantee to enable County to update its records.

Section 22: NOTICE

Notices required under the Transferred Franchise shall be delivered or sent by certified mail, postage prepaid to:

Grantor:

Clerk of the Pinal County Board of Supervisors
P.O. Box 827
31 N. Pinal
Florence, Arizona 85232

Grantee:

Diversified Water Utilities, Inc.
P.O. Box 17357
Phoenix, AZ 85011

The delivery or mailing of such notice shall be equivalent to direct personal notice and shall be deemed to have been given at the time of delivery. Either party may change its address under this section by written notice to the other party.

Quail Hollow Water Company to Diversified Water Utilities, Inc. Transfer
Quail Hollow Water Distribution System Franchise

Section 23: REMEDIES

Rights and remedies reserved to the parties by the Transferred Franchise are cumulative and shall be in addition to and not in derogation of any other rights or remedies which the parties may have with respect to the subject matter of the Transferred Franchise and a waiver thereof at any time shall not affect any other time.

Section 24: RIGHT OF INTERVENTION

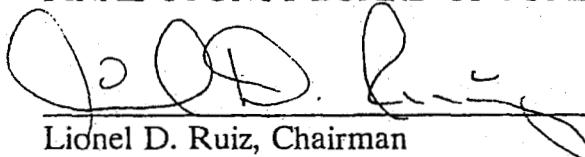
County hereby reserves to itself, and Grantee hereby grants to County, the right to intervene in any suit, action or proceeding involving any provision in the Transferred Franchise.

Section 25: BOOKS AND RECORDS

Grantee shall maintain books and records that identify all of Grantee's underground facilities by type and location within the Franchise Area. Grantee will make such books and records available to County upon County's request and without cost to County.

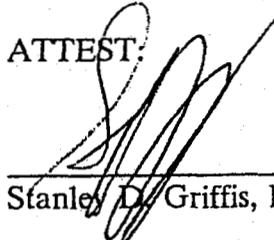
IN WITNESS WHEREOF, the Board of Supervisors of Pinal County, Arizona, by its Chairman and its Clerk, thereunto duly authorized, has hereunto set its hand and cause its official seal to be affixed on October 26, 1995.

PINAL COUNTY BOARD OF SUPERVISORS



Lionel D. Ruiz, Chairman

ATTEST:



Stanley D. Griffis, Ph.D., Clerk of the Board

APPROVED AS TO FORM:

GILBERTO V. FIGUEROA
PINAL COUNTY ATTORNEY



Eric L. Walberg, Deputy County Attorney

Exhibit A

LAW OFFICES
MARTINEZ & CURTIS, P. C.
2712 NORTH 7TH STREET
PHOENIX, ARIZONA 85006-1003
TELEPHONE (602) 248-0372 ✓

Attorneys for Applicant

COPY

COPY

BEFORE THE BOARD OF SUPERVISORS
OF PINAL COUNTY, STATE OF ARIZONA

In the Matter of the Application) FRANCHISE
of Quail Hollow Water Company,) Resolution 22387-QHW
an Arizona corporation, for)
a Franchise.)

BE IT RESOLVED BY THE BOARD OF SUPERVISORS OF PINAL
COUNTY, STATE OF ARIZONA, THAT:

WHEREAS, QUAIL HOLLOW WATER COMPANY, hereinafter
designed as the Grantee, doing business in Pinal County, Arizona,
has filed an Application with the Board of Supervisors of Pinal
County, Arizona, bearing date of December 19, 1986, praying
for the right, privilege, license and franchise to construct,
maintain and operate a domestic water distribution system for a
period of twenty-five (25) years for the transmission and delivery
of water for domestic use along, upon, under and across public
highways, roads, alleys and thoroughfares (excepting State

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1 Highways), within that portion of Pinal County, Arizona, known and
2 described as follows, to-wit:

3 Sections 27, 34, and 35 in Township 2 South, Range
4 8 East, and Sections 2, 3, 4, 9, 10, 11, and 12 in
5 Township 3 South, Range 8 East, Gila and Salt River
6 Base and Meridian, Pinal County, Arizona, except
7 for that land known as Sun Valley Farms Unit 6,
8 consisting generally of the South half of Section
9 34, Township 2 South, Range 8 East, and the North
10 half of Section 3, Township 3 South, Range 8 East,
11 Gila and Salt River Base and Meridian, Pinal
12 County, Arizona; Section 13; Section 14; Section
13 15; the South half of Section 17; Section 18,
14 except the North half of the North half thereof;
15 the East half and the NE quarter of the NW quarter
16 of Section 19; Section 20; Section 21 except for
17 the railroad right-of-way of approximately 1.84
18 acres crossing the NE corner thereof; Section 22
19 except for the railroad right-of-way crossing the
20 Western and Southern halves thereof; Section 23;
21 Section 27, except: (a) the railroad right-of-way
22 crossing the NE quarter thereof consisting of
23 approximately 11.95 acres; (b) tract A consisting
24 of 69.28 acres; and (c) tract B consisting of 9.72
25 acres; Section 28; Section 29; the East half of
26 Section 30; East half of the NE quarter of the NW
quarter and the NE quarter of the NE quarter of
Section 32; and a 5.28 acre parcel located in the
West half of the West half of the SW quarter of the
SW quarter of Section 33. All parcels included
herein are located in Township 3 South, Range 8
East of the Gila and Salt River Base and Meridian
situated in Pinal County, Arizona.

