

ORIGINAL

NEW APPLICATION



0000076349

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

RECEIVED

2007 OCT -1 P 1:10

AZ CORP COMMISSION  
DOCKET CONTROL

5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

**W-01412A-07-0561**

6 IN THE MATTER OF THE APPLICATION OF )  
VALLEY UTILITIES WATER COMPANY, )  
7 INC. FOR APPROVAL OF A \$250,000 LINE OF )  
CREDIT AND AUTHORITY TO ISSUE LONG )  
8 TERM PROMISSORY NOTES OR BONDS )  
AND OTHER EVIDENCE OF INDEBTEDNESS )  
9 AS PERMANENT REFINANCING OF THAT )  
LINE OF CREDIT. )

DOCKET NO. W-01412A-07 \_\_\_\_

**FINANCING APPLICATION  
AND  
REQUEST FOR EXPEDITED  
HEARING**

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

12 1. Valley is a corporation duly organized and existing under the laws of the State of  
13 Arizona. Its principal place of business is 6808 N. Dysart Road, Suite 112, Glendale, Arizona  
14 85307.

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

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

Arizona Corporation Commission

DOCKETED

OCT 01 2007

DOCKETED BY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

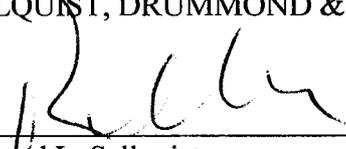
21 16. In Valley's opinion the purpose to which proceeds of the issuance of the promissory  
22 notes or bonds and other evidence of indebtedness will be applied as set forth above are lawful,  
23 and within its powers and are compatible with the public interest, with sound financial practices,

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

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

15 Respectfully submitted this 1<sup>ST</sup> day of October, 2007.

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

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

1 Original and ten copies of the  
2 foregoing filed this 1<sup>st</sup> day  
of October, 2007, with

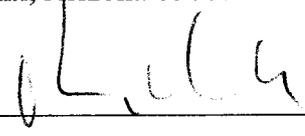
3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington  
6 Phoenix, Arizona 85007

7 Copies of the foregoing Hand Delivered this 1<sup>st</sup>  
8 day of October, 2007 to:

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

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

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

21  
22  
23  


1 **LIST OF EXHIBITS**

2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

ATTACHMENT

DESCRIPTION

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

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

RICHARD L. SALLQUIST

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

November 6, 2006

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

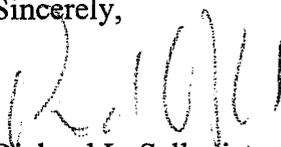
Re: Valley Utilities Water Company, Inc.; Docket Nos. W-01412A-04-0736 & W-01412A-04-0849; Decision No. 68309; Loan Closing Documents Compliance Filing

Dear Mr. Johnson:

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

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

Sincerely,

  
Richard L. Sallquist

Enclosures

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

# LOAN AGREEMENT STANDARD TERMS AND CONDITIONS

## Water Infrastructure Finance Authority of Arizona

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

### **Section 1. Repayment; Prepayment.**

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

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

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

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

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

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

### **Section 2. Conditions Precedent.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Section 3. Representations And Warranties.**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Section 5. Negative Covenants.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Section 33. Compliance with Applicable Federal Laws And Authorities**

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

**Environmental:**

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

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

ECONOMIC AND MISCELLANEOUS:

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

SOCIAL POLICY:

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

## CASH COLLATERAL AGREEMENT

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

### RECITALS:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**4. Terms and Conditions.**

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

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

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

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

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

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

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

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

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

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

**10. Representations and Warranties; Covenants.**

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

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

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

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

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

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

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

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

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

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

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

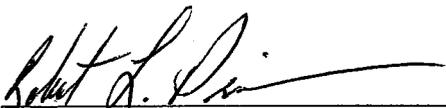
rights and remedies of Lender hereunder, inure to the benefit of Lender and its successors and assigns.

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

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

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

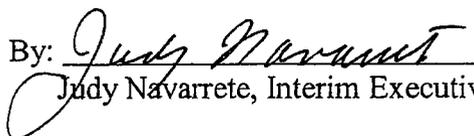
Pledgor: Valley Utilities Water Company, Inc.

