

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION



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

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AZ CORP COMMISSION
DOCKET CONTROL

DOCKET NO. W-02824A-07-0388

**IN THE MATTER OF THE APPLICATION OF ICR WATER USERS
ASSOCIATION, AN ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICE.**

**NOTICE OF FILING OF SURREBUTTAL IN RESPONSE TO ICRWUA
SUPPLEMENTAL REBUTTAL**

On February 27, 2008 Administrative Judge Marc E. Stern issued a Procedural Order setting deadlines for the pre-filing of testimony.

I was ordered to file surrebuttal on or before April 7, 2008.

Pursuant to that order, I am providing the surrebuttal to the rebuttal of the following witnesses:

1. Robert M. Busch
2. Thomas J. Bourassa

Dayne Taylor has referenced the Agreements documents included in Exhibits A and Exhibit B of the supplemental rebuttal.

There are three additional Exhibits included:

Exhibits 1a-1b Calculation of proportionate share of revenue	SRT DT-1
ICRWUA Meeting Board Minutes, November 13, 2007	SRT DT-2
Meyer Report.....	SRT DT-3
Data request responses.....	SRT DT-4

RESPECTFULLY submitted this 1st day of April 2008,

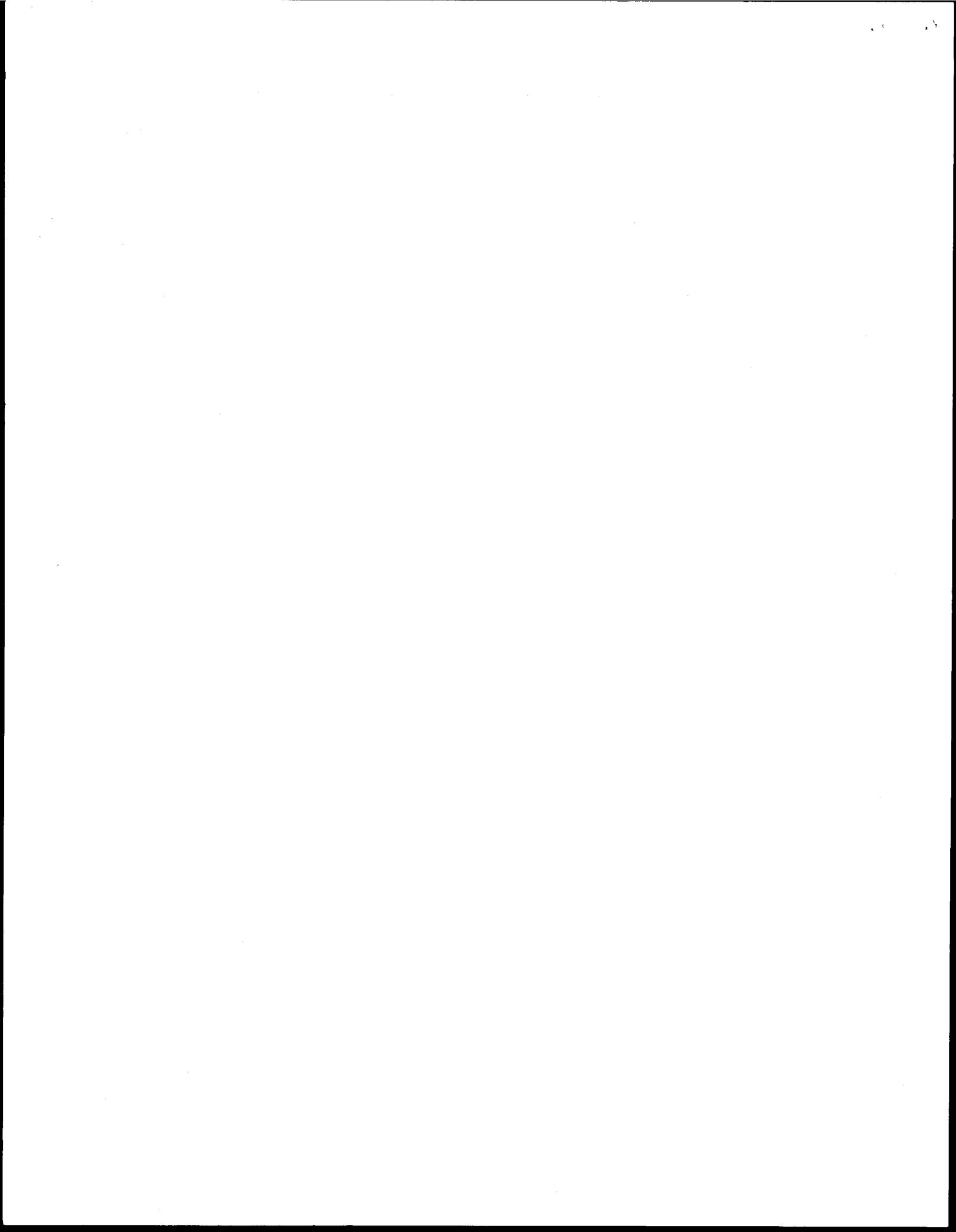
Arizona Corporation Commission

DOCKETED

APR 02 2008

Dayne Taylor, Intervener
13868 North Grey Bears Trail
Prescott, AZ 86305

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Original and thirteen (13) copies of the foregoing were mailed this 1st day of April, 2008 to:

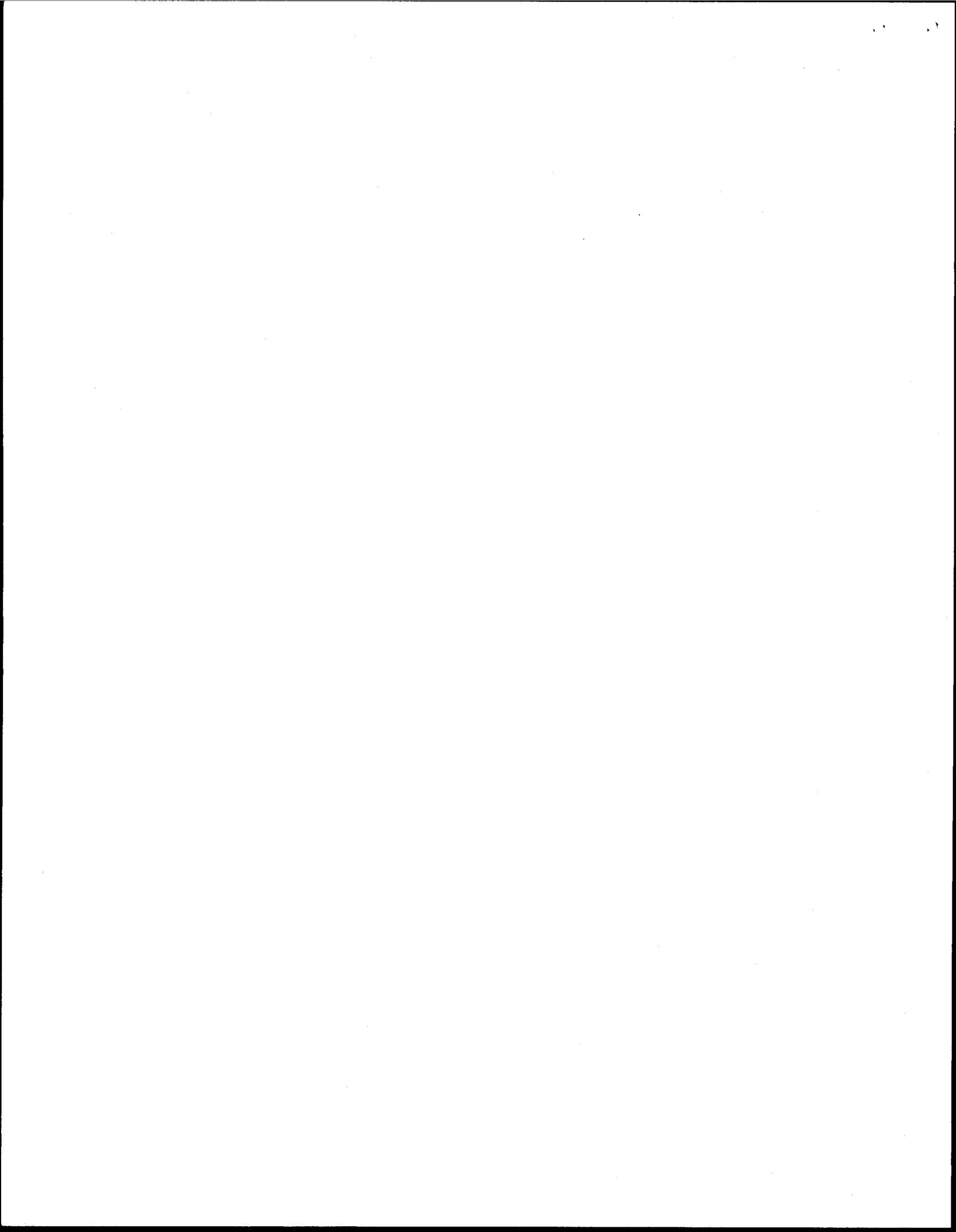
Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

COPY of the foregoing mailed this 1st day of April 2008 to:

Marcie A. Shuman
Snell & Wilmer, L.L.P.
One Arizona Center
400 East VanBuren Street
Phoenix, AZ 85004-2202
Attorneys for ICR Water Users Association, Inc.

COPY of the foregoing hand-delivered this 1st day of April 2008 to:

Robert M. Busch
ICR Water Users Association, Inc.
246 Highway 89
Chino Valley, AZ 86323



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INTRODUCTION

Q. Please state your name, occupation, and place of employment.

A. My name is Dayne Taylor. I retired in 2000 as a Senior Facilities Analyst from Honeywell Satellite Systems Division in Phoenix, AZ.

Q. Have you previously submitted testimony in this proceeding?

A. Yes, I submitted Direct Testimony on January 30, 2008 as the result of Procedural Order by Judge Marc E. Stern granted intervention in the proceeding.

Q. What is the purpose of your surrebuttal?

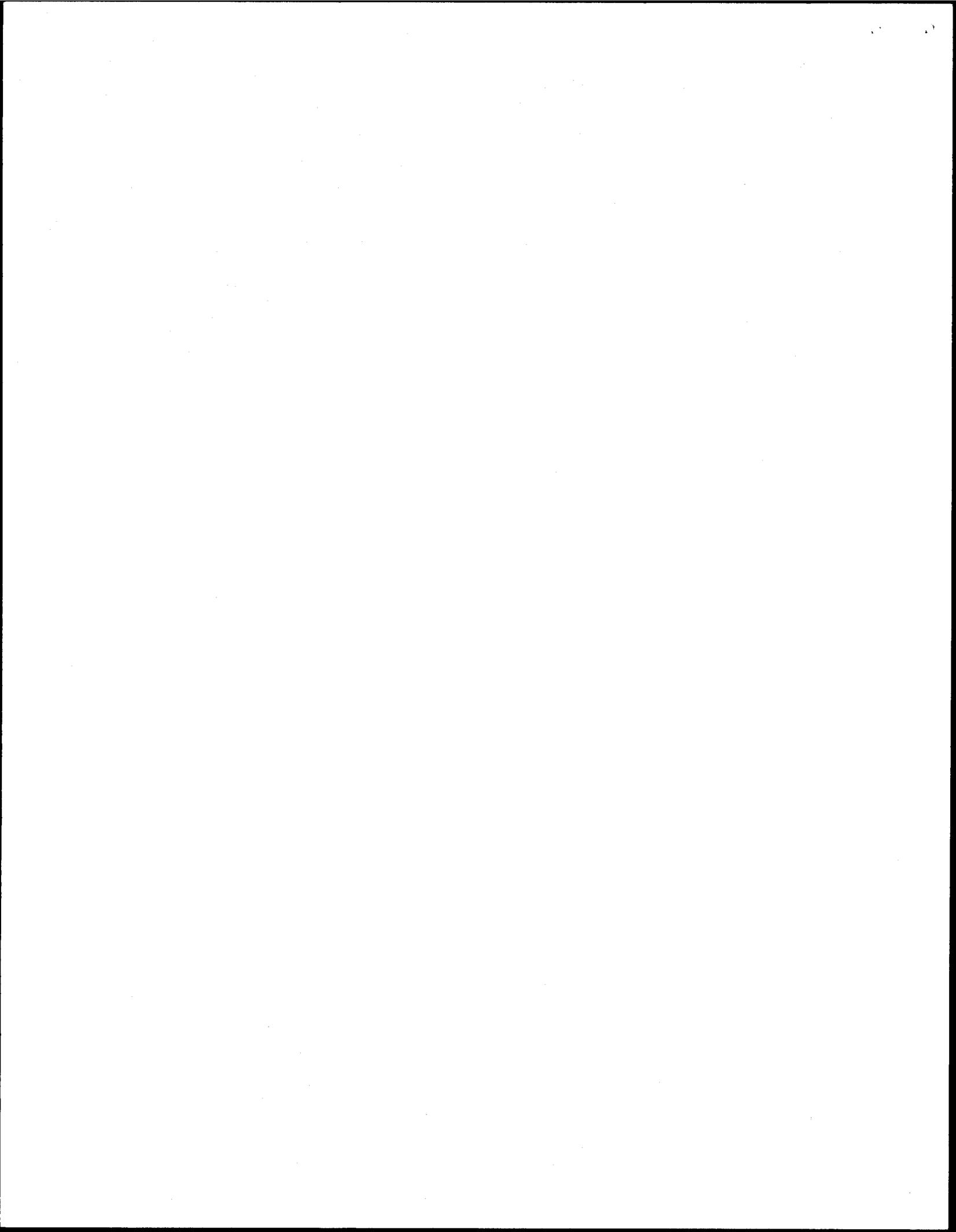
A. My surrebuttal is in response to Mr. Busch's and Mr. Bourassa's rebuttals dated March 14, 2008. My surrebuttal responds to Mr. Busch as (1) it relates to compliance of Decision 64360, (2) Talking Rock Ranch (TRR) water system infrastructure, (3) aspects of various agreements between TRR and Inscription Canyon Ranch Water Users Association (ICR), and (4) water priority, My surrebuttal responds to Mr. Bourassa as it relates to (1) revenues and (2) power costs.