19 and not within the confines of any incorporated city or town, and
20 under such restriction and limitations and upon such terms as the
21 Board of Supervisors may provide, not inconsistent with the laws
22 of the State of Arizona, or the orders and rules of the
23 Corporation Commission of the State of Arizona, and that the Board
24 take such proceedings herein as is provided by laws of the State
25 of Arizona; and
26

1 WHEREAS, upon filing said Application, the Board of
2 Supervisors on the 7th day of January, 1987, ordered that
3 public notice of the intention of said Board to make such grants
4 be given by publishing a Notice in the Florence Roundup & Black & White,
5 a newspaper of general circulation, published in the County of
6 Pinal, State of Arizona, and that 11:00 A.m. on the 23rd day
7 of February, 1987, at the meeting room of said Board of
8 Supervisors located in the City of Florence, Arizona, be set as
9 the time and place of hearing the said Application; and

10 WHEREAS, the said Application coming on regularly for
11 hearing on said day, and it appearing by the Affidavit of the duly
12 authorized agent of the said time and place set for the
13 consideration of such Application has been published for at least
14 once a week for the three (3) week period prior to said date set
15 forth herein, to-wit:

16 In the issues of the said paper on the 5 day of
17 February, the 12th day of February, and the 19 day
18 of February, and it appearing that no sufficient protest has
19 been filed by the qualified electors of the said County
20 petitioning said Board of Supervisors to deny such license and
21 franchise and it further appearing the best interest of Pinal
22 County will be served by the granting of said Application and the
23 franchise referred to therein;

24 NOW, THEREFORE, the Board of Supervisors of Pinal
25 County, State of Arizona, acting on behalf of said County does
26

1 hereby grant unto Quail Hollow Water Company, doing business in
2 Pinal County, Arizona, subject to the terms, conditions and
3 limitations hereinafter contained, the right, privilege, license
4 and franchise to construct, maintain and operate a domestic water
5 distribution system, for a period of twenty-five (25) years,
6 unless earlier terminated, for the supplying of this service
7 along, upon, under and across the public highways, roads, alleys
8 and throughfares (excepting State Highways) within that portion of
9 Pinal, Arizona, hereinabove described above and not within the
10 confines of any incorporated city or town, under such restrictions
11 and limitations, and upon such terms as this Board at any time may
12 provide, not inconsistent with the laws of the State of Arizona,
13 or orders and rules of the Corporation Commission of the State of
14 Arizona, specifically providing, however, that

15 (1) All rights hereunder are granted under the express
16 condition that the Board of Supervisors of said Pinal County shall
17 have the power at any time to impose such restrictions and
18 limitations and to make such regulations on such highways, roads,
19 and thoroughfares as may be deemed best for the public safety,
20 health, welfare and convenience.

21 (2) All rights hereby granted shall be exercised so as
22 to not interfere or conflict with any easements or rights-of-way
23 heretofore granted by said Board of Supervisors and now in force.

24 (3) All rights hereby granted shall be exercised so as
25 not to interfere or conflict with any easement, either public or
26

1 private, of whatsoever nature, which has been acquired in or to
2 the proper use of said highway, roads, and thoroughfares, or any
3 portion thereof.

4 (4) All rights hereby granted shall be exercised so as
5 not to interfere or conflict with or endanger in any way the
6 proper use by the public of said highways, roads, and
7 thoroughfares, or any portion thereof.

8 (5) That the said Grantee shall bear all expenses
9 incurred, including damages and compensation for the alteration of
10 the course, direction, surface, grade or alignment of any of the
11 said highways, roads and thoroughfares necessarily made by the
12 said Grantee for the purpose of this Franchise; that said Grantee
13 will maintain his equipment at his own cost and expense and will
14 make all necessary repairs from time to time as the same may be
15 needed, without the necessity of notice from Pinal County. In the
16 event the said Grantee shall fail to make any repairs within ten
17 (10) days from the time same becomes necessary, then Pinal County
18 may cause the same to be made, and said Grantee agrees to pay
19 Pinal County the cost thereof.

20 (6) That all property of the Franchise be installed and
21 operated by the said Grantee and shall be placed, removed or
22 relocated, initially and throughout the term of this Franchise,
23 along, in, over, under and across the said highways, roads and
24 thoroughfares, in such a manner and location as the Board of
25 Supervisors or its duly authorized agents may designate. Such
26

1 placement, removal or relocation shall be done at the sole expense
2 of the Grantee upon a determination by the Board of Supervisors of
3 Pinal County that such placement, removal or relocation is
4 necessary.

5 If Grantee fails or refuses to so remove or relocate,
6 Pinal County may so remove or relocate, at the sole expense of
7 Grantee, such expense to include any and all damages and
8 compensation of whatsoever nature arising therefrom.

9 In this section the term "property" includes conduits,
10 pipe, wires, poles, or other structures and appliances used to
11 supply or deal in gas, electricity, lights, water, heat,
12 refrigeration, power, telephones, telegraph, television and other
13 public utilities.

14 Any finding or determination made by the Board of
15 Supervisors pursuant hereto shall be final and binding upon the
16 Grantee whether or not such findings or determinations relates to
17 the requirements of public safety or welfare, the use of public
18 roads or the need for proposed improvements, and whether or not
19 the function to be served by such removal or relocation is of a
20 governmental or proprietary nature.

21 (7) That said Grantee shall indemnify and save
22 harmless, the said County of Pinal from all costs, expenses and
23 liabilities in connection with the granting of this Franchise and
24 exercise of the same by them.

25 (8) That the rights of any person claiming to be
26

1 injured in any manner by the maintenance of said projects and
2 equipment shall not be affected hereby.

3 (9) That the terms and conditions of this Franchise
4 shall inure to the benefit of, and be binding upon, all the heirs
5 and assigns of the said Grantee.

6 (10) That the Franchise and privilege herein granted
7 shall not be deemed to be exclusive and the said Board of
8 Supervisors hereby expressly reserves the right and power to grant
9 from time to time similar franchises and privileges over the same
10 territory and highways, roads and thoroughfares.