By: 

Name: Robert L. Prince

Title: President

Lender: Water Infrastructure Finance Authority of Arizona

By:   
Judy Navarrete, Interim Executive Director

# UCC FINANCING STATEMENT

FOLLOW INSTRUCTIONS (front and back) CAREFULLY

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

---

B. SEND ACKNOWLEDGMENT TO: (Name and Address)

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

THE ABOVE SPACE IS FOR FILING OFFICE USE ONLY

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

1a. ORGANIZATION'S NAME						
Valley Utilities Water Company, Inc.						
OR	1b. INDIVIDUAL'S LAST NAME		FIRST NAME	MIDDLE NAME	SUFFIX	
1c. MAILING ADDRESS			CITY	STATE	POSTAL CODE	COUNTRY
6806 N. Dysart Road, Suite 112			Glendale	AZ	85307	USA
1d. TAX ID #:	SSN OR EIN	ADD'L INFO RE ORGANIZATION DEBTOR	1e. TYPE OF ORGANIZATION	1f. JURISDICTION OF ORGANIZATION	1g. ORGANIZATIONAL ID #, if any	
			Public Water System	Arizona	NONE <input type="checkbox"/> NONE	

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

2a. ORGANIZATION'S NAME						
OR	2b. INDIVIDUAL'S LAST NAME		FIRST NAME	MIDDLE NAME	SUFFIX	
2c. MAILING ADDRESS			CITY	STATE	POSTAL CODE	COUNTRY
2d. TAX ID #:	SSN OR EIN	ADD'L INFO RE ORGANIZATION DEBTOR	2e. TYPE OF ORGANIZATION	2f. JURISDICTION OF ORGANIZATION	2g. ORGANIZATIONAL ID #, if any	
					<input type="checkbox"/> NONE	

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

3a. ORGANIZATION'S NAME						
Water Infrastructure Finance Authority of Arizona						
OR	3b. INDIVIDUAL'S LAST NAME		FIRST NAME	MIDDLE NAME	SUFFIX	
3c. MAILING ADDRESS			CITY	STATE	POSTAL CODE	COUNTRY
1110 W. Washington, Suite 290			Phoenix	AZ	85007	USA

4. This FINANCING STATEMENT covers the following collateral:

5. ALTERNATIVE DESIGNATION (if applicable):	LESSEE/LESSOR	CONSIGNEE/CONSIGNOR	BAILEE/BAILOR	SELLER/BUYER	AG. LIEN	NON-UCC FILING
6. This FINANCING STATEMENT is to be filed [for record] (or recorded) in the REAL ESTATE RECORDS. Attach Addendum	7. Check to REQUEST SEARCH REPORT(S) on Debtor(s) (ADDITIONAL FEE) [optional]		All Debtors	Debtor 1	Debtor 2	
8. OPTIONAL FILER REFERENCE DATA						

## Continuing Security Agreement

**Date:** October 19, 2006

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

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

**Secured Party:** Water Infrastructure Finance Authority of Arizona

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

**Attention:** Executive Director

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

### **1. Schedule Of Terms.**

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

Locations of Collateral:

**See Attached**

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

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

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

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

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

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

**"Customer"** means a water supply customer of Obligor.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5.9 Special Covenants Regarding Collateral.

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

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

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

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

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

5.12 Actions by Secured Party; Power of Attorney.

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

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

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

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

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

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

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

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

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

6.4 Any Transfer occurs.

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

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

6.7 Obligor abandons any or all of the Collateral.

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

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

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

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

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

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

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

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

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

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

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

October 19, 2006

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

May 17, 2006

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

Subject: Loan Collateral

Dear Ms. Navarrete:

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

PARCEL NUMBERS

LOCATION & DISCRIPTION

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

If there any questions, please call.