Q. Please provide a summary of your testimony.

A. The Main Extension Agreement (MXA) signed between Harvard and ICR Water Users Association on March 5, 2001 and approved by the Commission on September 19, 2003 requires ICR to provide water to the Talking Rock Ranch (TRR) golf course (TRG) at Commission approved tariff rates.

Decision 64360 dated January 15, 2002 that approved ICR's Certificate to include the TRR subdivision requires the Association to charge its existing rates and charges in the TRR subdivision including TRG. As stated in the Decision, ICR's failure to adhere to this condition would render the approval null and void without further notice from the Commission. The Well Agreement signed between Harvard, TRG, and ICR on February 25, 2003 stipulates that ICR will provide water service to the TRR subdivision in accordance with the terms and conditions set forth in the MXA and in accordance with the rules and regulations of the Commission. In violation of Decision 64360 and the Commission approved MXA, however, the Well Agreement establishes rates for ICR's delivery of water to the TRG at rates far below that required by the Commission. These lower rates have been charged since ICR first began water service to TRG.

In Decision 64360, Staff and the Commission both understood that much of ICR's projected expenses in the extended area would be related to non-cash depreciation expenses and that ICR would remain viable only by continuing to charge its existing rates and charges in the area. As foreseen, depreciation expenses at



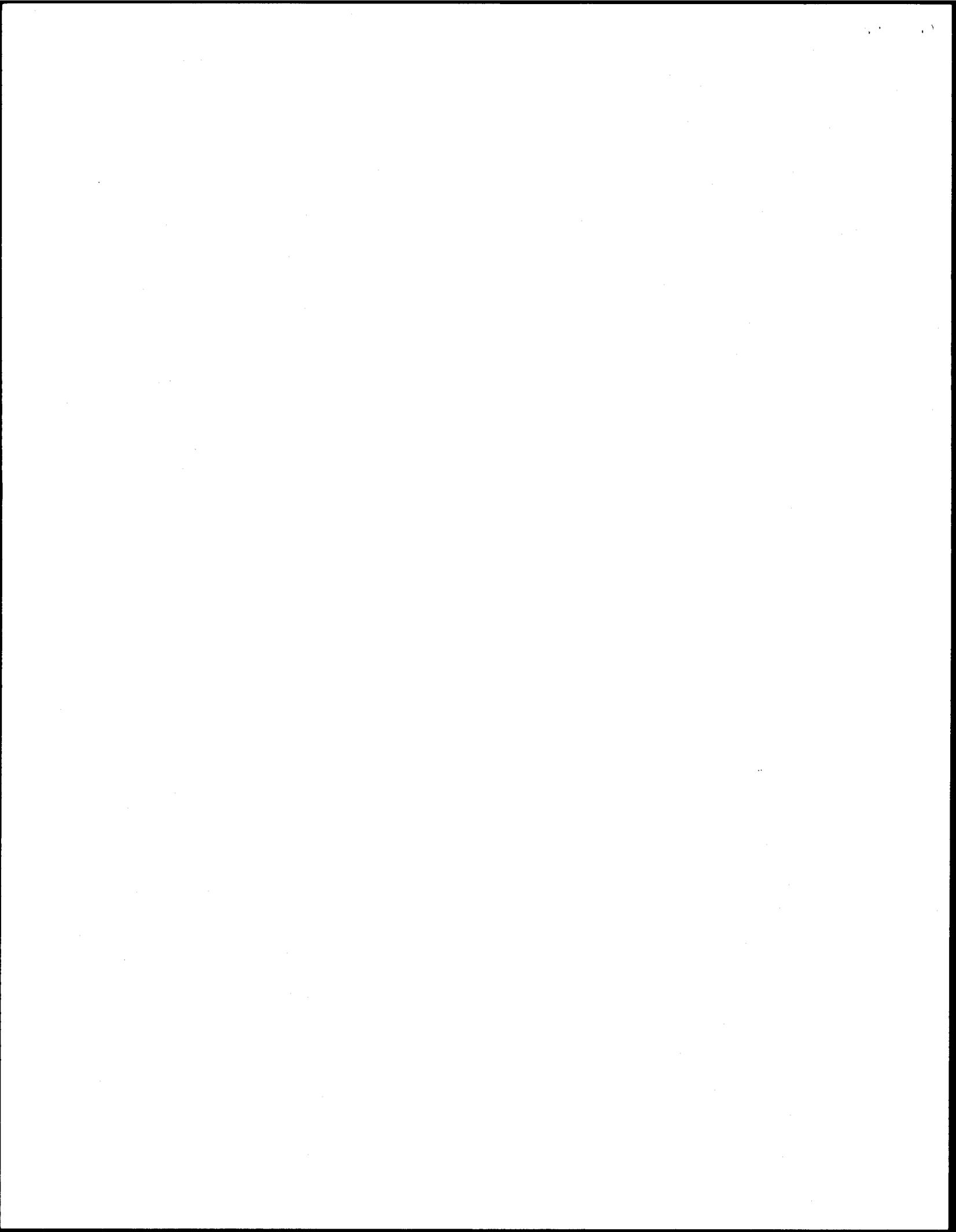
1 the TRR subdivision have grown to the point that they presently represent a significant part of the ICR's overall
2 expenses and also represent a major reason for ICR's current Rate Application for a rate increase. In failing to
3 charge TRG its existing rates and charges, ICR has put itself into the very position that staff and the
4 Commission attempted to avoid. In going forward, the Commission should require ICR to provide water to TRG
5 at the lawful tariff rate as it ordered in Decision 64360 and as ICR agreed to do. Staff has recommended that
6 ICR charge TRG for all the water that is received by TRG from ICR's well at the tariff rate that is in effect at the
7 time of the delivery.

8 ICR's continuing failure to charge tariff rates for water provided to TRG has not been in the best
9 interest of its residential customers; rather it has favored TRG and Harvard. In continuation of this policy, ICR's
10 present request for a rate increase will be borne solely by ICR's residential customers. For the very reasons
11 that Commission Staff directed charging tariff rates for TRG, it continues to be important to impose these rates
12 at this time. An alternative is for the Commission to render the extension of ICR's Certificate to include the TRR
13 subdivision null and void as called for in Decision 64360.

14 Decision 64360 also contained a provision for Harvard to transfer ownership of TRR well No. 1 and an
15 unidentified back-up well to ICR. Failure to accomplish this within 365 days would also render the approval to
16 extend ICR's Certificate null and void without further notice from the Commission. Harvard and ICR executed a
17 First Amendment to the MXA to include transfer of ownership of TRR wells No. 2 and No. 3 rather than the
18 required wells. Besides transferring ownership of the wrong wells, the First Amendment also failed to transfer
19 ownership of the two wells within the required 365 days. To date only the ownership of well No. 3 has been
20 transferred to ICR. Failure to transfer ownership of the second well has left ICR without a back-up well as
21 intended by the Commission and left ICR highly exposed in the event that it's only well should fail for whatever
22 reason.

23 On March 7, 2003 ICR submitted the First Amendment to the Agreement as Exhibit A in a document
24 titled "ICR Water Users Association, Inc. Notice of Compliance." The Commission on September 19, 2003
25 approved both the Agreement and the First Amendment to it. Although the Commission initially approved the
26 First Amendment, Staff has subsequently determined that the First Amendment Agreement did not result in the
27 timely transfer of two wells to ICR and therefore the Company did not achieve compliance as outlined and
28 required in Decision No. 64360.

29 The Commission should require ICR to adhere to the requirements of 64360 with regard to obtaining
30 ownership of the wells specified in Decision 64360 and with regard to charging tariff rates for water delivered to



1 TRG or declare the extension null and void owing to ICR's failure to meet two of the major requirements of
2 Decision 64360.

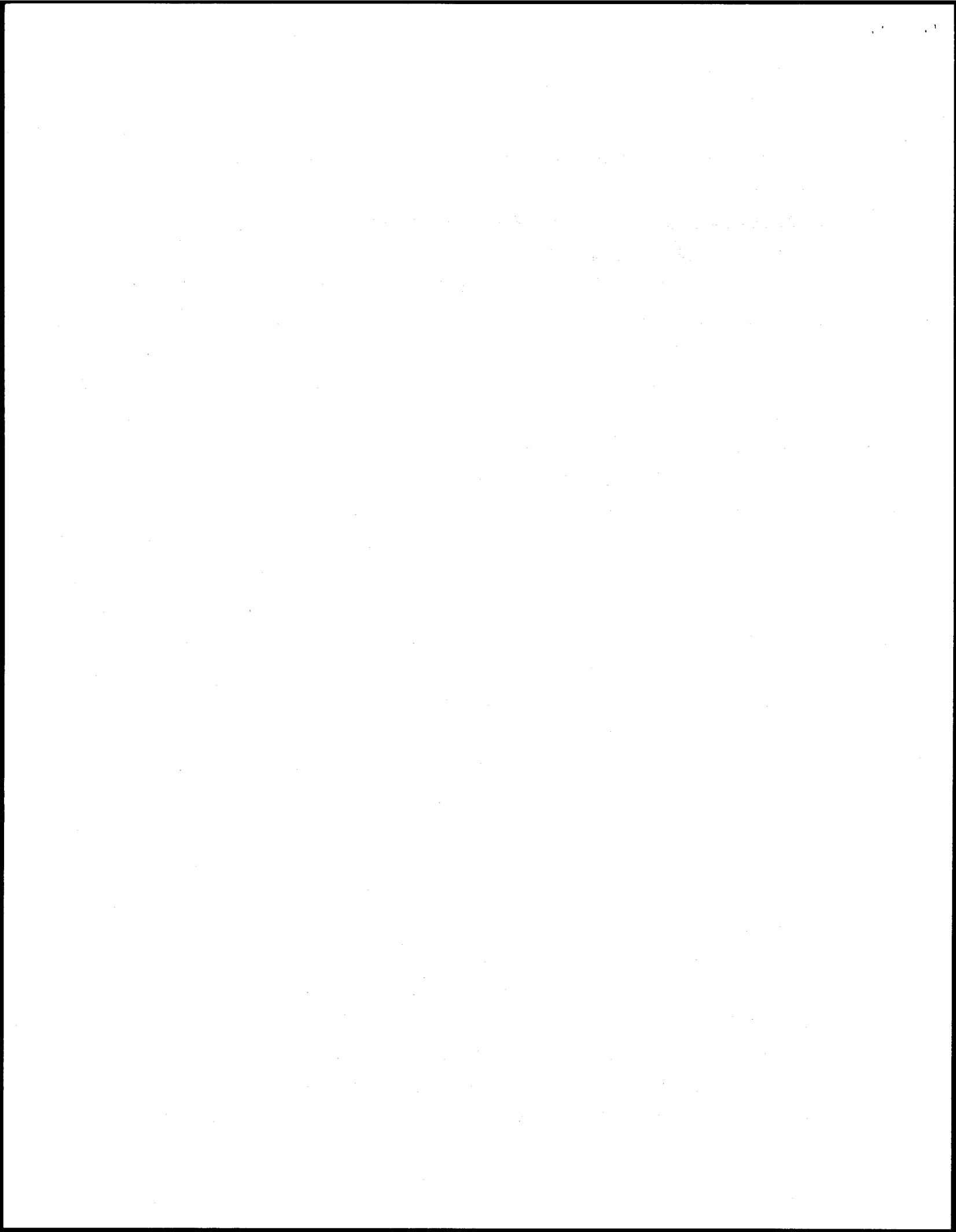
3 **Q. PLEASE EXPLAIN HOW DECISION 64360 RELATES TO ICR'S APPLICATION FOR A RATE INCREASE**
4 **PRESENTLY BEFORE THE COMMISSION.**

5 A. On June 1, 2001, ICR filed with the Arizona Corporation Commission (Commission) an application for an
6 extension of its Certificate of Convenience and Necessity (Certificate) to provide public water utility service to
7 various parts of Yavapai County, Arizona, i.e., the TRR. The subdivision would include approximately 1,500
8 single-family homes and a golf course. Harvard, the developer of the subdivision was granted Intervener status.
9 On January 15, 2002 the Commission approved the extension with conditions that ICR comply with Decision
10 64360. Included within Decision 64360 were 35 Findings of Fact.

11 At the time ICR filed its application, Harvard owned the well that ICR would use to supply water to the
12 extended area, including TRG. Findings of Fact 8 states that in order to provide service to the extension area,
13 ICR and Harvard have entered into an MXA. Findings of Fact 16 states that under the terms of the MXA, ICR
14 consents to Harvard using water from its well to provide TRG and storage lakes within the Ranch subdivision
15 with water. Findings of Fact 16 further states that the MXA has a provision wherein ICR agrees to provide water
16 from Harvard's well at the lawful tariff rate to TRG upon written request from Harvard in the future, consistent
17 with the rules of the Commission. The latter agreement is important in that it is clear that Harvard agreed to pay
18 tariff rates for ICR's delivery of water to TRG even though the water is being pumped from a well owned by
19 Harvard.

20 Findings of Fact 26 states that staff believes that by charging its existing rates within the extended
21 area, ICR will be able to continue viable operations because much of ICR's projected expenses with the
22 expansion will be related to non-cash depreciation expenses. This is an extremely important conclusion by Staff
23 that relates directly to ICR's current request for a rate increase. Findings of Fact 30 states that Staff
24 recommends approval of ICR's application subject to four conditions including a condition that ICR continue to
25 charge its existing rates and charges in the expansion area. Findings of Fact 13 states that Mr. Swayze
26 McCraine, the president of ICR, testified that ICR will comply with all conditions recommended by staff in its
27 report. Decision 64360 grants approval of ICR's application for an extension of its Certificate, based in part on a
28 requirement that ICR continue to charge its existing rates and charges in the extension area. TRG, which is
29 within the extended area, was not excluded from this requirement.

30 Instead of charging its existing rates and charges for water delivered to TRG as required by both the
31 MXA and Decision 64360 and as agreed to by ICR's president, ICR entered into a Well Agreement with



1 Harvard and TRG more than one year after Decision 64360 wherein TRG would not pay ICR its existing rates
2 and charges for water delivered to TRG, but instead would reimburse ICR for its proportionate cost associated
3 with delivering water to TRG. Subsequently TRG also agreed to pay a wheeling charge for water delivered to
4 TRG at a rate initially set at \$10.00 per acre-foot of water delivered. The funds ICR receives from this
5 arrangement are far less than those it would have received had ICR charged its existing rates and charges for
6 water delivered to TRG as required by Decision 64360 and the agreement (MXA). In the meantime depreciation
7 expenses at the TRR subdivision have grown to the point that they presently represent a significant part of the
8 ICR's overall expenses and also represent a major reason for ICR's compliance in filing a Rate Application
9 request for a rate increase.