11 (11) This Franchise is granted upon the express
12 condition that the Certificate of Convenience and Necessity be
13 procured from the Corporation Commission of the State of Arizona
14 within six (6) months from the date of granting of this Franchise;
15 and if such Certificate is not granted within six months from said
16 date, then this Franchise to be void, otherwise to be in full
17 force and effect for the time herein specified.

18 (12) All materials and construction methods used within
19 the public right-of-way shall conform to the applicable standards,
20 specifications and special provisions currently in effect in Pinal
21 County.

22 (13) The Franchise holder shall obtain a construction
23 permit from the office of the County Engineer prior to
24 construction of any facilities in the public right-of-way.

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26 . . .

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DATED this 23rd day of February, 1987.

John Malhieson
Chairman, Board of Supervisors
Pinal County, Arizona

ATTEST:
Charles A. Gunn
Clerk, Board of Supervisors
Pinal County, Arizona

C O P Y

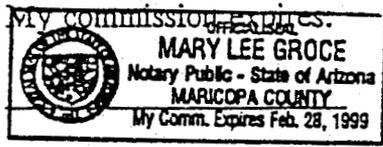
Exhibit B

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 18 day of ^{April}~~March~~, 1995, by Robert B. Medland.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Mary Lee Groce
Notary Public



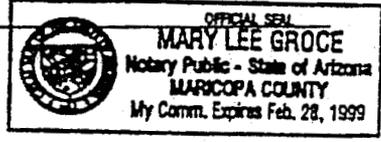
STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 18 day of ^{April}~~March~~, 1995, by Ronald G. Todd.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Mary Lee Groce
Notary Public

My commission expires:



Commonwealth of
STATE OF Massachusetts) ss.
County of Middlesex)

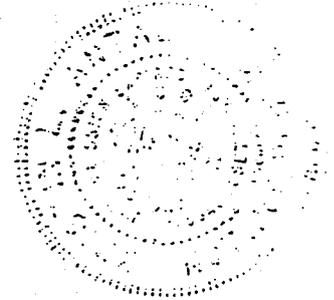
The foregoing instrument was acknowledged before me this 31 day of March, 1995, by Denise Ricketts.

IN WITNESS WHEREOF, I hereunto set my hand and official seal.

Kristin L. Antall
Notary Public
Kristin L. Antall

My commission expires:

8/24/01



1995-026273

EXHIBIT "I"

Legal Description

Lot 119, of QUAIL HOLLOW AMENDED, according to the plat of record in the office of the County Recorder of Pinal County, Arizona, in Book 10 of Maps, page 12.

BILL OF SALE

KNOW ALL MEN BY THESE PRESENTS:

That QUAIL HOLLOW WATER COMPANY, an Arizona corporation ("Transferor") for and in the consideration of the transfer to Robert B. Medland, Ronald G. Todd and Denise Ricketts of the total sum of 1,000 shares of voting common stock from Quail Hollow Water Company, Inc., an Arizona corporation ("Transferee"), the receipt, adequacy and sufficiency of which are hereby acknowledged and confessed has assigned, transferred and set over and does hereby grant, bargain, transfer, set over and deliver unto Transferee, its successors, transferees and assigns, the assets ("Assets") free and clear of any liens or encumbrances, as follows:

A. All franchise rights and service area rights including, but not limited to, the Certificate of Convenience and Necessity issued to Seller by the Arizona Corporation Commission and the Franchise granted by Pinal County, Arizona for the territory specified on as Exhibit A attached hereto.

B. All water rights and wells, including any water rights with the Arizona Department of Water Resources.

C. The water system, including any transmission, distribution and service lines, hydrants, meters, water storage facilities, water pressure tanks, well pump motors, and any and all personal property utilized for the water distribution system.

D. All real property owned by Seller utilized for the water system, including present or future use and any easements or rights of way within the franchised area.

E. Any and all other property utilized by Seller in its water utility operations, including books and records, engineering drawings, customer accounts, and reports filed by Seller in connection with its utility operations.

Transferor hereby binds itself and its successors to warrant and defend the title to such Assets as against the acts of all parties.

IN WITNESS WHEREOF, Transferor has executed, conveyed and delivered this bill of sale on 31st day of March, 1995.

QUAIL HOLLOW WATER COMPANY, an Arizona corporation

By: *Robert B. Medland*

Its: *President*

The shareholders set forth below warrant to Transferee that they are the only shareholders of Transferor, approve this Bill of Sale, and transfer all of their interest in the Assets to Transferee.

Robert B. Medland
Robert B. Medland

R. G. Todd
Ronald G. Todd

Formerly → *Denise I. O'Connor*
Denise Ricketts
DENISE I. O'CONNOR



Diversified Water Utilities, Inc.

Corporate Office
(602) 840-9400 2850 E. Camelback Rd., Suite 200
fax (602) 840-6030 Phoenix, AZ 85016-4316

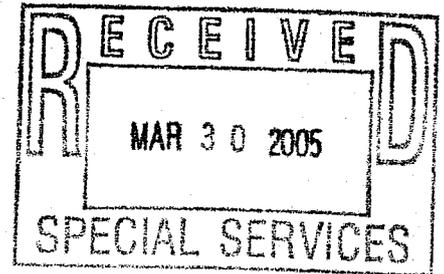
Customer Service Office
(480) 677-6080 3880 S. De Niza
fax (480) 677-6082 Apache Junction, AZ 85219-7357

Quality Water
Quality Service

March 25, 2005

Member, AWWA
AWPCA
WUAA
EVWF

VIA CERTIFIED MAIL - 7004 0750 0000 8115 2950



Gary Medina
Special Services
Pinal County Government
P.O. Box 827
Florence, AZ 85232

Re: Amended Request for Expansion of Pinal County Franchise

Dear Mr. Medina:

This letter amends the request from Diversified Water Utilities, Inc. ("Diversified") for an extension of its franchised area for water service in Pinal County, Arizona. You have correctly informed us that we currently have a portion of the requested area within the existing Franchise Agreement with Pinal County, dated February 23, 1987, as amended by the Transfer of the Quail Hollow Water Distribution System Franchise dated October 26, 1995 ("Agreement"). Accordingly, we are revising our prior request and now request that the current franchise from Pinal County be expanded to add Sections 16, 24, 25 and 26 of Range 8 East, Township 3 South in Pinal County ("Expansion Area") to the existing areas covered by our Agreement. A Pinal County franchise for Sections 13, 14, 15 and 22 of Range 8 East, Township 3 South in Pinal County requested in our prior letter are already within our existing Agreement.