Respectfully,

Robert L. Prince

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

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

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

Line					
<u>No.</u>					
1					
2					
3	Line of Credit			\$	250,000
4	Average Annual Outstanding Balance of Line of Credit [1]			\$	125,000
5	Annual Interest Rate [2]				9.00%
6	Projected Annual Interest Expense [1][ X [2] = [3]			\$	11,250
7					
8	Total annual amount to be recovered [3]				<u>\$ 11,250</u>
9					
10	Number of Customers at YE 2006	<u>1,418</u>			
11					
12	<u>Computation of Equivalent 5/8 Inch Meters</u>				
13				AWWA	
14				Meter	
15				Flow	
16	<u>Meter Size</u>	<u>Portion of</u>	<u>2006</u>	<u>Factor</u>	<u>Equivalent</u>
17	5/8 Inch	13.47%	191	1.0	191
18	3/4 Inch	53.95%	765	1.5	1,148
19	1 Inch	28.42%	403	2.5	1,008
20	1 1/2 Inch	0.42%	6	5.0	30
21	2 Inch	3.39%	48	8.0	384
22	3 inch	0.35%	5	16.0	80
23	4 Inch	0.00%		25.0	-
24	6 Inch	0.00%		50.0	-
25	8 Inch	0.00%		80.0	-
26	10 Inch	0.00%		115.0	-
27	12 Inch	0.00%		215.0	-
28	Totals	<u>100.00%</u>	<u>1,418</u>		<u>2,840</u>
29					
30	Total Equivalent 5/8 Inch Meters [4]				2,840
31					
32	Annual Costs Expected to be Funded by Surcharge (Percent X [3] = [5])			100%	\$ 11,250
33					
34	Annual Surcharge for Equivalent 5/8 Inch Metered Customer (rounded) ([5] / [4] = [6])				\$ 3.96
35					
36	Monthly Surcharge for Equivalent 5/8 Inch Metered Customer (rounded) ([6] / 12 = [7])				\$ 0.33
37					
38	<u>Projected Debt Recovery Surcharge by Meter Size</u>				
39	<u>Meter Size</u>				
40	5/8 Inch	\$	0.33	[7]	
41	3/4 Inch	\$	0.50	Scaled on 5/8 meter flow	
42	1 Inch	\$	0.83	Scaled on 5/8 meter flow	
43	1 1/2 Inch	\$	1.65	Scaled on 5/8 meter flow	
44	2 Inch	\$	2.64	Scaled on 5/8 meter flow	
45	3 inch	\$	5.28	Scaled on 5/8 meter flow	
46	4 Inch	\$	8.25	Scaled on 5/8 meter flow	
47	6 Inch	\$	16.50	Scaled on 5/8 meter flow	
48	8 Inch	\$	26.40	Scaled on 5/8 meter flow	
49	10 Inch	\$	37.95	Scaled on 5/8 meter flow	
50	12 Inch	\$	70.95	Scaled on 5/8 meter flow	
51					
52	<u>Customer Monthly Bill Impact</u>	<u>Current Mon. Bill</u>	<u>Mon. Surcharge</u>	<u>Total Mon. Bill</u>	<u>% Increase</u>
53	5/8 Inch metered customer at average use of 9,264 gals.	\$ 30.21	\$ 0.33	\$ 30.54	1.09%
54	3/4 Inch metered customer at average use of 10,243 gals.	\$ 38.15	\$ 0.50	\$ 38.65	1.30%
55					
56					
57					
58					
59					
60					
61					

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23

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

**DIRECT TESTIMONY  
OF  
ROBERT L. PRINCE**

**FILED  
OCTOBER 1, 2007**



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

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

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

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

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

23 Q. HOW HAS THAT WELL PERFORMED?

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

9 Q. WERE THERE OTHER PROBLEMS?

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

22 Q. DID SUPPLY ISSUES REMAIN?  
23

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

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

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

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

8 Q. DID YOU FOLLOW THEIR RECOMMENDATIONS?

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

19 Q. HOW DID THAT WORK?

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

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

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

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

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

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

18 Q. ARE THERE OTHER ALTERNATIVES?

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

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

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

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

10 Q. WHAT IS YOUR REQUEST OF THE COMMISSION?

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

19 Q. WHAT SPECIFICALLY IS NEEDED?

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

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

4 Q. DOES THAT COMPLETE YOUR DIRECT TESTIMONY?

5 A. Yes it does.

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

**ARIZONA CORPORATION COMMISSION**  
**UTILITIES DIVISION**

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

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

**ANNUAL REPORT**

FOR YEAR ENDING

12	31	2006
----	----	------

FOR COMMISSION USE

ANN 04	06
--------	----

PROCESSED BY:

SCANNED

**ATTACHMENT SIX**



**Statutory Agent:** RICHARD L SALLOQUIST

(Name)

2525 EAST ARIZONA BILTMORE CIRCLE #117  
(Street)

PHOENIX  
(City)

AZ  
(State)

85016  
(Zip)

(602) 224-9222

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

**Attorney:** SAME AS ABOVE

(Name)

(Street)

(City)

(State)

(Zip)

Telephone No. (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No. (Include Area Code)

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

### OWNERSHIP INFORMATION

Check the following box that applies to your company:

Sole Proprietor (S)

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

Partnership (P)

Subchapter S Corporation (Z)

Bankruptcy (B)

Association/Co-op (A)

Receivership (R)

Limited Liability Company

Other (Describe) \_\_\_\_\_

### COUNTIES SERVED

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

APACHE

COCHISE

COCONINO

GILA

GRAHAM

GREENLEE

LA PAZ

MARICOPA

MOHAVE

NAVAJO

PIMA

PINAL

SANTA CRUZ

YAVAPAI

YUMA

STATEWIDE

**COMPANY NAME**

VALLEY UTILITIES WATER CO., INC.

**UTILITY PLANT IN SERVICE**

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

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

**COMPANY NAME**  
**VALLEY UTILITIES WATER CO., INC.**

**CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR**

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

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

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

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

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

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

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

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

*Ullmann & Company*

ULLMANN & COMPANY, P.C.  
Certified Public Accountants

March 31, 2007

<b>COMPANY NAME</b> VALLEY UTILITIES WATER CO., INC.
---

**BALANCE SHEET**

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

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

**COMPANY NAME**  
**VALLEY UTILITIES WATER CO., INC.**

**BALANCE SHEET (CONTINUED)**

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

**COMPANY NAME**  
**VALLEY UTILITIES WATER CO., INC.**

**COMPARATIVE STATEMENT OF INCOME AND EXPENSE**

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

429



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

**WATER COMPANY PLANT DESCRIPTION**

**WELLS**

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

\* Arizona Department of Water Resources Identification Number

**OTHER WATER SOURCES**

<b>Name or Description</b>	<b>Capacity (gpm)</b>	<b>Gallons Purchased or Obtained (in thousands)</b>

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

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

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

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

**WATER COMPANY PLANT DESCRIPTION (CONTINUED)**

**MAINS**

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

**CUSTOMER METERS**

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

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

**TREATMENT EQUIPMENT:**

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

**STRUCTURES:**

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

**OTHER:**

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

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

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

**WATER USE DATA SHEET BY MONTH FOR CALENDAR YEAR 2006**

MONTH/YEAR	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)	GALLONS PURCHASED (Thousands)
JANUARY	1358	22,417	25,143	
FEBRUARY	1383	19,655	20,240	
MARCH	1395	19,078	19,975	
APRIL	1403	30,089	31,376	
MAY	1413	31,422	32,254	
JUNE	1401	38,113	39,141	
JULY	1412	43,111	44,030	
AUGUST	1421	28,420	29,621	
SEPTEMBER	1419	27,623	28,070	
OCTOBER	1420	30,577	31,615	
NOVEMBER	1417	24,406	25,635	
DECEMBER	1418	18,713	19,514	
<b>TOTALS →</b>		<b>338,624</b>	<b>346,614</b>	

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

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

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

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

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

If yes, provide the GPCPD amount: \_\_\_\_\_

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

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

**PROPERTY TAXES**

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

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

If no property taxes paid, explain why. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**VERIFICATION  
AND  
SWORN STATEMENT  
Taxes**