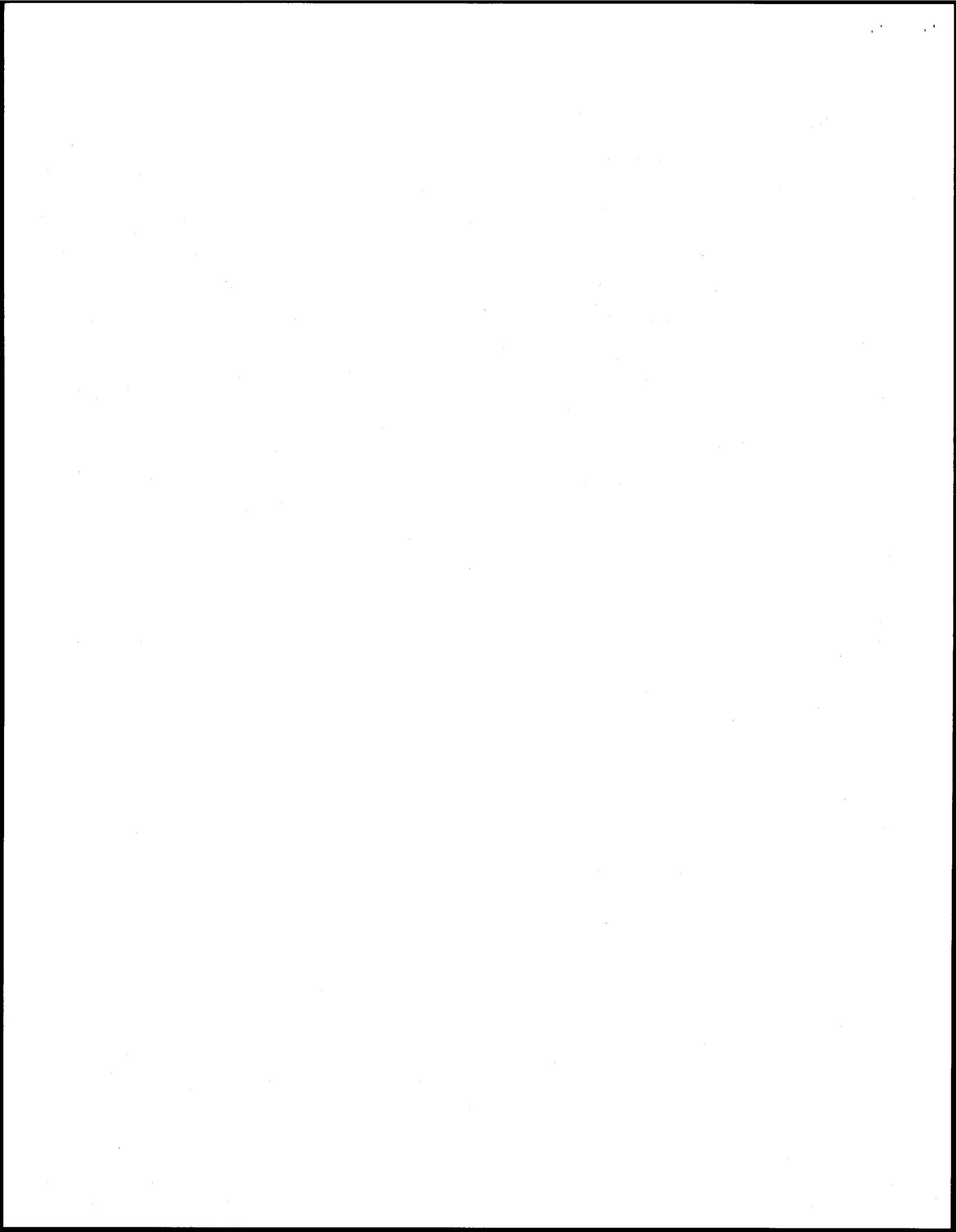
10 In failing to charge its existing rates and charges for water delivered to TRG, ICR has put itself into the
11 very position that staff attempted to avoid with Findings of Fact 26 and that the Commission attempted to
12 prevent with Decision 64360. In going forward, the Commission should require ICR to provide water to TRG at
13 the lawful tariff rate as it ordered in Decision 64360 and as ICR agreed to do. This conclusion is consistent with
14 Staff's Amended Direct Testimony (March 14, 2008 Amended Direct Testimony of Charles Myhlhousen Docket
15 No. W-02824A-0700388, p. 7, lines 15-17). An alternative is that, in light of ICR's failure to properly charge
16 TRG for water delivered to TRG, the Commission should render the approval of ICR's extension into the TRR
17 subdivision null and void as also determined by Decision 64360.

18 **Q. PLEASE RESPOND TO ICR'S STATEMENT THAT IT COMPLIED WITH DECISION 64360.**

19 **A.** ICR did not comply with Decision 64360. Besides ICR's failure to charge its existing rates and charges for water
20 delivered to TRG as discussed above, approval to extend ICR's Certificate included a requirement that Harvard
21 and ICR amend their MXA to include transferring ownership of the wells Harvard had drilled to ICR. ICR was
22 required to file a copy of the relevant documents transferring ownership of the wells within 365 days of the
23 effective date of the Commission's decision or the approval shall be rendered null and void without further
24 Order by the Commission.

25 The order that specifically required Harvard to transfer ownership of the wells "it has drilled," meaning
26 the wells Harvard had purportedly drilled as of the date of Decision 64360, i.e., January 15, 2002, per Findings
27 of Fact 20, has never been complied with.

28 In Findings of Fact 18, a Harvard representative states that hydrologic test performed by the developer
29 indicated that there was more than ample water available to the extension area. Findings of Fact 20 states that
30 Harvard had drilled two test wells, one of which produces approximately 700 gallons per minute (gpm) although
31 water production from it had been lowered to 525 gpm. Included within Findings of Fact 20 is the statement that



1 Harvard will use the second well as a back-up emergency well. Despite the statements in Findings of Fact 20,
2 records indicate that Harvard had only drilled one well at the time of Decision 64360, well No. 55-584177. This
3 well is presently referred to as TRR well No. 1. Two other wells were drilled by Harvard in the immediate vicinity
4 of TRR well No. 1 after Decision 64360. These wells (well No. 55-589659 and No. 55-589660) are presently
5 referred to as TRR wells No. 2 and 3 respectively.

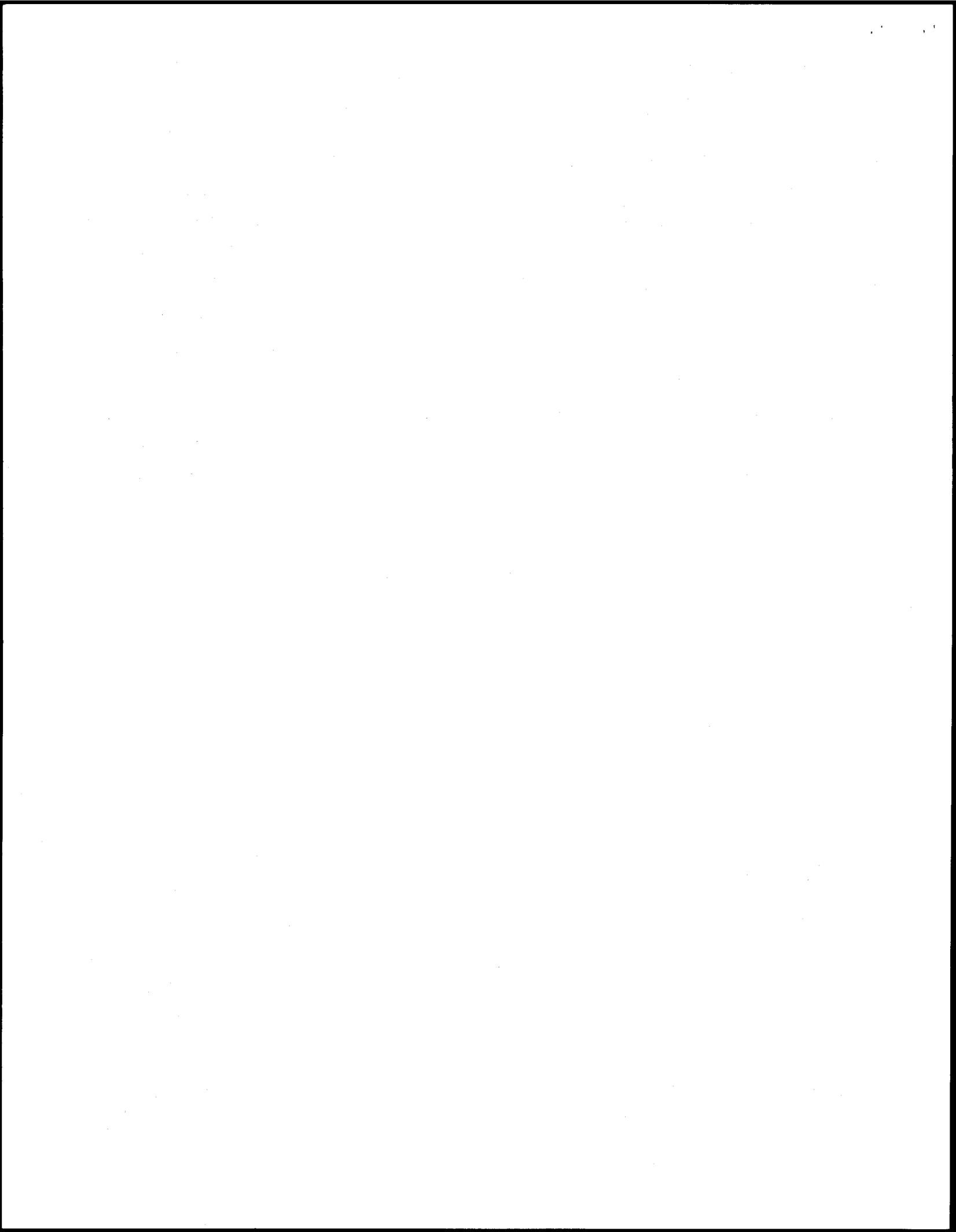
6 In Findings of Fact 34 Staff recommends that Harvard should advance the wells it has drilled to ICR for
7 the purpose of providing water to the subdivision to ensure that ICR has adequate water for its customers and
8 that ICR is not relying on a third party over which the Commission lacks jurisdiction.

9 Finally Findings of Fact 35 requires ICR and Harvard to amend their Agreement (MXA) to include
10 transferring ownership of the wells and related water production facilities to ICR within 365 days of the effective
11 date of Decision 64360 or the approval shall be rendered null and void without further order of the Commission.
12 Decision 64360 approved extension of ICR Certificate conditioned upon ICR complying with conditions set forth
13 in Findings of Fact Nos. 34 and 35 among other conditions.

14 Although Harvard testified that they had drilled two wells, it appears that they had only drilled one well
15 prior to the date of the Decision 64360 (TRR well No. 1), and this well has never been transferred to ICR.
16 Failure to transfer ownership of well No. 1 should render the extension of ICR's Certificate into the TRR
17 subdivision null and void as stated in Decision 64360. Decision 64360 also required a second unnamed and
18 unidentified back-up well that purportedly had been drilled by Harvard prior to the date of Decision 64360 to be
19 transferred to ICR, but this well has never been identified nor its ownership transferred to ICR. ICR presently
20 has no back-up well as the Commission assumed would be the case.

21 Instead of transferring ownership of well No. 1 and the unidentified back-up well, Harvard and ICR
22 amended the Agreement (MXA) by transferring ownership of two wells (TRR wells No. 2 and No. 3) both drilled
23 by Harvard after Decision 64360 was rendered. Harvard and ICR also entered into a Well Agreement dated
24 February 25, 2003 that transferred ownership of the same two wells from Harvard to ICR. The latter agreement
25 further specified that ownership of well No. 1 will remain with TRG. Ownership of well No. 3 was transferred on
26 October 28, 2003, 286 days after the date required by Decision 64360. Ownership of well No. 2 has never been
27 transferred. Ownership of well No. 2 is to be transferred to ICR on or before the date that ICR provides water
28 service to the 800th single-family residence at the TRR subdivision. None of these ownership transfers meet the
29 requirements of Decision 64360.