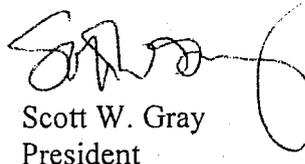
To further assist in this request, we are enclosing for the franchise amendment Arizona Corporation Commission ("ACC") Map No. 11 showing (i) the relevant portion of the current ACC certificated area for Diversified, (ii) the existing Pinal County franchise locations within Range 8 East Township 3 South and (iii) the Expansion Area.

Please prepare a proposed amendment for the revised Expansion Area to accomplish the requested franchise extension for our review and provide it to me at the above address.

Gary Medina
March 25, 2005
Page 2

Thank you for bring this matter to our attention. If you require any additional information or materials or if you anticipate any delay, please contact me immediately. Please do not hesitate to contact me with any questions you might have.

Very truly yours,



Scott W. Gray
President

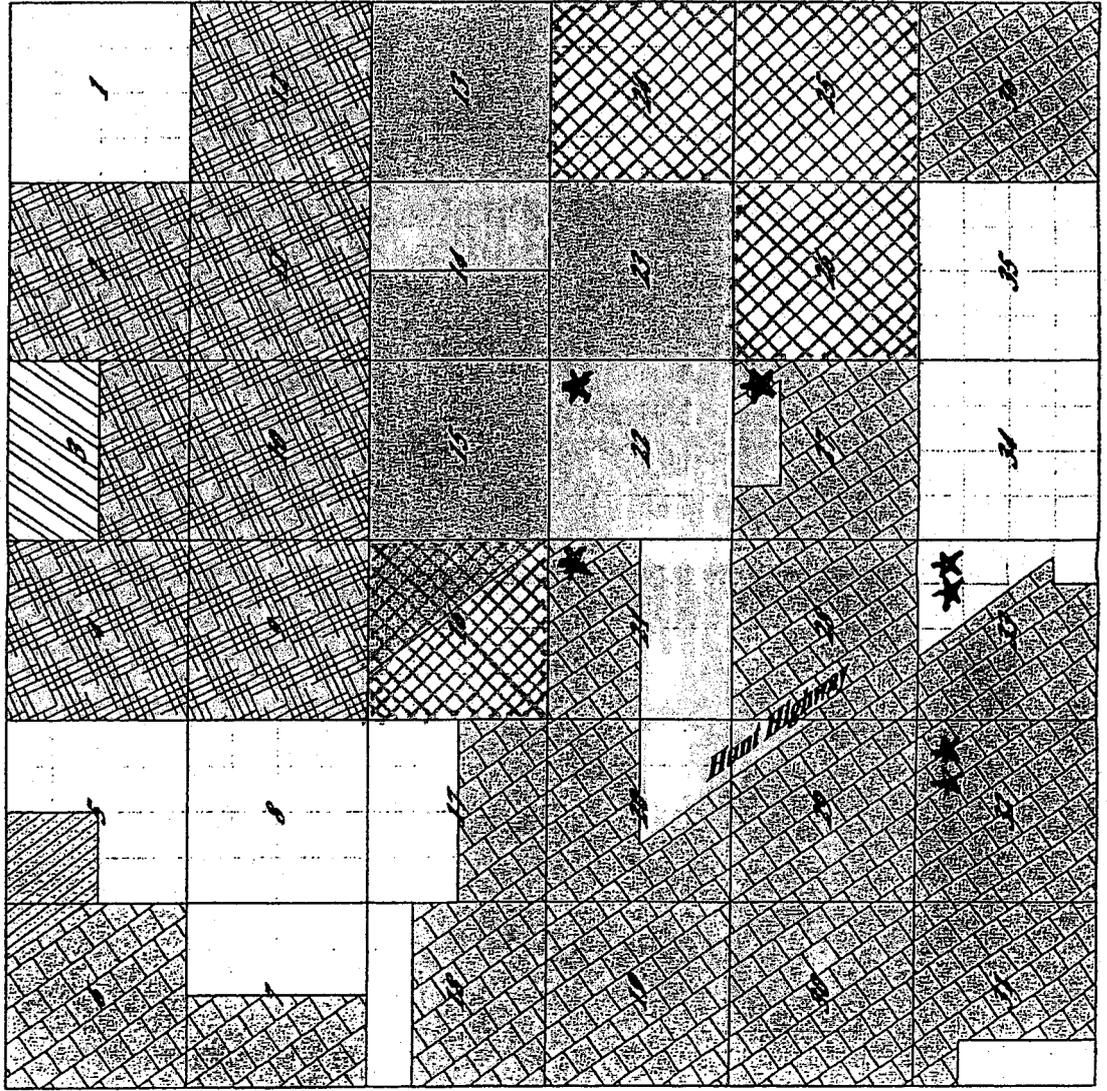
SWG:tld
Enclosures

cc: William Sullivan, Esq. (with enclosures)

COUNTY of Pinal

RANGE 8 East

TOWNSHIP 3 South



W-2859 (3)



Diversified Water Utilities, Inc. (Current Franchise Area)

W-2234 (2)



H₂O, Inc.

