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**BEFORE THE ARIZONA CORPORATION COMMISSION**

In the Matter of the Application of  
Shepard Water Company for Financing  
Approval

Docket No. W-01537A-07-0264  
Docket No. W-01537A-07-0265

**COMMENTS ON STAFF REPORT  
DATED MARCH 18, 2007**

Shepard Water Company, in response to the March 18, 2008 Staff Report regarding Applications for a Permanent Rate Increase and Financing Approval, submits the following comments:

1. Shepard Water Company ("Company") obtained financing in the amount of \$299,475 from the Water Infrastructure Financing Authority ("WIFA") to upgrade the Company's domestic water system at Martinez Lake Resort. Both the Company and Martinez Lake Resort are owned by John Guth.
2. At the time the WIFA loan was awarded, Martinez Lake Resort was planning a residential subdivision, which would include road and street replacement and other improvements, as well as the construction of a sewer system by Martinez Lake Sewer Company (also owned by John Guth).
3. Due to the fact that trenching would be required for the sewer and other utilities (electric, drainage, etc.) contemplated for the subdivision, trenching for the water system upgrades was postponed in order to be completed at the same time as the other utilities. This explains why the May 17, 2004 disbursement of \$3,900 for well drilling is the only portion of the loan that has been funded to date.

4. The Company was forced to wait for zoning and subdivision approval from Yuma County authorities prior to commencing construction on the abovementioned projects. Nevertheless, WIFA required the Company to immediately begin making monthly payments of principle and debt service reserve. Therefore, John Guth, as President of the Company, began making the required payments and has continued doing so, in order to insure that the WIFA loan was not forfeited.

5. To date, John Guth has paid \$159,508.77 in monthly payments towards the loan balance.

6. Progress regarding the construction of the roads and other utility infrastructure for the subdivision and water system upgrades has been regularly reported to the Arizona Corporation Commission through the Company's quarterly progress reports.

7. The Company can now report that the entire water system rebuild, (including the sewer system) has been completed and/or installed in connection with construction of the subdivision streets and roads.

8. Installation and pressurization of individual water meters for the subdivision lots is already complete.

9. The arsenic removal system has also been installed and is now fully operational.

10. All that remains to be completed are the weather protection canopies over the arsenic removal system and the well site. These canopies are scheduled to be completed within the next week.

11. Therefore, the Company is preparing to request a disbursement of the remaining funds allotted under the WIFA loan.

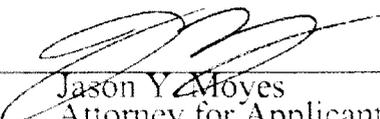
12. The Company has requested permission to begin implementation of the Phase II surcharge of \$10, approved by the Commission in Decision No. 62091. Per the language of that decision, the Company's Phase I surcharge of \$5.00 was to terminate upon filing of an acceptable progress report with

Commission Staff.

13. The Company has made all efforts to comply with Staff's reporting requirements.

14. The Company therefore requests additional review and clarification as to why the Staff has deemed the Company's progress insufficient to allow implementation of the \$10 Phase II surcharge.

DATED: March 28, 2008.



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Jason Y. Moyes  
Attorney for Applicant