30 On March 7, 2003 ICR submitted the First Amendment to the MXA as Exhibit A in a document titled
31 "ICR Water Users Association, Inc. Notice of Compliance." Although the First Amendment provided for transfer



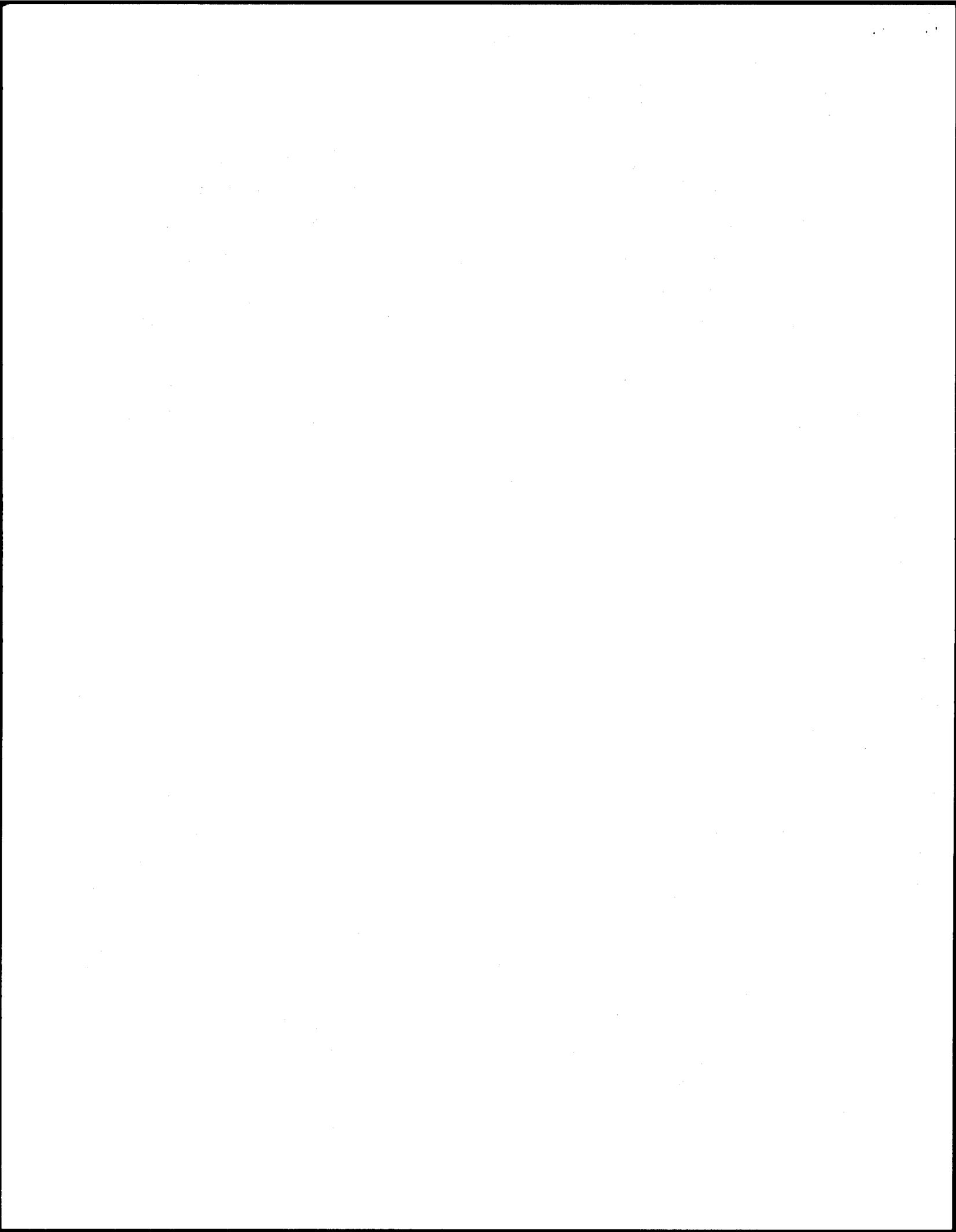
1 of ownership of two wells, it did not identify the fact that the wells for which ownership was being transferred
2 were not the wells whose transfer of ownership the Commission had ordered. This is not something that the
3 Staff would easily recognize. With regard to the two wells ownership was being transferred, neither the date
4 that ownership of well No. 3 was transferred to ICR nor the condition under which ownership of well No. 2 will
5 be transferred satisfies the condition for transfer of well ownership specified in Decision 64360. The
6 Commission on September 19, 2003 approved both the MXA and the First Amendment to it. Although the
7 Commission initially approved the First Amendment, Staff has subsequently rescinded that approval and
8 found ICR to be out of compliance with Decision 64360. Reference Mr. Bozzo memo dated January 15, 2008.

9 Although ICR states that it believes that it had complied with the requirements of Decision 64360 by, in
10 part submitting the Well Agreement at the same time it submitted the First Amendment to the MXA, ICR has
11 presented no evidence that the Commission approved the Well Agreement or that in the transmittal of this
12 document ICR identified the fact that the Well Agreement included rates for water delivery other than tariff
13 rates. The failure to correctly respond to Decision 64360 with regard to transfer of well ownership as well as
14 ICR's failure to charge its existing rates and charges to TRG should render the extension of ICR's Certificate to
15 include the TRR subdivision null void as required by Decision 64360.

16 **Q. IS THE PRODUCTION CAPACITY OF TRR WELL NO. 3 EQUAL TO THAT OF TRR WELL NO. 1, THE**
17 **WELL THAT SHOULD HAVE BEEN TRANSFERRED TO ICR?**

18 A. The production capacity of well No. 1 that Harvard was ordered to transfer to ICR was stated in the Findings of
19 Fact 20 to be 525 gallons per minute. The Meyer Report (on results of a 3-day test of the TRR well field) states
20 that after pumping all three wells for a period of three days, production from well 3 equaled 132 gallons per
21 minute. The production from well No. 1 for the same time equaled 379 gallons per minute. Findings of Fact
22 64360 states that the water demand at the TRR subdivision at full build-out including TRG equals 523 gallons
23 of water per minute. Given the low yield of TRR well No. 3, Harvard and ICR transferred the ownership of a well
24 that cannot meet the demand of the TRR subdivision at full build-out including TRG. The eventual transfer of
25 TRR well No. 2 does not solve this problem. As stated in the November 13, 2007 ICR Board of Directors
26 minutes *"If the problem with aerated water is neglected, the test results (the results of the October 2007 TRR*
27 *well field test) indicate that the well field can meet domestic demand at TRR at full build-out or the demand*
28 *associated with irrigation of TRG throughout the year, but the well field cannot meet both demands at all times*
29 *of the year, or should a well fail."* (ICR Board Minutes, November 13, 2007, pgs. 3 & 4, section 4, Old Business,
30 c. Well Testing-Bill Meyer).

31 **Q. PLEASE RESPOND TO ICR'S SUMMARY OF THE WELL AGREEMENT.**



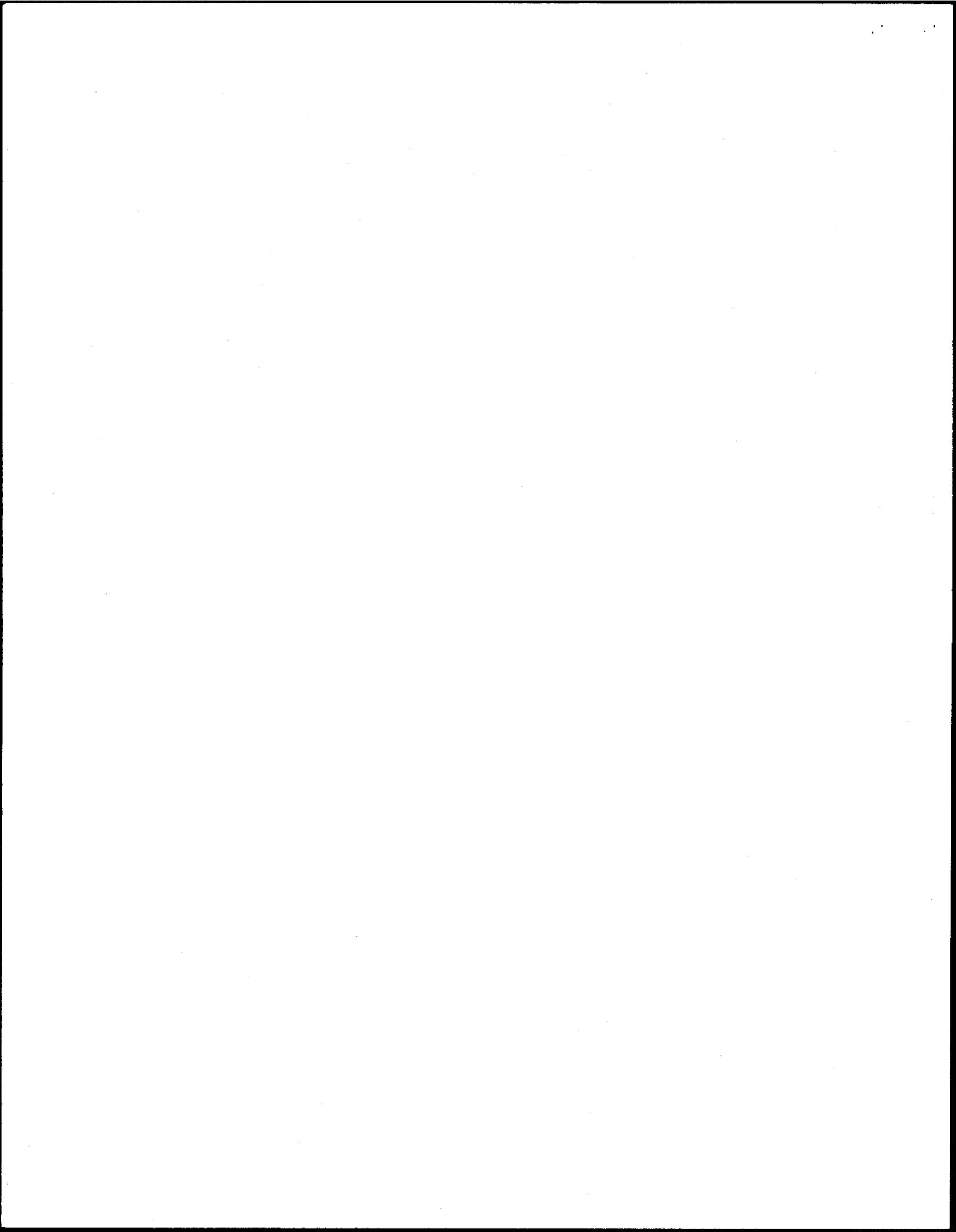
1 A. This summary provides a very limited account of a 29-page document. It states that ICR and Harvard entered
2 into negotiations to determine which wells were to be transferred to ICR and the timeframe for such transfer.
3 Such negotiations were inconsistent with the requirements of Decision 64360. Decision 64360 did not leave it
4 up to Harvard and ICR to decide which wells should be transferred to ICR or when the wells would be
5 transferred. The Decision required Harvard to transfer the wells it had drilled as of the date of Decision 63460,
6 and it required transfer of ownership of these wells to be effected within 365 days of the date of Decision
7 64360.

8 Instead of transferring ownership of TRR well No. 1 and an unidentified back-up well as required by
9 Decision 64360, Harvard and ICR agreed to transfer ownership of TRR wells No. 2 and 3, both of which did not
10 exist at the time of Decision 64360. The ownership of TRR well No. 3 was transferred considerably after the
11 deadline. Transfer and ownership of TRR well No. 2 has yet to occur. Failure to transfer a second well to ICR
12 has left ICR in a highly vulnerable position in the event that TRR well No. 3 should fail.

13 ICR's summary also fails to indicate that the Well Agreement violates the requirement of Decision
14 64360 for TRG to pay ICR's existing rates and charges for water delivered to TRG. Rather, as discussed
15 above, the Well Agreement requires TRG to reimburse ICR for its proportionate cost associated with delivering
16 water to TRG. As part of the Well Agreement TRG also pays a wheeling charge for water delivered to TRG at a
17 rate initially set at \$10.00 per acre-foot of water delivered. As also discussed previously, the funds ICR receives
18 from this arrangement are far less than those it would have received had ICR charged its existing rates and
19 charges for water delivered to TRG as required by Decision 64360 and the MXA.

20 **Q. PLEASE RESPOND TO ICR'S STATEMENT THAT HARVARD AND THE TRG SHOULD NOT BE**
21 **CHARGED THE TARIFF RATES INSTEAD OF THE CHARGES SPECIFIED IN THE WELL AGREEMENT.**

22 A. **First**, Decision 64360 (dated January 15, 2002) requires that ICR charge existing tariff rates to all its customers
23 within the extended Certificate. TRG is contained within the extended area and this fact was known when the
24 Commission made its decision. Decision 64360 did not exclude TRG or Harvard. **Second**, the MXA (dated
25 March 5, 2001) between ICR and Harvard states that water service to TRG by ICR is to be provided in a
26 manner consistent with the rules and regulations of the Commission and consistent with Commission approved
27 tariffs. **Third**, the Well Agreement itself, states that ICR agrees to extend service to TRR subdivision in
28 accordance with the terms and conditions set forth in the MXA and in accordance with relevant law, including
29 the rules and regulations of the Commission (p. 1 paragraph C). Given these facts, there should be no dispute
30 about the requirement to charge tariff rates to TRG and Harvard. Charges to Harvard would include water used
31 for construction purposes at the TRR subdivision.



1 ICR argues that Harvard and TRG are not customers of ICR, so tariff rates do not apply. This
2 contention is counter to ICR's position stated in Finding of Fact 16 of Decision 64360, to the requirement for
3 charging tariff rates in Decision 64360 itself, the requirement to charge tariff rates specified by the Commission
4 in the MXA, and finally the Well Agreement itself, which states that ICR agrees to extend service to TRR
5 subdivision in accordance with the terms and conditions set forth in the MXA and in accordance with relevant
6 law, including the rules and regulations of the Commission (p. 1 paragraph C). As discussed below TRG
7 receives water from ICR's well thereby making it a customer of ICR.

8 As discussed below, the Well Agreement provides for changes to it should the Commission or the
9 Commission's staff find inadequacies in the Well Agreement (p. 6, paragraph 7). Given this, ICR, Harvard, and
10 TRG should not view the Well Agreement as the final authority on matters controlled by the Commission.