WS-2987 (6)



Johnson Utilities Company

W-2425 (2)



Sun Valley Farms Unit VI Water Company



Requested Pinal County Franchise Extension Area



Sewer

* Railroad right-of-way location within this Section excluded from Franchise by Pinal County Franchise Resolution 22387-QHW, dated February 23, 1987 (page 2 of Resolution attached hereto).

** Diversified has received a franchise from Pinal County for a portion of this Section as set forth in Pinal County Franchise Resolution 22387-QHW, dated February 23, 1987 (page 2 of Resolution attached hereto).

Exhibit B

ACCEPTANCE OF EXPANDED AND AMENDED FRANCHISE

To: Board of Supervisors Pinal County, Arizona

Grantee, Diversified Water Utilities, Inc., a(n) Arizona corporation, does hereby accept the March 29, 2006 grant of a First Amended Franchise from Pinal County, Arizona, to construct, operate, and maintain domestic water system, lines and related fixtures along, under and across present and future public streets, alleys and highways, except state highways, within the unincorporated area of Pinal County, Arizona, as described in the Application, which is made a part hereof.

Grantee unconditionally accepts the franchise and covenants to faithfully comply with, abide by, to observe and perform all the provisions, terms and conditions of the First Amended Franchise. Grantee accepts such provisions, terms and conditions and expressly waives any and all objections to the reasonableness or legality of any provisions of the same or any part thereof, or as to the legal right or authority of the County of Pinal to impose the same.

Grantee declares that the statements and recitals in said First Amended Franchise are correct, and Grantee declares it has made and does make the agreement, statements and admissions in said First Amended Franchise recited to have been or to be made by Grantee.

Dated this ____ day of _____, 2006.

Diversified Water Utilities, Inc.

By: _____

Title: _____

STATE OF ARIZONA)
) ss.
County of)

The foregoing instrument was acknowledged before me this ____ day of ____, 2006, by _____ of _____, a(n) Arizona corporation, and being authorized to do so, executed the foregoing instrument on behalf of the corporation for the purposes therein stated.

Notary Public

My Commission Expires:

Exhibit C

SAMPLE ACCEPTANCE OF EXPANDED AND AMENDED FRANCHISE

To: Board of Supervisors Pinal County, Arizona

Grantee, Diversified Water Utilities, Inc., a(n) Arizona corporation, does hereby accept the March 29, 2006 grant of a First Amended Franchise from Pinal County, Arizona, to construct, operate, and maintain water lines and related fixtures along, under and across present and future public streets, alleys and highways, except state highways, within the unincorporated area of Pinal County, Arizona, as described in the Application, which is made a part hereof.

Grantee unconditionally accepts the franchise and covenants to faithfully comply with, abide by, to observe and perform all the provisions, terms and conditions of the First Amended Franchise. Grantee accepts such provisions, terms and conditions and expressly waives any and all objections to the reasonableness or legality of any provisions of the same or any part thereof, or as to the legal right or authority of the County of Pinal to impose the same.

Grantee declares that the statements and recitals in said First Amended Franchise are correct, and Grantee declares it has made and does make the agreement, statements and admissions in said First Amended Franchise recited to have been or to be made by Grantee.



OFFICIAL RECORDS OF
PINAL COUNTY RECORDER
LAURA DEAN-LYTTLE

When recorded mail to:

(3)
Clerk of the Board Office
P.O. Box 827
Florence, Arizona 85232

DATE/TIME: 04/03/06 1534
FEE: \$0.00
PAGES: 2
FEE NUMBER: 2006-047528

(The above space reserved for recording information)
CAPTION HEADING

Acceptance by Diversified Water Utilities of their expanded and amended franchise.

ACCEPTANCE OF EXPANDED AND AMENDED FRANCHISE

To: Board of Supervisors Pinal County, Arizona

Grantee, Diversified Water Utilities, Inc., a(n) Arizona corporation, does hereby accept the March 29, 2006 grant of a First Amended Franchise from Pinal County, Arizona, to construct, operate, and maintain domestic water system, lines and related fixtures along, under and across present and future public streets, alleys and highways, except state highways, within the unincorporated area of Pinal County, Arizona, as described in the Application, which is made a part hereof.

Grantee unconditionally accepts the franchise and covenants to faithfully comply with, abide by, to observe and perform all the provisions, terms and conditions of the First Amended Franchise. Grantee accepts such provisions, terms and conditions and expressly waives any and all objections to the reasonableness or legality of any provisions of the same or any part thereof, or as to the legal right or authority of the County of Pinal to impose the same.

Grantee declares that the statements and recitals in said First Amended Franchise are correct, and Grantee declares it has made and does make the agreement, statements and admissions in said First Amended Franchise recited to have been or to be made by Grantee.

Dated this 29th day of March, 2006.

Diversified Water Utilities, Inc.

By: [Signature]
Title: President

STATE OF ARIZONA)
) ss.
County of)

The foregoing instrument was acknowledged before me this 29 day of March 2006, by Scott Wingfield Grant of Diversified Water Utilities a(n) Arizona corporation, and being authorized to do so, executed the foregoing instrument on behalf of the corporation for the purposes therein stated.