**VERIFICATION**

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

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

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

**FOR THE YEAR ENDING**

MONTH	DAY	YEAR
12	31	2006

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

**SWORN STATEMENT**

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

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

\_\_\_\_\_  
SIGNATURE OF OWNER OR OFFICIAL

\_\_\_\_\_  
TELEPHONE NUMBER

**SUBSCRIBED AND SWORN TO BEFORE ME**

**A NOTARY PUBLIC IN AND FOR THE COUNTY OF**

**THIS**  **DAY OF**

(SEAL)

COUNTY NAME	
MONTH	.20__

\_\_\_\_\_  
SIGNATURE OF NOTARY PUBLIC

**MY COMMISSION EXPIRES** \_\_\_\_\_

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

**INCOME TAXES**

For this reporting period, provide the following:

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

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

Amount of Grossed-Up Contributions/Advances:

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

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

**CERTIFICATION**

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

\_\_\_\_\_  
**SIGNATURE**

\_\_\_\_\_  
**DATE**

\_\_\_\_\_  
**PRINTED NAME**

\_\_\_\_\_  
**TITLE**

**VERIFICATION  
AND  
SWORN STATEMENT  
Intrastate Revenues Only**

**VERIFICATION**

**STATE OF ARIZONA**

**I, THE UNDERSIGNED**

**OF THE**

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

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

**FOR THE YEAR ENDING**

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

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

**SWORN STATEMENT**

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

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

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

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

\_\_\_\_\_  
SIGNATURE OF OWNER OR OFFICIAL

\_\_\_\_\_  
TELEPHONE NUMBER

**SUBSCRIBED AND SWORN TO BEFORE ME**

**A NOTARY PUBLIC IN AND FOR THE COUNTY OF**

**THIS**  **DAY OF**

**(SEAL)**

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

\_\_\_\_\_  
SIGNATURE OF NOTARY PUBLIC

**MY COMMISSION EXPIRES** \_\_\_\_\_

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

**VERIFICATION**

**STATE OF ARIZONA**

**I, THE UNDERSIGNED**

**OF THE**

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

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

**FOR THE YEAR ENDING**

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

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

**SWORN STATEMENT**

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

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

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

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

\_\_\_\_\_  
SIGNATURE OF OWNER OR OFFICIAL

\_\_\_\_\_  
TELEPHONE NUMBER

**SUBSCRIBED AND SWORN TO BEFORE ME**

**A NOTARY PUBLIC IN AND FOR THE COUNTY OF**

**THIS**  **DAY OF**

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

(SEAL)

**MY COMMISSION EXPIRES**

X \_\_\_\_\_  
SIGNATURE OF NOTARY PUBLIC

PROPERTY DESCRIPTION

SEC/LOT TWN/BLK RNG/TR

TOTAL VALUE OF OPERATING PROPERTY

\*Property address: SITUS ADDRESS NOT AVAILABLE.

MARICOPA COUNTY  
TREASURER

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

TO UPDATE YOUR MAILING ADDRESS

please go to:

<http://treasurer.maricopa.gov>

MARICOPA COUNTY  
2006 PROPERTY TAX  
STATEMENT

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

\$25.00 CHARGE IF CHECK  
FAILS TO CLEAR BANK.

YOUR CHECK IS YOUR RECEIPT.