11 **Q. PLEASE RESPOND TO ICR'S ASSERTION THAT IT WAS REASONABLE FOR ICR TO ENTER INTO THE**
12 **WELL AGREEMENT WITH HARVARD.**

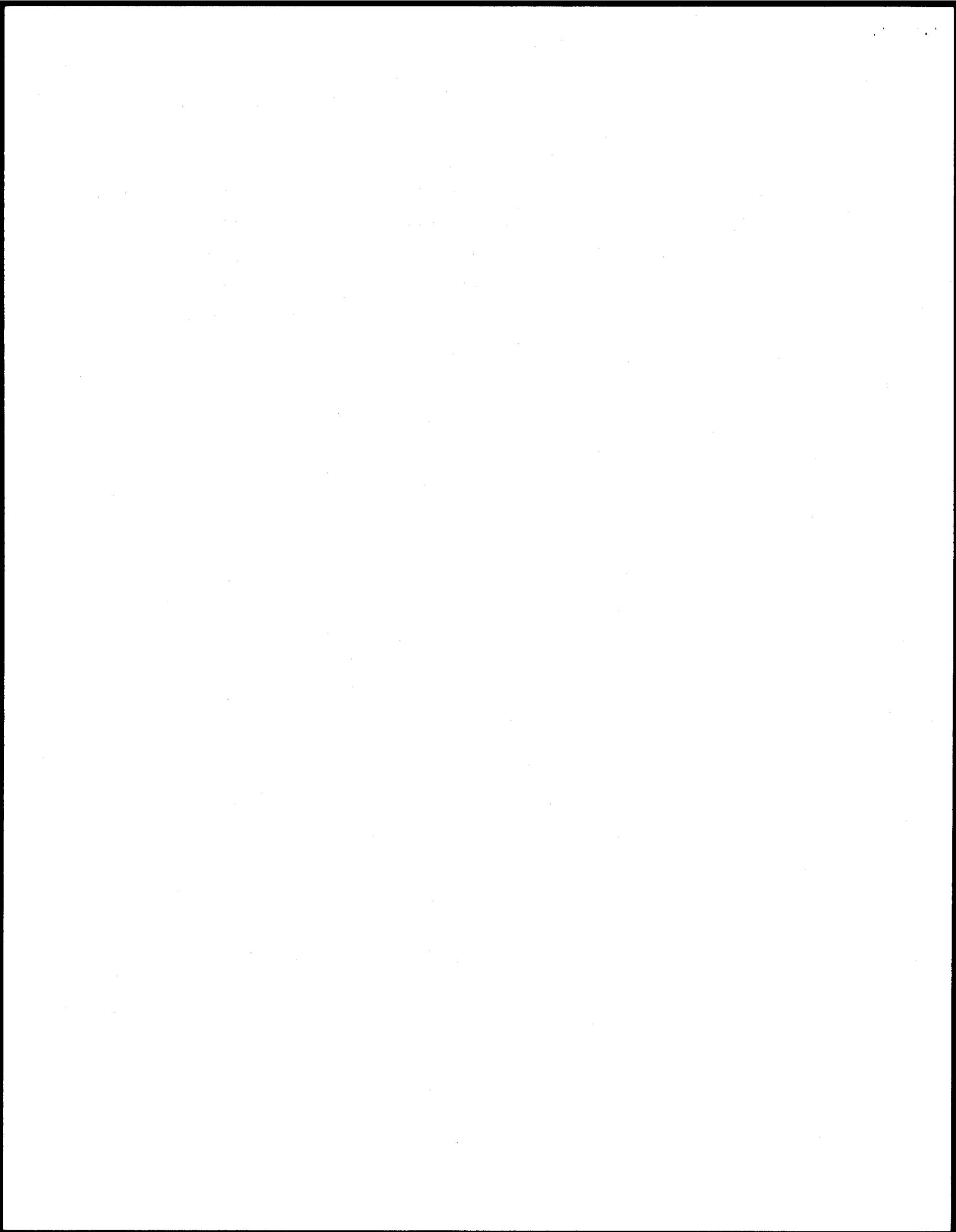
13 A. ICR's statement notwithstanding, it was not reasonable for ICR to enter into the Well Agreement. The
14 agreement violates the conditions for transfer of well ownership specified in Decision 64360 and violates the
15 requirement in Decision 64360 that ICR charge tariff rates established by the Commission to TRG. The Well
16 Agreement also violates the requirement for ICR to charge Commission imposed tariffs for water delivered to
17 TRG in the MXA.

18 Although ICR states that the Commission staff approved ICR's MXA and the First Amendment to the
19 MXA it has offered no evidence that the Commission or its staff approved the Well Agreement or those parts of
20 the agreement regulated by the Commission, i.e., transfer of well ownership and rates for water delivery from
21 ICR's well(s). The latter seemingly would have had to occur in a rate case hearing. Further, as discussed
22 below, Commission Staff has concluded in its Amended Testimony of March 14, 2008 that the First Amendment
23 to the MXA does not comply with the Commission's requirement relating to the transfer of well ownership and
24 Staff also recommends that ICR charge TRG for all the water that is received by TRG from the Company's well
25 at the tariff rate that is in effect at the time of the delivery.

26 **Q. HAS THE COMMISSION STAFF FOUND THAT ICR IS OUT OF COMPLIANCE WITH DECISION 64360?**

27 A. Yes, Commission staff has found that ICR has violated the requirement for transfer of well ownership and
28 further found that ICR has failed to charge TRG tariff rates.

29 In a memo to Docket Control Center from Brian K. Bozzo Manager, Compliance and Enforcement,
30 Utilities Division of the Commission dated January 15, 2008, Mr. Bozzo states that the First Amendment to the



1 MXA did not result in a timely transfer of well ownership from Harvard to ICR and that ICR is not in compliance
2 with the Commission's requirement relating to the transfer of the two wells.

3 Subsequently, the Amended Direct Testimony of Jian W. Liu Utilities Engineer, Utilities Division of the
4 Commission dated March 14, 2008 also states that ICR is not in compliance with the Commission's
5 requirement relating to the transfer of the two wells.

6 In the Amended Direct Testimony of Charles R. Myhlhousen, Public Utilities Analyst, Utilities Division of
7 the Commission dated March 14, 2008 Mr. Myhlhousen recommends that ICR charge TRG for all the water that
8 is received by TRG from the Company's well at the tariff rate that is in effect at the time of the delivery. He also
9 imputes \$114,290 of income to ICR for the rate case test year, stating that it is the amount of revenue, which
10 was understated by ICR owing to the Company's failure to collect tariff rates for water delivered to TRG.

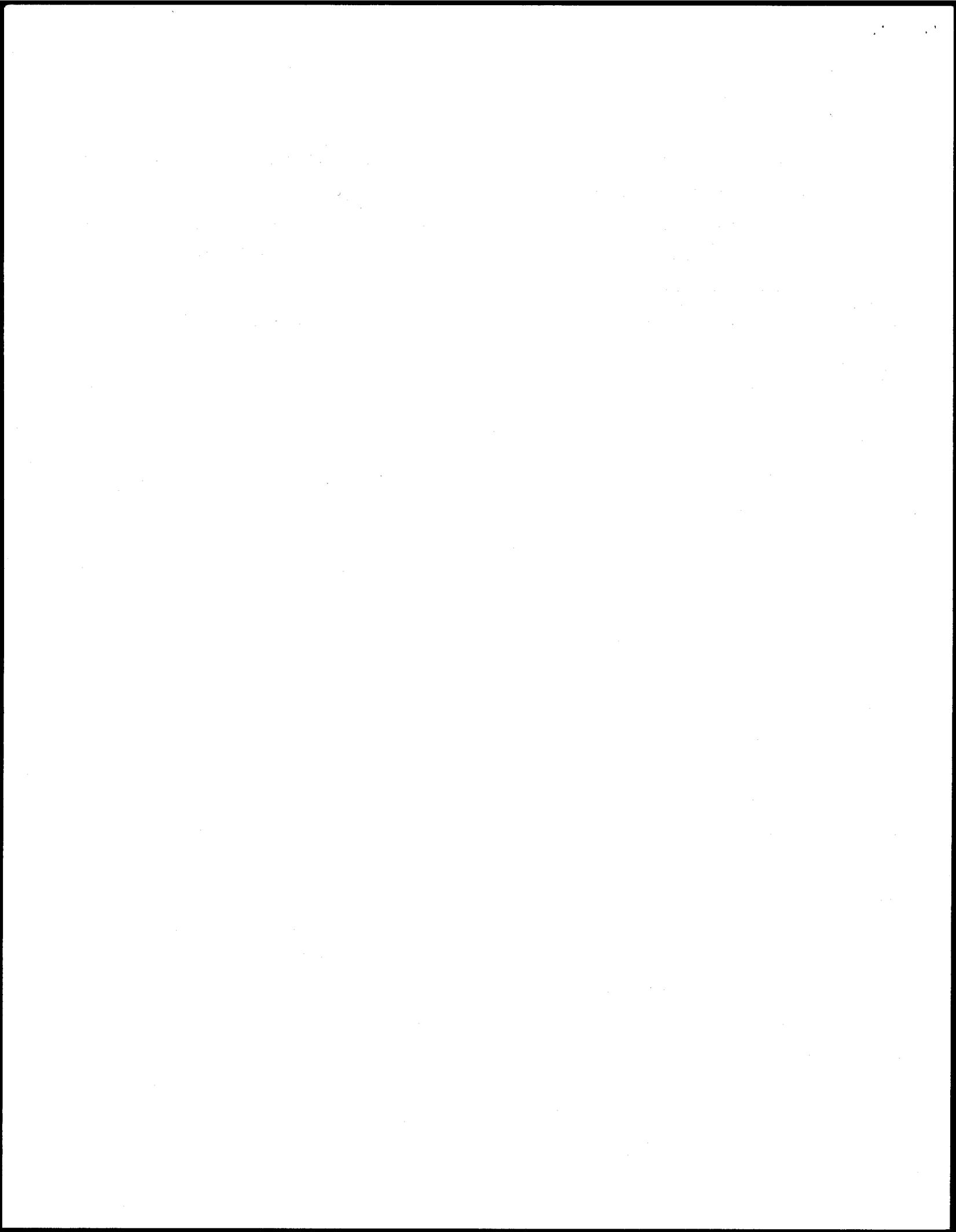
11 **Q. IS IT POSSIBLE TO AMEND THE WELL AGREEMENT IN ORDER TO BRING ICR INTO COMPLIANCE**
12 **WITH DECISION 64360?**

13 A. Yes. The MXA states that all rights and obligations hereunder, shall be subject to the Commission's rules and
14 regulations regarding the operation of water utility companies and all applicable rates, fees, charges, and tariffs
15 of Utility (ICR) as approved by the Commission or as may be modified in the future (p. 13. paragraph 17). The
16 Well Agreement states on page 6, paragraph 7 that "If the Commission or the Commission's staff determines
17 that the First Amendment does not satisfy the conditions stated in Decision 64360, Developer (*Harvard*) and
18 Utility (*ICR*) will amend the First Amendment (and Developer, TRG, and Utility will amend this Well Agreement,
19 if necessary) to address the inadequacies of the First Amendment identified by the Commission or the
20 Commission's staff."

21 **Q. PLEASE RESPOND TO ICR'S STATED REASONS FOR NOT TREATING TRG AS A CUSTOMER.**

22 A. ICR states that one reason it does not treat the TRG as a customer is due to the existence of the Well
23 Agreement, and that this agreement "sets forth the relationship between TRG and ICR, including charges and
24 reimbursements". This response ignores the point that, as discussed above, the Well Agreement violates the
25 requirement of Decision 64360 that ICR charge tariff rates to TRG, the condition in the MXA wherein ICR would
26 provide water to TRG consistent with the rules and regulations of the Commission and Utility's Commission
27 approved tariffs. It also ignores the condition stated in the Well Agreement that ICR will provide water to TRR
28 subdivision in accordance with terms and conditions set forth in the MXA and in accordance with relevant law,
29 including the rules and regulations of the Commission.

30 ICR's additional statements that it does not treat TRG as a customer because it sends out different
31 invoices to TRG and that TRG pays for pumping power cost for the three wells in the TRR well field, the TRR



1 pumping station, and the Adobe pumping station are not relevant to whether or not TRG is a customer of ICR.
2 The latter statement only makes it clear that neither TRG nor ICR is operating in complete compliance with the
3 requirements of the Well Agreement. Given this, it is difficult to see how the test year financial statement
4 reflects actual expenses and revenues for ICR. The central point not discussed by ICR is that ICR provides
5 water to TRG from a well owned by ICR and that Decision 64360 as well as the MXA requires ICR to charge
6 tariff rates for this water.

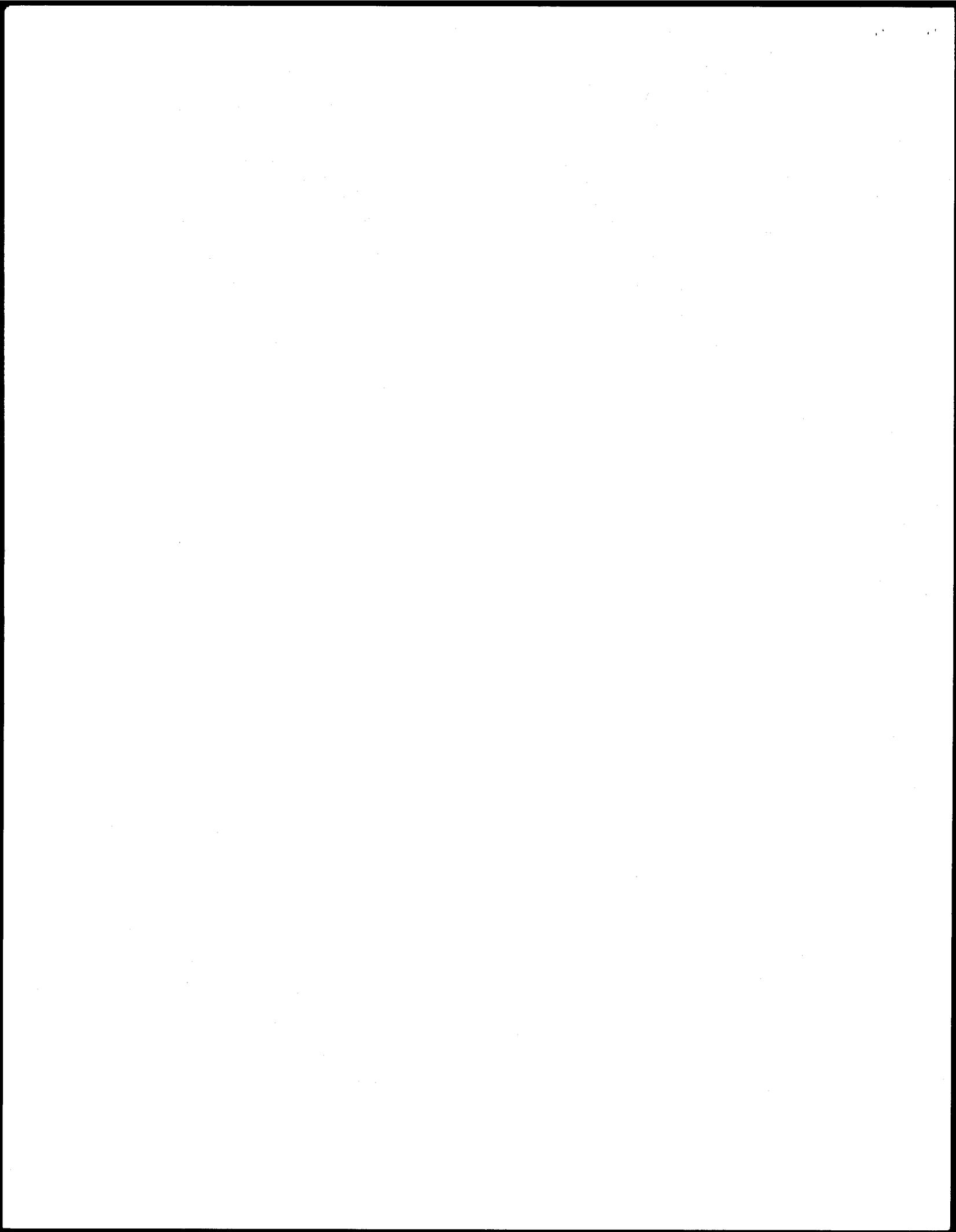
7 **Q. PLEASE RESPOND TO ICR'S CONCERNS IF THE COMMISSION DECIDES TO TREAT TRG AS A**
8 **CUSTOMER, REQUIRING PAYMENT OF TARIFF RATES FOR WATER.**

9 A. ICR states three major concerns associated with a potential decision by the Commission to treat TRG as a
10 customer, requiring it to pay tariff rates for water. ICR's first concern is; should the Commission require that
11 ICR charge TRG tariff rates (as required by Decision 64360), the Commission would impute revenue from TRG
12 for the rate case test year that ICR would not receive. This, in turn, ICR states, could result in the company
13 going bankrupt. ICR's second stated concern is that it fears that this action could lead to a breach of the Well
14 Agreement and legal action against ICR by Harvard and the TRG for attempting to charge tariff rates.