Notary Public
[Signature: Karon L. Simmons]

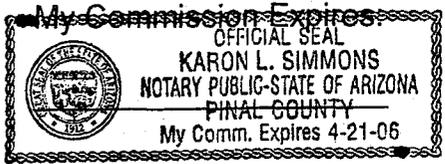


EXHIBIT K

Bella Vista

REVISED DEVELOPMENT PLAN

LAND USE DATA SUMMARY

Proposed Zoning	Land Use	Area, Acres
CR-2	Commercial	37.0
CR-3	Single Family	481.8
CR-3	School Site	16.0
CR-3	Open Space	93.3
Roads		31.0
	Total	659.1

DENSITY CALCULATIONS

CR-3 Total Units \pm 2,167 Units
 2,167 (total units) = 3.48 DU/AC.
 622.1 (total Res. area)

OPEN SPACE CALCULATIONS

Total Required = 15% of total Residential Area
 = $(0.15)(622.1)ac$
 Total Open Space Provided: 93.3 AC

LEGEND

- Single Family
- Commercial
- School Site
- Open Space
- Roads

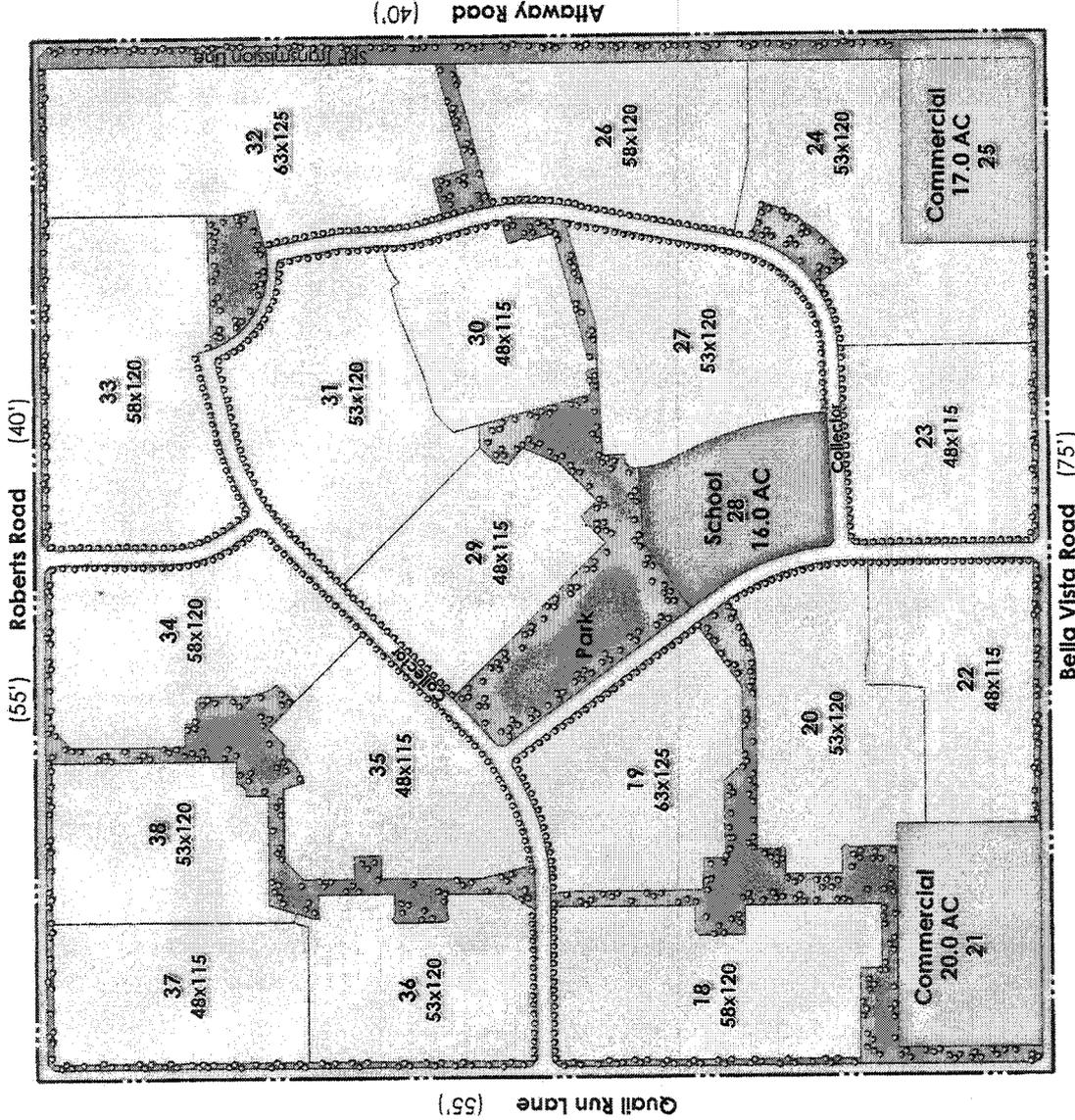


EXHIBIT L

March 20, 2007

Scott W. Gray
President
Diversified Water Utilities, Inc.
2850 E. Camelback Rd., Suite 200
Phoenix, AZ 85016
Transmitted via Email

RE: Bella Vista Section 13 Development – CC&N Expansion Application Support

Dear Mr. Gray:

Enclosed are the following documents for your review and approval. These documents are being forwarded to Bill Sullivan for his use in preparing the CC&N Expansion Application for the ACC. The documents include:

- An engineering report discussing the plans for service
- A summary of projected expenses
- A summary of projected revenue
- A depreciation calculation
- An estimate of on-site expenses

Please contact me with questions or concerns at (480) 252-2189.

Sincerely,

Jason Bethke, PE
Bethke Engineering, LLC

Diversified Water Utilities, Inc.
 Bella Vista Section 13 Development
 Net Income

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Description					
Revenue	\$63,579.20	\$188,685.00	\$320,488.20	\$484,081.00	\$674,463.40
Expenses	\$129,612.67	\$202,352.83	\$298,677.47	\$335,552.68	\$372,342.22
EBITDA-AIAC	-\$66,033.47	-\$13,667.83	\$21,810.74	\$148,528.32	\$302,121.18
Less AIAC Refunds@10%	\$6,357.92	\$18,868.50	\$32,048.82	\$48,408.10	\$67,446.34
EBITDA	-\$72,391.39	-\$32,536.33	-\$10,238.09	\$100,120.22	\$234,674.84
Less Depreciation	\$66,275.33	\$138,558.17	\$153,658.50	\$171,428.83	\$188,783.83
EBIT	-\$138,666.72	-\$171,094.50	-\$163,896.59	-\$71,308.61	\$45,891.01
Income Taxes at 42%	\$0.00	\$0.00	\$0.00	\$0.00	\$19,274.22
Net Income	-\$138,666.72	-\$171,094.50	-\$163,896.59	-\$71,308.61	\$26,616.78