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

Primary (limited) Assessed Value 366,520

Secondary Assessed Value 366,520

Tax Area Code: 790000

	CONTACT #	COMPARATIVE 2005 AMT	RATE / 100	2006 AMT DUE
<b>PRIMARY</b>				
LITCHFIELD ELEMENTARY	(623) 535-6000	6080.87	20284	7434.50
AGUA FRIA HIGH SCHOOL	(623) 932-7000	7228.39	22412	8214.45
GENERAL COUNTY FUND	(602) 506-8511	3857.65	11794	4322.74
COMMUNITY COLLEGE DIST.	(480) 731-8621	2879.62	8815	3230.87
EDUCATION EQUALIZATION	(602) 506-8511	1404.37	0000	.00
<b>SUBTOTAL</b>		<b>21450.90</b>	<b>63305</b>	<b>23202.56</b>
<b>SECONDARY</b>				
FLOOD CONTROL OF MARICOPA COUNTY	(602) 506-1501	79.72	2047	76.00
CENTRAL ARIZONA WATER CONSV. DIST.	(623) 869-2333	386.70	1200	439.82
FIRE DISTRICT ASSISTANCE	(602) 506-8511	22.24	0068	24.92
COUNTY LIBRARY	(602) 652-3000	167.90	0507	185.82
COUNTY HEALTHCARE DISTRICT	(602) 344-5978	388.62	1184	433.96
<b>*BONDS**</b>				
-COUNTY		.00	0000	.00
-CITY		.00	0000	.00
-SCHOOLS		6097.62	17089	6263.46
-COMMUNITY COLLEGE		444.38	1831	671.10
SCHOOL DISTRICT OVERRIDES		2966.94	8773	3215.48
<b>SUBTOTAL</b>		<b>10554.12</b>	<b>32699</b>	<b>11310.56</b>
<b>SPECIAL DISTRICT</b>				
WEST-MEC	DISTRICT # 30002 (623) 873-1860	161.12	0500	183.26
<b>TOTAL FOR 2006</b>		<b>32166.14</b>		<b>34696.38</b>

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

(505493 = PRTCNTL)

DETACH AND RETURN WITH PAYMENT

2

PARCEL/ACCOUNT # 628-57-900-1

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

MAKE CHECK PAYABLE TO:

PRINT THE ABOVE PARCEL / ACCOUNT  
NUMBER ON YOUR CHECK

U.S. FUNDS ONLY

VALLEY UTILITIES WATER CO INC

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

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

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

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

0600000000200034676380001734819628579000013

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

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

**MARICOPA COUNTY**  
**2006 PROPERTY TAX**  
**STATEMENT**

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

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

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

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

Primary (limited) Assessed Value 6,370

Secondary Assessed Value 6,370

Tax Area Code: 790001

	CONTACT #	COMPARATIVE 2005 AMT	RATE / 100	2006 AMT DUE
<b>PRIMARY</b>				
LITCHFIELD ELEMENTARY	(623) 535-6000	122.66	20284	129.21
AGUA FRIA HIGH SCHOOL	(623) 932-7000	145.80	22412	142.77
GENERAL COUNTY FUND	(602) 506-8511	77.81	11794	75.13
COMMUNITY COLLEGE DIST.	(480) 731-8521	58.08	8815	56.15
EDUCATION EQUALIZATION	(602) 506-8511	28.33	0000	.00
<b>SUBTOTAL</b>		<b>432.68</b>	<b>63305</b>	<b>403.26</b>
<b>SECONDARY</b>				
FLOOD CONTROL OF MARICOPA COUNTY	(602) 506-1501	13.78	2047	13.04
CENTRAL ARIZONA WATER CONSV. DIST.	(623) 869-2333	7.80	1200	7.64
FIRE DISTRICT ASSISTANCE	(602) 506-8511	4.44	0058	.44
COUNTY LIBRARY	(602) 652-3000	3.38	0507	3.22
COUNTY HEALTHCARE DISTRICT	(602) 344-5978	7.84	1184	7.54
*BONDS**				
- COUNTY		.00	0000	.00
- CITY		.00	0000	.00
- SCHOOLS		123.00	17089	108.86
- COMMUNITY COLLEGE		8.96	1831	11.66
SCHOOL DISTRICT OVERRIDES		59.84	2773	55.88
<b>SUBTOTAL</b>		<b>225.04</b>	<b>32699</b>	<b>208.28</b>
<b>SPECIAL DISTRICT</b>				
LITCHFIELD PARK # 2	DISTRICT # 23507	.00	3475	22.14
WEST-MEC	30002	3.26	0500	3.18
129TH AVENUE	28530	13.28	0000	.00
		<b>674.26</b>	<b>TOTAL FOR 2006</b>	<b>636.86</b>

**PAID OCT 30 2006**  
 \*K# 5040 \$318.43

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

(505494 = PRTCNTL)

DETACH AND RETURN WITH PAYMENT

**2**

PARCEL/ACCOUNT # 628-57-901-8

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

PRINT THE ABOVE PARCEL / ACCOUNT  
 NUMBER ON YOUR CHECK

MAKE CHECK PAYABLE TO:

**U.S. FUNDS ONLY**

VALLEY UTILITIES WATER CO INC

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

<b>SECOND HALF</b>	<b>\$318.43</b>
--------------------	-----------------

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

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

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

**PARCEL/ACCOUNT # 628-58-900-5**

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

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

**MARICOPA COUNTY  
 2006 PROPERTY TAX  
 STATEMENT**

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

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

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

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

Primary (limited) Assessed Value 980

Secondary Assessed Value 980

Tax Area Code: 890000

	CONTACT #	COMPARATIVE 2005 AMT	RATE / 100	2006 AMT DUE
<b>PRIMARY</b>				
DYSART UNIFIED	(623) 876-7000	54.63	51144	50.12
GENERAL COUNTY FUND	(602) 506-8511	11.97	11794	11.56
COMMUNITY COLLEGE DIST.	(480) 731-8621	8.94	8815	8.64
EDUCATION EQUALIZATION	(602) 506-8511	4.36	0000	.00
<b>SUBTOTAL</b>		<b>79.90</b>	<b>71753</b>	<b>70.32</b>
<b>SECONDARY</b>				
FLOOD CONTROL OF MARICOPA COUNTY	(602) 506-1501	2.12	2047	2.00
CENTRAL ARIZONA WATER CONSV. DIST.	(623) 859-2333	1.20	1200	1.18
FIRE DISTRICT ASSISTANCE	(602) 506-8511	.06	0068	.06
COUNTY LIBRARY	(602) 652-3000	.52	0507	.50
COUNTY HEALTHCARE DISTRICT	(602) 344-5978	1.20	1184	1.16
<b>*BONDS**</b>				
-COUNTY		.00	0000	.00
-CITY		.00	0000	.00
-SCHOOLS		5.24	5419	5.31
-COMMUNITY COLLEGE		1.38	1831	1.79
SCHOOL DISTRICT OVERRIDES		11.68	12959	12.70
<b>SUBTOTAL</b>		<b>29.40</b>	<b>25215</b>	<b>24.70</b>
<b>SPECIAL DISTRICT</b>				
WEST-MEC	DISTRICT # 30002 (623) 873-1860	.50	0500	.50
<b>PAID OUT 30 2006</b>				
<b>CHK# 5041 \$95.52</b>				
		<b>103.80</b>	<b>TOTAL FOR 2006</b>	<b>95.52</b>

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

Exhibit  
Page 1

		<u>December 31, 2006</u>			<u>End of Projected Year</u>	
Line No.	Item of Capital	Dollar Amount	Percent of Total	Dollar Amount	Percent of Total	Percent of Total
1	Long-Term Debt <sup>1</sup>	\$ 28,237				
2	Stockholder's Equity	\$ (504,932)	-5.92%	\$ 2,169,666		
3	Totals	<u>(476,695)</u>	<u>105.92%</u>	<u>(124,932)</u>		<u>106.11%</u>
4				<u>2,044,734</u>		<u>100.00%</u>
5						
6						
7						
8						
9						
10						
11						
12						
13						
14						
15						
16						
17						
18						
19						
20						
21						
22						
23						
24						
25						
26						
27						
28						
29						
30						
31						
32						
33						
34						
35						
36						
37						

<sup>1</sup> Includes projected year includes new WIFA debt of \$1,926,100 less amortization. See page 2.  
<sup>2</sup> Includes projected new debt of \$250,000 for well replacement.  
<sup>3</sup> Details of Equity Capital

		<u>December 31, 2006</u>			<u>End of Projected Year</u>	
Capital Stock	Additional Paid-in-Capital	\$	\$	\$	\$	\$
		110,000	4,988	300,000	410,000	4,988
		(619,920)	(504,932)	80,000	(539,920)	(124,932)
		<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
				A	B	
				Change due to issuance of 4,000 shares of common stock for \$300,000 for purchase of land and equipment.		
				Projected year net income of \$80,000.		

**ATTACHMENT SEVEN**



**CERTIFICATE OF SECRETARY**

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

By: Barbara Prince  
Secretary

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

**September 24, 2007**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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