15 With regard to ICR's first concern, imputing funds into ICR's 2006 budget as part of the rate case does
16 not affect ICR's actual financial condition for that year. It simply affects the request for a rate increase. Thus, it
17 is hard to see how this act, in and of itself, results in ICR going bankrupt.

18 With regard to ICR's second concern, the fear of legal action by Harvard and TRG against ICR seems
19 to be overstated. As discussed above and as stated in the Well Agreement, ICR only agreed to extend water
20 service into the TRR subdivision in accordance with the terms and conditions set forth in the MXA and in
21 accordance with relevant law, including the rules and regulations of the Commission. As also discussed above,
22 ICR, Harvard, and TRG agreed to amend the Well Agreement if necessary in order to address inadequacies
23 identified by the Commission or the Commission's staff. In addition, the Well Agreement specifies that no party
24 to it is liable to the others for actions required of that party by decisions or orders or regulations of any
25 governmental body or agency not within the control of that party and which, by exercise of due diligence, such
26 party is unable to prevent or mitigate the outcome (p. 25, paragraph 24).

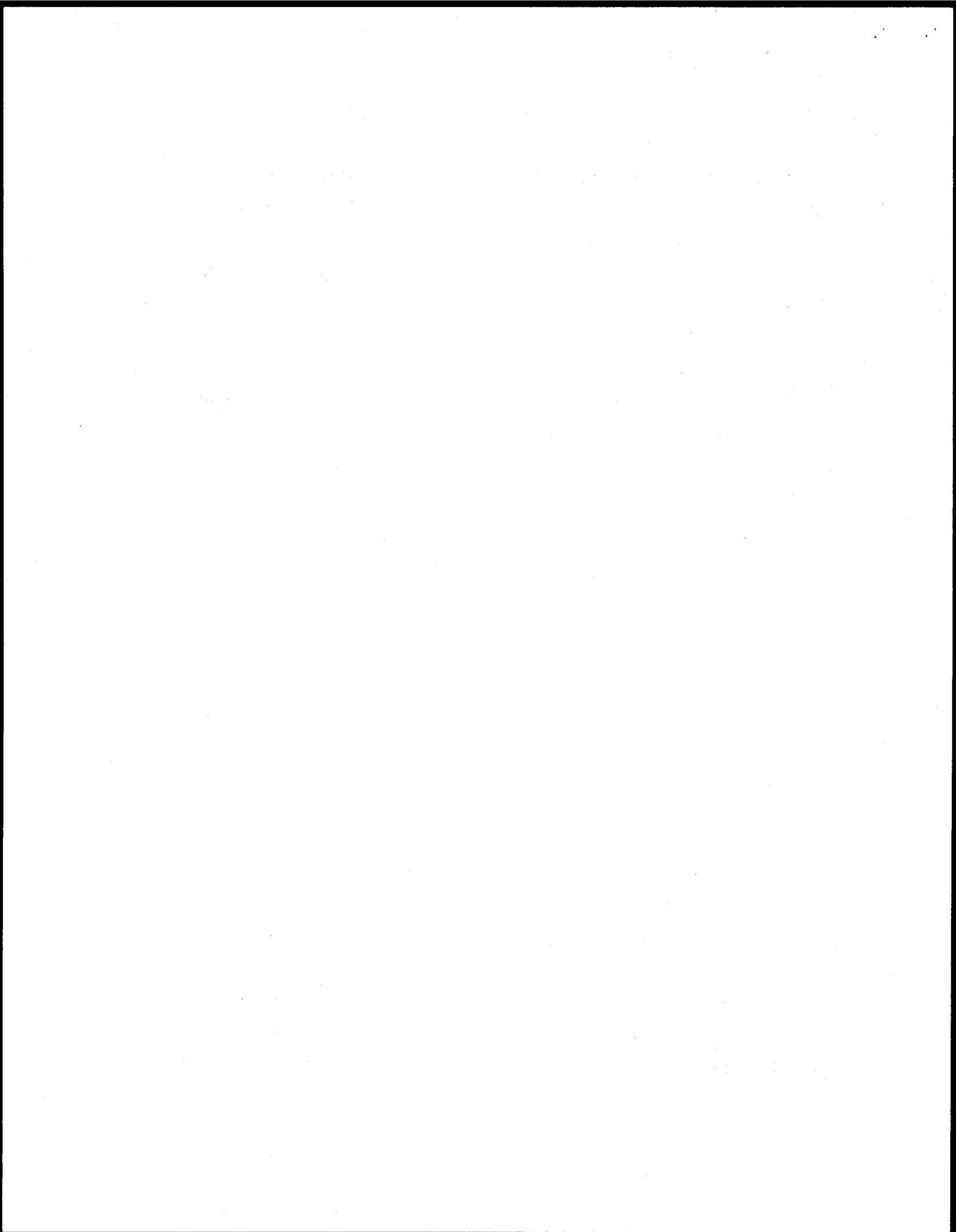
27 Finally as stated previously, the MXA states that all rights and obligations hereunder, shall be subject to
28 the Commission's rules and regulations regarding the operation of water utility companies and all applicable
29 rates, fees, charges, and tariffs of Utility (ICR) as approved by the Commission or as may be modified in the
30 future. (p. 13. paragraph 17). Given these qualifiers to the agreements made between Harvard, TRG, and ICR,
31 it is hard to understand why ICR fears the possibility of legal action from Harvard or TRG.



1 ICR's **third** concern is that it does not believe that Harvard and TRG will be willing to pay tariff rates
2 going forward and would instead look for another source of water. This would, in turn, result in a loss of TRG's
3 reimbursement to ICR for the former's proportionate share of the OM&R expenses associated with moving
4 water from the TRR well field to TRG. There would also be a loss in TRG's payment for wheeling water. With
5 the corresponding loss of income, ICR states that it would not remain viable. As stated by ICR, "any diminished
6 reimbursement means that these expenses would be passed on to customers, but customer rates going
7 forward would recover little, if any, of those additional cost." This concern is valid, but within limits. **First**,
8 Harvard has agreed to pay tariff rates for water delivered to TRG per the MXA. **Second**, assuming that Harvard
9 developed a new source of water outside of the TRR well field and that this water is not sent through ICR
10 infrastructure, some of the OM&R reimbursement and wheeling charges that presently accrue to ICR would be
11 lost, but it is not logical to assume that the entire amount would be lost. Per the Well Agreement TRG would still
12 retain ownership of TRR well No. 1 and water from this well would undoubtedly continue to be sent through
13 ICR's infrastructure for irrigation of TRG and for construction purposes within the TRR subdivision. Thus TRG
14 would still have to reimburse ICR for its proportionate share of the OM&R costs associated with moving this
15 water to TRG through ICR's infrastructure and for the wheeling cost associated with delivery of this water to
16 TRG. In the test year, TRG's use of well No. 1 accounted for about 53 percent of the total amount of water
17 pumped from the TRR well field and about 57 percent of the water used for irrigation of TRG and for
18 construction purposes.

19 ICR's **third** concern also assumes that the company is capable of predicting Harvard's and TRG's
20 reaction to paying tariff rates. Finding and bringing a new source of water to TRG may prove to be more difficult
21 and time consuming than seemingly assumed by ICR. It may also prove to be cost prohibitive to bring this
22 water to TRG without first tying the new source into ICR's infrastructure, assuming that this approach is
23 agreeable to ICR and does not violate any governmental rules. The time required for Harvard and TRG to find
24 an additional source of water and construct the infrastructure necessary to bring it to TRG outside of ICR's
25 infrastructure, assuming that this is the action taken, or to tie the new source to ICR's existing infrastructure,
26 should allow sufficient time for ICR to add customers and to assess the true impact of the potential loss in
27 income resulting from ICR's predicted loss of TRG's reimbursement for its proportionate share of the OM&R
28 costs and wheeling charges.

29 **Finally**, ICR's continuing defense of the Well Agreement and its failure to have charged tariff rates for
30 water delivered to TRG in the past does not seem to have been in the best interest of its residential customers;
31 rather it has favored Harvard and TRG. It would also seem to be the reason that ICR is presently before the



1 Commission with a Rate application for a rate increase that will be not be borne by Harvard or TRG, but by
2 ICR's residential customers. For the very reasons that Commission Staff recommended charging tariff rates to
3 TRG, it continues to be important to impose these rates at this time.

4 **Q. IS ICR'S POSITION THAT RESIDENTIAL CUSTOMERS HAVE PRIORITY OF WATER OVER THE TRG**
5 **CORRECT?**

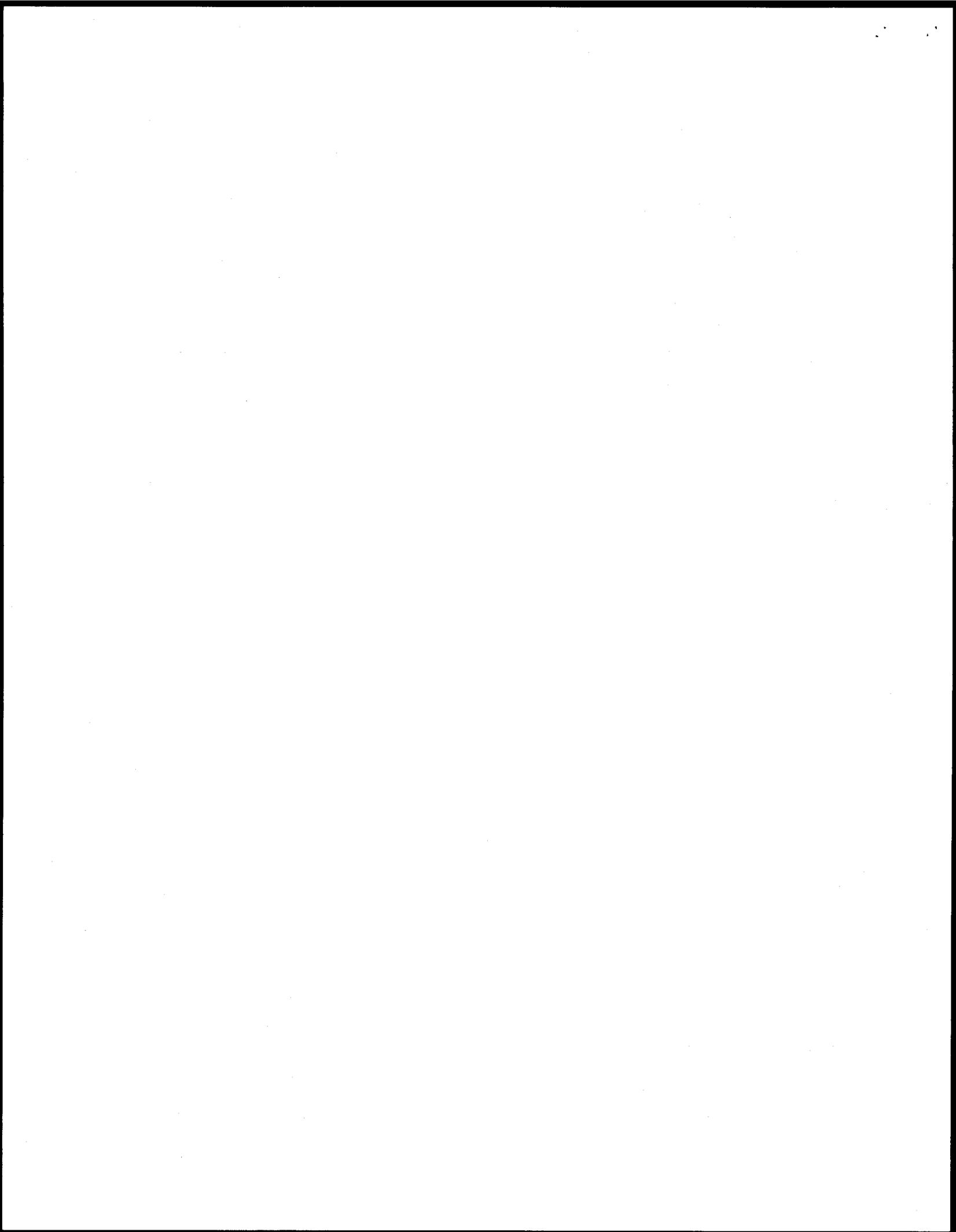
6 A. ICR's conclusion that residential customers have priority over the TRG is not correct. ICR refers to paragraphs
7 14(j) and 15(f) of the Well Agreement to support their position, but these paragraphs do not provide residential
8 customers with absolute priority that ICR contends. Paragraph 14(j) provides that in the event of an emergency
9 in the domestic water supply system, ICR may use the entire infrastructure it owns, including TRR well No. 3, to
10 address the emergency. The Well Agreement does not declare ICR to use water from TRR wells No. 1 and No.
11 2 for residential purposes in the event that TRR well No. 3, the only well owned by ICR, fails. This paragraph
12 essentially allows ICR to use all the domestic system owned by it to meet a domestic emergency and to stop
13 providing water to TRG from its well if water for this purpose is not available during such emergency.

14 Paragraph 15(f) states the same conditions regarding an emergency in the domestic water supply
15 system.

16 These paragraphs, therefore, do not provide residential customers priority of water over that required
17 by TRG or required for construction water from the TRR well field. The Well Agreement does not address the
18 use of wells owned by TRG for domestic purposes in the event of a failure of the well(s) owned by ICR. Should
19 the well currently owned by ICR fail, ICR has no back-up capability whatsoever. Given that the First
20 Amendment to the MXA and that the Well Agreement both failed to immediately provide ICR with an
21 appropriate back-up well, this potential problem should be a major concern to ICR.