Diversified Water Utilities, Inc.
 Bella Vista Section 13 Development
 Estimated Revenue

Description	Unit	Unit Cost	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Base Charge 5/8 x 3/4	\$/EDU/month	\$27.50	\$33,000.00	\$103,125.00	\$177,375.00	\$268,125.00	\$375,375.00
Water Usage	\$/1000 Gal of avg day/2	\$3.65	\$25,579.20	\$79,935.00	\$137,488.20	\$207,831.00	\$290,963.40
One-Time Establishment	\$/EDU	\$25.00	\$5,000.00	\$5,625.00	\$5,625.00	\$8,125.00	\$8,125.00
Meter Reread	\$15/occurrence	\$15.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Meter Retest	\$25/occurrence	\$25.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Late Fees	\$1.50/month	\$1.50	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Estimated Revenue			\$63,579.20	\$188,685.00	\$320,488.20	\$484,081.00	\$674,463.40

Diversified Water Utilities, Inc.
 Bella Vista Section 13 Development
 Estimated Expenses

Description	Unit	Unit Cost	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Power	\$/1000 Gal	\$0.20	\$15,360.00	\$32,640.00	\$49,920.00	\$74,880.00	\$99,840.00
Wages	Employee	\$50,000.00	\$50,000.00	\$86,500.00	\$139,095.00	\$143,267.85	\$147,565.89
Payroll Burden	0.33 x wages	\$16,666.67	\$16,666.67	\$28,833.33	\$46,365.00	\$47,755.95	\$49,188.63
Non-Capitalized Permits	DWU estimate	\$2,000.00	\$2,000.00	\$2,060.00	\$2,121.80	\$2,185.45	\$2,251.02
Non-Capitalized Engineering	DWU estimate	\$5,000.00	\$5,000.00	\$5,150.00	\$5,304.50	\$5,463.64	\$5,627.54
Chlorination Chemicals	\$/1000 gal	\$0.02	\$1,536.00	\$3,264.00	\$4,992.00	\$7,488.00	\$9,984.00
Supplies	DWU estimate	\$2,750.00	\$2,750.00	\$2,832.50	\$2,917.48	\$3,005.00	\$3,095.15
Repairs	DWU estimate	\$1,000.00	\$1,000.00	\$2,000.00	\$3,000.00	\$4,000.00	\$5,000.00
Insurance	DWU estimate	\$3,500.00	\$3,500.00	\$3,605.00	\$4,213.15	\$4,339.54	\$4,469.73
Office Expense	DWU estimate	\$2,000.00	\$2,000.00	\$4,060.00	\$4,181.80	\$4,307.25	\$4,436.47
Billing	\$/EDU	\$3.00	\$600.00	\$1,275.00	\$1,950.00	\$2,925.00	\$3,900.00
Contract Labor and/or Rentals	DWU estimate	\$5,000.00	\$600.00	\$675.00	\$675.00	\$975.00	\$975.00
Vehicles	\$/employee	\$3,600.00	\$3,600.00	\$3,708.00	\$7,419.24	\$7,641.82	\$7,871.07
Water Quality Testing	Well	\$12,000.00	\$24,000.00	\$24,720.00	\$25,461.60	\$26,225.45	\$27,012.21
Other Expenses	DWU estimate	\$1,000.00	\$1,000.00	\$1,030.00	\$1,060.90	\$1,092.73	\$1,125.51
Estimated Expenses (not including taxes, depreciation or AIAC refunds)			\$129,612.67	\$202,352.83	\$298,677.47	\$335,552.68	\$372,342.22

In-Parcel Distribution (AIAC)

	Year 1	Year 2	Year 3
90000 ft/sq.mi.	200	225	225
DU's	\$ 300,000.00	\$ 337,500.00	
3.75 DU's/acre			
\$40.00			
Sub-Total	\$ 300,000.00	\$ 337,500.00	

	Year 4	Year 5
\$ 337,500.00	325 \$ 487,500.00	325 \$ 487,500.00
<u>\$ 337,500.00</u>	<u>\$ 487,500.00</u>	<u>\$ 487,500.00</u>

Diversified Water Utilities, Inc.

**Bella Vista Section 13 Development
Preliminary Service Report in Support of
Docket No. W-02859A-04-0844**

Prepared for:

**Diversified Water Utilities, Inc.
2850 E. Camelback Road, Suite 200
Phoenix, AZ 85016**

Submitted to:

**Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007
Docket No. W-02859A-04-0844**

Prepared by:

**Jason Bethke, PE
Bethke Engineering, LLC
4120 E. Earll Drive
Phoenix, AZ 85018**

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- B. Development Projections**
- C. Infrastructure Required to Serve Bella Vista Section 13 Development**
- D. Conceptual Plan for Providing Service to Bella Vista Section 13 Development**

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- Table 1 – EDU Estimates for Bella Vista Section 13 Development**
- Table 2 – Cumulative Water Requirements for Bella Vista Section 13 Development**
- Table 3 – Cumulative Infrastructure Requirements for Bella Vista Section 13 Development**
- Table 4 – Unit Costs to Provide Service to Bella Vista Section 13 Development**
- Table 5 – Infrastructure Costs for Bella Vista Section 13 Development**

Figures

- Figure 1 – Conceptual Land Use Plan for Bella Vista Section 13 Development**

A. INTRODUCTION

Wolfkin Farms, LLC has requested that Diversified Water Utilities, Inc. (DWU) extend its existing Certificate of Convenience and Necessity to incorporate the adjacent section 13 for its Bella Vista Development. Because Wolfkin Farms, LLC intends to wholesale the land to builders, they have requested that DWU estimate the infrastructure costs required to provide water service to the development.

DWU is in the process of developing a regional water master plan for its service area. Because the plan is not yet available, it is expected that the Bella Vista Section 13 Development will be served by wells and distribution and storage infrastructure to be developed for the property.

B. DEVELOPMENT PROJECTIONS

Development projections are based on estimates reviewed with Wolfkin Farms, LLC, developers of the Bella Vista Section 13 Development. The development will be primarily comprised of single-family residences, with 37 acres of commercial development and one school. It is expected that neither the school nor the commercial development will be constructed within the first five years of the development. The estimated equivalent dwelling units (EDUs) to be constructed within the Bella Vista Section 13 Development are presented in **Table 1 – EDU Estimates for Bella Vista Section 13 Development**. The table includes EDU projections for the first five years and the build-out.

Table 1 – EDU Estimates for Bella Vista Section 13 Development						
Cumulative						
Description	Year 1	Year 2	Year 3	Year 4	Year 5	Buildout
EDU Estimates for Bella Vista Section 13 Development	200	425	650	975	1300	2167

C. INFRASTRUCTURE REQUIRED TO SERVE BELLA VISTA SECTION 13 DEVELOPMENT

The primary infrastructure required to serve the development will include wells, storage reservoirs, booster stations and treatment systems. The design conditions for these facilities were developed using the following assumptions:

- Average Water Usage 120 gallons (gal) per capita, per day
- Population per EDU 3.2 individuals
- Maximum Day Demand Factor 2
- Peak Hour Water Demand Factor 3.4
- Fire Flow 1,500 gallons per minute (gpm)

Table 2 – Cumulative Water Requirements for Bella Vista Section 13 Development presents water requirements based on the EDU and design assumptions identified above.

Table 2 – Cumulative Water Requirements for Bella Vista Section 13 Development					
Description	Year 1	Year 2	Year 3	Year 4	Year 5
Average Day Water Demand (gpd)	76,800	163,200	249,600	374,400	499,200
Maximum Day Water Demand (gpd)	153,600	326,400	499,200	748,800	998,400
Peak Hour Water Demand (gpd)	261,120	554,880	848,640	1,272,960	1,697,280

Using these water requirements, infrastructure requirements were developed for the first five years of the Bella Vista Section 13 Development as presented in **Table 3 – Cumulative Infrastructure Requirements for Bella Vista Section 13 Development**. Storage requirements were based on providing storage for average day, peak month and an 80 percent service factor. It is important to note that the first phase of reservoir construction is expected to exceed this projection. Booster station pumping requirements were based on meeting maximum day plus fire flow or peak hour, whichever was greater.

Table 3 – Cumulative Infrastructure Requirements for Bella Vista Section 13 Development					
Description	Year 1	Year 2	Year 3	Year 4	Year 5
Wells (500 gpm estimated production)	2	2	2	2	2
Storage Requirement (MG)	0.1	0.3	0.4	0.6	0.8
Booster Station Capacity (gpm)	1,607	1,727	1,847	2,020	2,193

Table 4 – Unit Costs to Provide Service to Bella Vista Section 13 Development estimates the cost of providing service to the Bella Vista Section 13 Development. Please note that no treatment other than chlorination is expected.

Table 4 - Unit Costs to Provide Service to Bella Vista Section 13 Development		
Description	Unit	Unit Cost
Wells	gpm	\$1,500.00
Storage Reservoirs	Gal	\$1.00
Booster Stations	gpm	\$500.00

Compiling the data from **tables 3 and 4** produces **Table 5 - Infrastructure Costs for Bella Vista Section 13 Development**. This cost estimate is representative of the five-year planning window. As such, the wells and a 1-million gallon storage reservoir will be installed during the first year of construction, while expandable systems (booster stations) will be initially built in year one and expanded in year three.

Table 5 - Infrastructure Costs for Bella Vista Section 13 Development						
Description	Year 1	Year 2	Year 3	Year 4	Year 5	Total Years 1-5
Wells	\$1,500,000	\$0	\$0	\$0	\$0	\$1,500,000
Storage Reservoirs	\$1,000,000	\$0	\$0	\$0	\$0	\$1,000,000
Booster Stations	\$923,333	\$0	\$173,333	\$0	\$0	\$1,096,667
Totals	\$3,423,333	\$0	\$173,333	\$0	\$0	\$3,596,667

D. CONCEPTUAL PLAN FOR PROVIDING SERVICE TO BELLA VISTA SECTION 13 DEVELOPMENT

Figure 1 – Conceptual Land Use Plan for Bella Vista Section 13 Development (provided by CVL Associates, Inc.) identifies the land uses proposed for the development. The water distribution facility will be located within section 13. DWU will request that the water distribution facility be located near the intersection of Quail Run Lane and Roberts Road.

Implementation

A master planning effort is currently underway to develop regionalized water distribution facilities within the DWU service area. Recognizing that the final master plan must adjust to development activities, it will be updated as development occurs. A five-year service plan is currently being developed for the Bella Vista Section 13 Development. The major components of the service plan are presented below.

Prior to construction of housing units within the Bella Vista Section 13 Development, the following facilities will be constructed on the proposed water distribution facility site:

- A 1-million gallon storage reservoir, with additional space for a second reservoir
- A 5000-gallon pressure tank to provide for surge protection
- A booster station with a firm capacity of 1874 gpm complete with variable speed drives. The booster station will initially be constructed to provide the capacity projected at year three. Phase 2 of the booster station will increase the firm capacity to 2193 gpm, plus any increase in fire flow required due to commercial development
- Two wells estimated to produce 500 gpm each for a total of 1000 gpm