22 **Q. PLEASE RESPOND TO ICR'S STATEMENT THAT WATER PRIORITY FOR DOMESTIC PURPOSES**
23 **APPLIES TO ALL THREE WELLS IN THE TRR WELL FIELD.**

24 A. ICR's statement that water priority for domestic purposes applies to all three wells in the TRR well field is
25 incorrect. The Well Agreement provided for the immediate transfer of ownership of TRR well No. 3 to ICR and
26 the eventual transfer of ownership of TRR well No. 2, with TRG retaining ownership of TRR well No. 1. There is
27 no condition stated in the Well Agreement wherein ICR may use water from TRR well No. 1 for domestic
28 purposes or from TRR well No. 2 as long as this well is owned by TRG. Instead, paragraph 14 (i) states that
29 ICR acknowledges and agrees that TRG may withdraw water from well No. 1 (and well No. 2 prior to its transfer
30 to ICR) in any quantity and deliver such water to TRG for golf course irrigation and lake-fill purposes, and that
31 the Well Agreement shall not, in any way, affect or limit TRG's right to so withdraw and deliver water.



1 **Q. PLEASE RESPOND TO THE TESTIMONY OF THOMAS J. BOURASSA (Ref. Page 1 line 13)**
2 **CONCERNING WHETHER THE REVENUES PROVIDED TO ICR BY TRG DURING THE TEST YEAR ARE**
3 **EQUITABLE.**

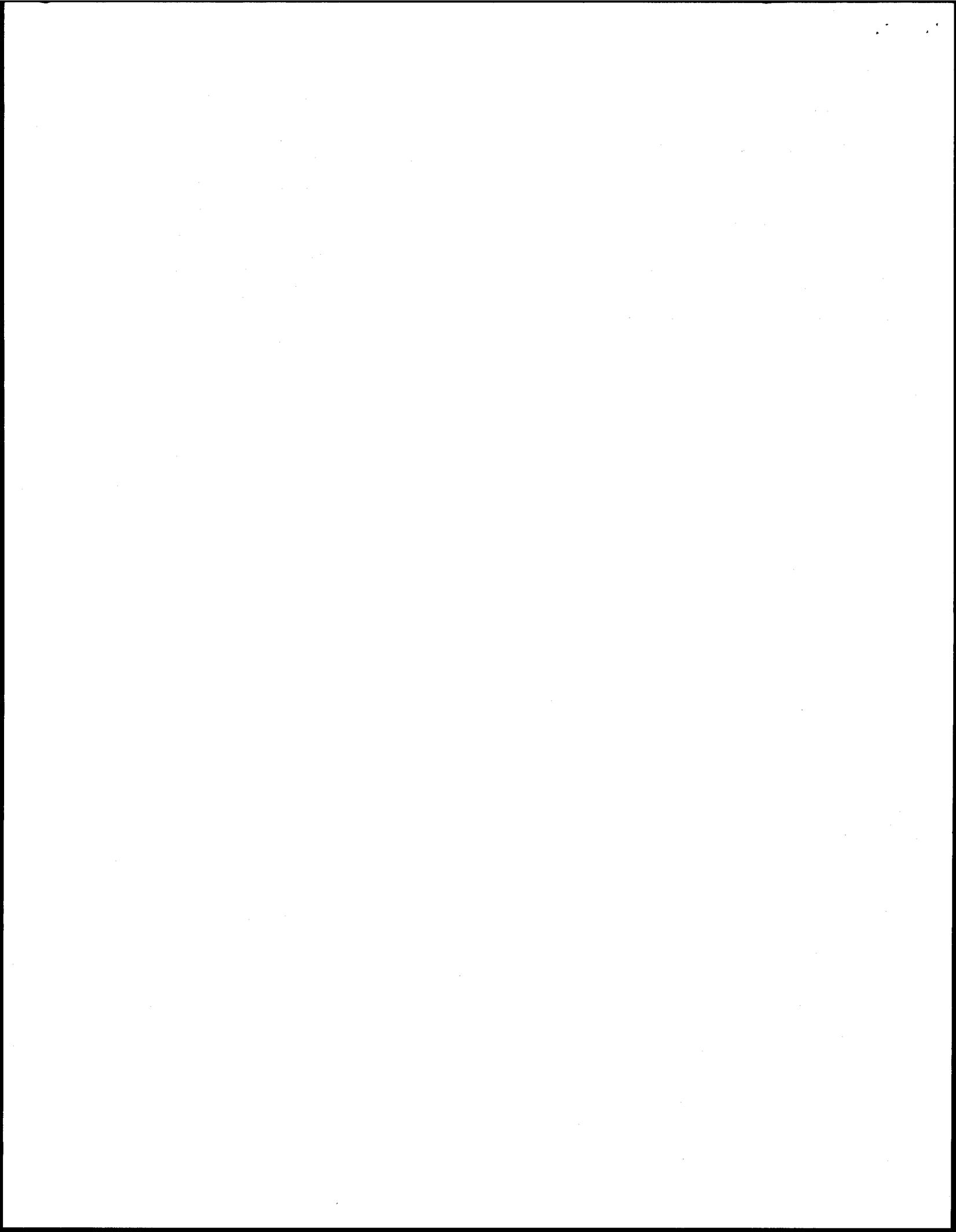
4 A. Mr. Bourassa's analysis of whether or not revenues provided to ICR by TRG during the test year are equitable
5 and his cost-of-service study fail to recognize the vulnerability of ICR to the manner TRG obtains water from the
6 TRR well field and how this affects their proportionate share of operating expenses per the terms of the well
7 agreement.

8 As general background, the source of domestic, golf course, and construction water for the TRR
9 subdivision is the TRR well field. There are three wells in the well field; one of which is owned by ICR while the
10 other two are owned by TRG.

11 The infrastructure that delivers this water is a common inseparable system. ICR and TRG simply own
12 and operate different parts of the total. Major parts of the infrastructure owned and operated by TRG are the
13 two wells currently owned by TRG and the piping and connections and valves that tie the wells into the main
14 transmission line that delivers water to the subdivision and golf course. ICR owns and operates all other parts
15 of the system.

16 Operation of the entire system is actually performed by one company under contract to ICR. Although
17 the operator is under contract to ICR, the Company and TRG share cost for operation, management, and repair
18 (OM&R) for that part of the infrastructure commonly used by both entities based on a formula for calculating
19 TRG's proportionate share specified in the Well Agreement and shown in Table 1a. The arrangement to share
20 cost represents a cost savings for both ICR and TRG, although it can be heavily skewed in favor of TRG to the
21 point that TRG's proportionate share would be zero despite the actual OM&R cost and despite the fact that the
22 vast majority of water transmitted through the commonly used part of the infrastructure was still being used for
23 irrigation of TRG and construction purposes at TRR. These result from the fact that the formula used to
24 calculate TRG's proportionate share of cost is not based on the amount of water transmitted through the
25 infrastructure from TRG's wells for use by TRG and for construction purposes. Rather it is based on the amount
26 of water from ICR's well No. 3 that is used for these purposes. If this amount is zero, then TRG's proportionate
27 share is zero and ICR must pay all the cost associated with delivering water to TRG and for construction
28 purposes at TRR.

29 Table 1a shows the water pumped from each of the three wells in 2006 and the demand and source of
30 water for irrigation of TRG, construction and domestic requirements. 60,385,000 gallons were pumped from
31 ICR's well. Of this amount, only 9,506,390 gallons were used to meet domestic demand. The rest went to meet



1 demands associated with irrigation of TRG and construction at TRR. OM&R cost was \$71,645.39. As shown in
2 the calculation in Table 1a, TRG's proportionate share of OM&R cost was 84 percent, or \$51,122.95. As also
3 shown, this calculation is based solely on the amount of water from ICR's well that is used for irrigation of TRG
4 and to meet construction demand.

5 Because the calculation of TRG's proportionate share is based on the amount of water from well No. 3
6 used by TRG, it is possible for TRG's proportionate share to have been zero for 2006 even though the amount
7 of water transmitted through the system for use by TRG is unchanged and OM&R costs remain the same as in
8 Table 1a. This scenario is shown in Table 1b. As shown, the total water used to meet golf course, domestic,
9 and construction demand is identical to that in Table 1a, but the source of water to accomplish this has been
10 changed so that ICR's well is only used to meet domestic demand while the demand for TRG and construction
11 is met with wells owned by TRG. This pumpage scenario is entirely feasible.

12 As can be seen, Bourassa's testimony examines the financial circumstances associated with TRG's
13 proportionate share of OM&R cost for a single year and does not consider the extremely wide variation that is
14 possible in this share. As a result, conclusions reached by Bourassa are highly limited in their overall
15 applicability and represent more of an academic exercise than a realistic appraisal of ICR's costs or potential
16 cost of delivering water to its residential customers.

17 The above discussion further illustrates the unreasonableness for ICR to have entered into the Well
18 Agreement with Harvard and TRG.

19 **Q. WERE PURCHASED POWER COSTS FOR TRG AVAILABLE WHEN YOU REQUESTED THEM IN YOUR**
20 **FIRST DATA REQUEST (ref. DT 1-14, DT 1-15. Also see CM4.16)?**

21 A. No, purchased power costs were not available to me, yet Mr. Bourassa quotes them (ref. Page 5, line 1). It is a
22 mystery as to why they are now seemingly available to Mr. Bourassa when they weren't available when I
23 requested them..

24 Now since Mr. Bourassa has included this data, it contributes another significant factor in the OM&R that most
25 likely changes all previous calculations by Staff.

26 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL**

27 A. Yes, it does.

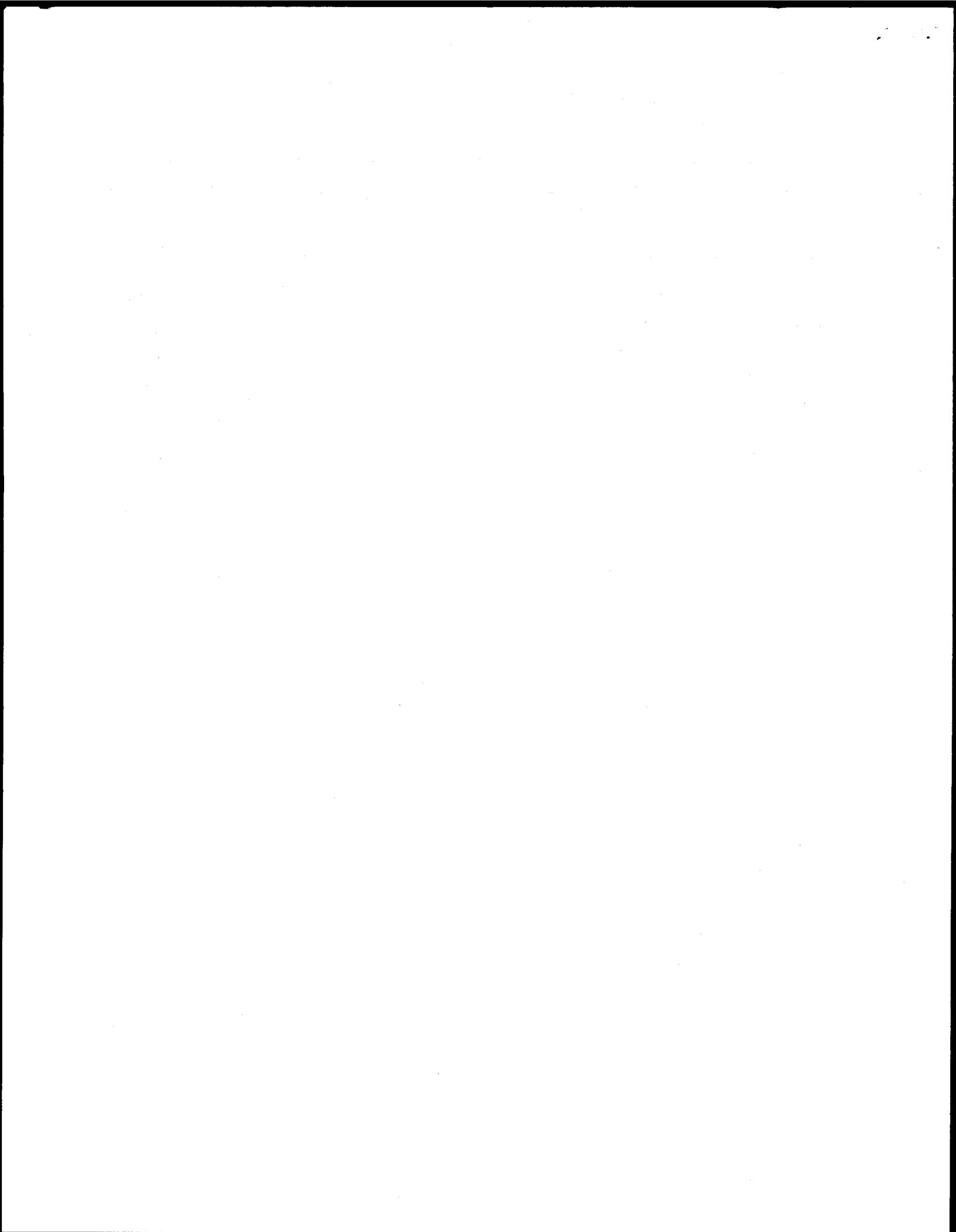


Table 1a. CALCULATION OF TRG'S 2006 PROPORTIONATE SHARE
ACTUAL WELL FIELD USE

Total Water pumped from TRR Well Field for 2006

<u>Well</u>	<u>Gallons</u>	<u>USE</u>
No. 1	78,882,000	golf course & construction
No. 2	9,600,000	golf course & construction
No. 3	<u>60,385,000</u>	domestic 9,506,390; golf course and construction = 50,878,610
Total	148,867,000	

Total water for domestic use = 9,506,390

Total water for Golf Course = 125,026,000

Total water for construction = 14,334,700

OM&R Costs, Talking Rock Ranch = \$71,645.39

WELL AGREEMENT FORMULA FOR CALCULATING TRG'S PROPORTIONATE SHARE
OF COST:

TRG Proportionate OM&R Share = Ratio x (Total OM&R Costs, Talking Rock)

$$\text{Ratio} = \frac{\text{Well No. 3 Pumped} - \text{Domestic Sales}}{\text{Well No. 3 Pumped}} = \frac{60,385,000 - 9,506,390}{60,385,000} = 0.84257034$$

TRG proportionate OM&R Share = 0.84257 x \$71,645.39

= \$51,122.95

Table 1b. CALCULATION OF TRG'S PROPORTIONATE SHARE
POTENTIAL WELL FIELD USE

Total Water pumped from TRR Well Field during the Year

<u>Well</u>	<u>Gallons</u>	<u>USE</u>
No. 1	78,882,000	golf course & construction
No. 2	60,478,610	golf course & construction
No. 3	<u>9,506,390</u>	domestic
Total	148,867,000	

Total water for domestic use = 9,506,390

Total water for Golf Course = 125,026,000

Total water for construction = 14,334,700

OM&R Costs, Talking Rock Ranch = \$71,645.39

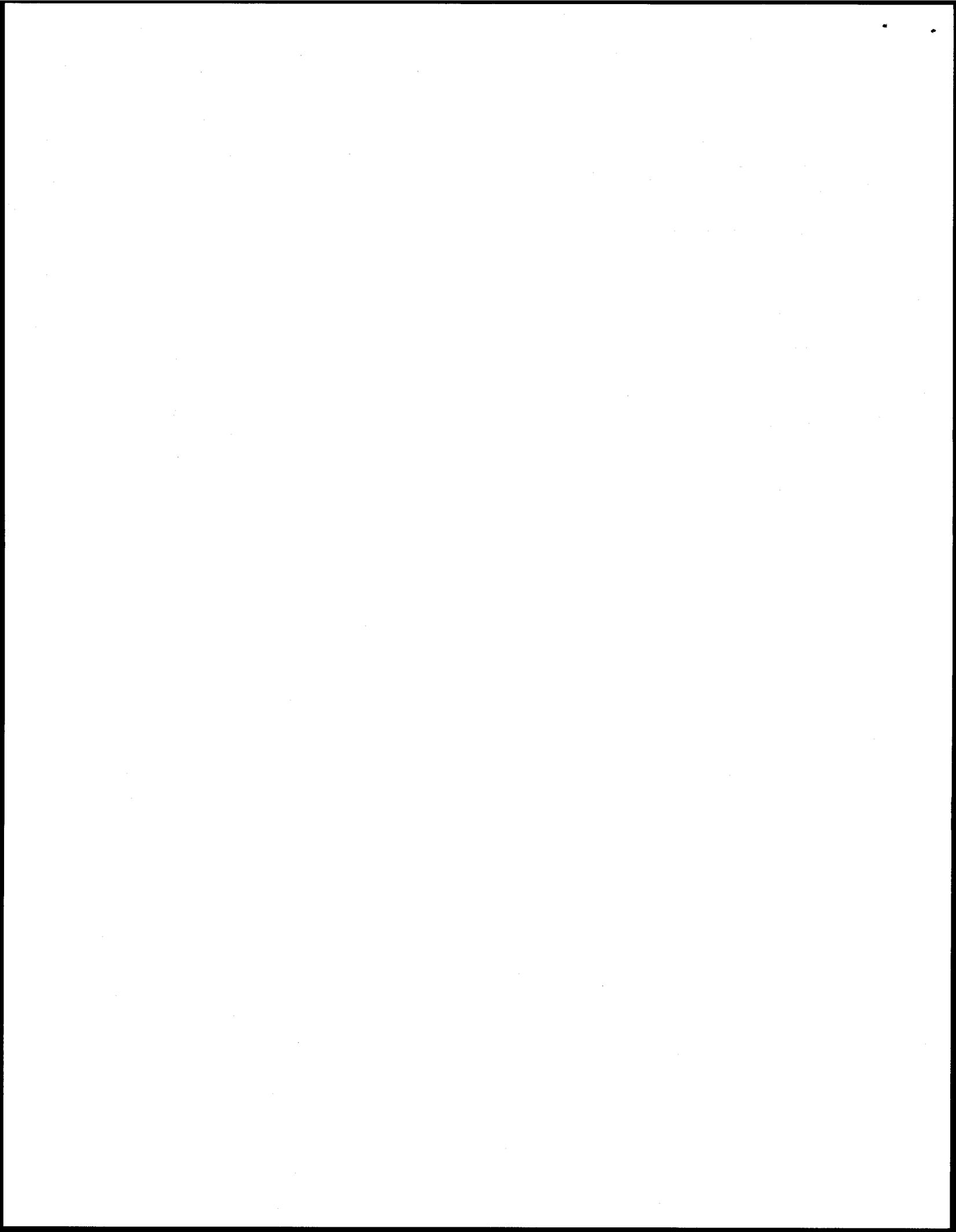
WELL AGREEMENT FORMULA FOR CALCULATING TRG'S PROPORTIONATE SHARE
OF COST:

TRG Proportionate OM&R Share = Ratio x (Total OM&R Costs, Talking Rock)

$$\text{Ratio} = \frac{\text{Well No. 3 Pumped} - \text{Domestic Sales}}{\text{Well No. 3 Pumped}} = \frac{9,506,390 - 9,506,390}{9,506,390} = 0.0$$

$$\text{TRG OM\&R Share} = 0.0 \times \$71,645.39$$

$$= \$0$$



**ICR Water Users Association
Board Meeting Minutes
November 13, 2007**

Minutes Approved: November 26, 2007

Those Present:

Board Members

Earl Cummings, President
Bill Meyer, Secretary/Treasurer
Shirley Lilien, Director
R J Howard, Director
Hal Lobaugh, Director

Contract Staff

Bob Busch, Manager

Member Guest

Dane Taylor

1. **CALL TO ORDER** - The meeting of the ICRWUA was called to order at 9:20a.m. by Earl Cummings. Bob Busch recorded the minutes of the meeting.
2. **MINUTES OF LAST MEETING**- Minutes of the Meeting of September 12, 2007 were reviewed and discussed.

Motion: Shirley moved to approve the Minutes of the September 12, 2007 Board Meeting; Seconded by RJ; motion passed unanimously.

3. REPORTS

a. Financial Reports

Bill presented financial reports for August and September.

August financials:

	<u>Month</u>	<u>YTD</u>
Revenues	\$21,230	\$203,670
Expenses	\$21,844	\$209,179
Net Income	\$ (614)	\$ (5,510)
Assets & Liabilities	\$4,847,087	

Items of note:

Current assets of \$142,442

Account 630 – When A Quality Water Co. was engaged, their contract included the entire water system, including the two wells owned by Talking Rock. It was decided to allocate A Quality Water Co.'s cost on a 60/40 basis, with 60% being allocated to TRR and 40% to the ICR system. TRR is questioning the basis for this allocation.

TRR is not current with monthly OM & R expense of \$1,750 per month per the Well Agreement. Only 6 months have been paid.

The board will continue with the 60/40 percent allocation of expenses between Inscription Canyon and Talking Rock systems for the near term, and it will work out a process with Talking Rock for expense allocations by March 2008. This will require the board to agree on a process by the end of January 08.

Action Item: Bob will check on status of Talking Rock OM & R payments and follow up with Talking Rock as needed.

September financials:

	<u>Month</u>	<u>YTD</u>
Revenues	\$21,880	\$225,549
Expenses	\$24,645	\$233,824
Net Income	\$ (2,765)	\$ (8,275)

Assets & Liabilities \$4,841,781 (drop from August due mainly to depreciation.)

Items of Note: Current Assets are down \$22,000 from August. This is mainly due to payment to Snell & Wilmer (classified to Other Assets, Acct 186). Talking Rock made no OM&R payment in September. Rate Case Expense thus far is over \$52,500.

Motion: Bill moved to approve the financial reports for August and September; Hal seconded the motion; motion carried.

3b. Manager's Report –Bob Busch

- 1. Water Audit** – Bob presented the usage summary for September and October. For the ICR system, unaccounted for water was 8.9% in September and 16.8% in October. Both month's reports showed more water sent through the distribution station than sold, and more pumped from wells than went through the distribution system. Taken at face value, it would mean that there are leaks in both the transmission and distribution systems. However, the data isn't consistent, so it appears no solid conclusion can be reached.
- 2. Air in the Lines at TRR** – Talking Rock (SWI eng'g) is in the design stages of adding an external pipe to the TRR tank to provide an air gap on filling the tank.
- 3. Water Meter Theft** – A hydrant placed on Whispering Canyon Drive was stolen less than a week after it was installed. This meter was installed as part of the planned approach to accommodate contractor's water needs. A police report was filed. The meter cost was over \$1,200.
- 4. Hydrant Damage** – A fire hydrant on Whispering Canyon Drive and Darius was destroyed by persons unknown. An insurance claim has been filed. The cost of repair/replacement is just over \$4,000.
- 5. Insurance Coverage** - In discussions with Bill Weber, Insurance Agent about the fire hydrant, ICRWUA may need to list hydrants as covered property and state a value to obtain future coverage.

Action Item: Bob will invite Bill Weber to the January board meeting to discuss coverages for 2008.

- 6. 2008 Operating Budget** – Bob prepared a draft budget and forwarded to board members for review and comment.
- 7. Non-Profit Status** – By-law revisions are ready for board member vote. Information has been sent to Bill Whittington to prepare the Application for 501c-12 tax exempt status. A \$500 fee will be required with the application.
- 8. Rate Case Filing** - Two Commission Staff members made a site visit in September. They were very interested in the Well Agreement and water being used for the golf course. They

asked for and received contact names/numbers for TRR and ICRSD. There are no interveners in the rate case.

9. **Line of Credit** – The Commission Staff has issued their report to the Adm. Law Judge recommending authorization of a \$50,000 line of credit with conditions that ICRWUA file a plan with the rate case to increase equity ownership, execute the loan documents within 60 days of authorization, and that the loan be a 12 month loan. National Bank is still interested in the loan, but does not plan to renew the commitment letter.

Motion: Shirley moved to authorize the President and Treasurer to execute loan documents for a \$50,000 line of credit from National Bank at such time as the order from the Arizona Corporation Commission is received granting approval for the loan. Motion seconded by RJ; motion carried.

10. **System Water Plan** – Bob completed a draft of the plan and forwarded it to Bill for review. A plan must be filed with ADWR by January 1, 2008.
11. **Audit** – Constance Pinney completed the procedural audit on October 16th and forwarded her report which has been sent to board members.
12. **Auto Pay System** – Banking problems have all hopefully been resolved. The test with Earl's account should be completed in the next few weeks.
13. **Lead/Copper Tests** – Nothing new to report.

Action Item: Bob will meet with Chris and determine when and how the follow up lead/copper testing will be done.

4. OLD BUSINESS

a. Review of Action Items

As a result of the review, all action items have been completed or otherwise closed except the following item that will be deferred until after the rate case ruling:

Action Item: Bob will check with our rate case attorney and accountant regarding the difficulty (time and expense) involved in adding a fine of \$2,500 for water theft to the rate case.

b. Non Profit Status

The board discussed the 5th amendment to the by-laws needed as part of the process to obtain non-profit status.

Motion: Shirley moved to approve the 5th Amendment to the Bylaws as written subject to an acceptable explanation of two sentences at the end of the Amendment that read as follows: "The association must not retain more funds than it needs to meet current losses and expenses based on the operation at cost principal. Any excess income not retained in reasonable reserves for future losses and expenses belongs to members in proportion to their patronage or business done with the association during the corresponding time period." Bill seconded the motion; motion carried.

c. Well Testing-Bill Meyer

Bill reported on the joint ICRWUA/Harvard well tests completed in late October on the TRR well field. The test was conducted with all three wells pumping 24 hours per day for three days. Water depth in each well, well pumping rates and air entrapped in the pumped water were measured periodically during the test. Water levels were also measured in TRR well #4 during the test. All parties

received all data collected during the test. The water levels and pumping rates from each well declined throughout the test period.

Bill prepared a report for the Board in which he concluded:

“If the problem with aerated water is neglected, the test results indicate that the well field can meet domestic demand at TRR at full buildout or demand associated with irrigation of the golf course throughout the year, but the well field cannot meet both demands at all times of the year, or if a well should fail. Given this, the results also indicate that the Utility and Harvard Investments need to revise the Well Agreement to reflect the limitations of well field yield.”

A meeting will be requested with Harvard to discuss the test and its implications.

Action Item: Earl will contact Harvard (Craig Krumweide) to arrange for a meeting during the week of December 10th.

d. Architectural Committee

As soon as the draft documents from Bill Whittington are received, it would be desirable for the parties to meet with Bill to discuss the purpose of the documents and reach agreement on a course of action.

Action Item: Bob will arrange for Bill Whittington to attend a meeting with the ARC during the week of December 10th to discuss the means of divesting the architectural committee and the documents required.

e. Letters to Developers

In light of the theft of the hydrant meter, the board was in general agreement that a different approach is in order to handle contractor water needs. The board discussed arrangements Bob recently made with a contractor to purchase water from a hydrant near the Inscription Canyon Sales Office. Similar arrangements might be made with other contractors in the area.

Action Item: Bob will revise the letters to developers to omit the information about placement of hydrant meters and ask the contractors/owners needing bulk water call Bob for arrangements.

5. NEW BUSINESS

a. Restated bylaws

In the October meeting with board members, Bill Whittington requested a list of items that the board wished to include in preparing an ICRWUA Restated Bylaws. The list has not yet been submitted to Bill.

Action Item: Board members will submit their suggested list to Bob by Friday, November 16th. Bob will consolidate and redistribute to the board by the following Monday.

b. Election of Directors

Nomination forms for eight candidates were received by the deadline. Bob will contact the candidates to confirm eligibility and obtain a short bio- for the ballot. Ballots will be sent by December 1st with a voting deadline of December 20th. RJ and Bob will count the ballots on December 21st.

c. Delinquent account treatment

Bob presented a recommendation to change the current delinquent account treatment to shorten the overall time to disconnect service, should it be necessary. The proposed treatment schedule is:

Delinquency Time Table

First of the month - Bills mailed

Twenty fifth of the month - Payment due

Twenty sixth of the month - Payments late, late fee charged

First of second month - Bills mailed with late charge

Tenth of second month - Delinquency letter sent

First of third month - Bills mailed with disconnect notice

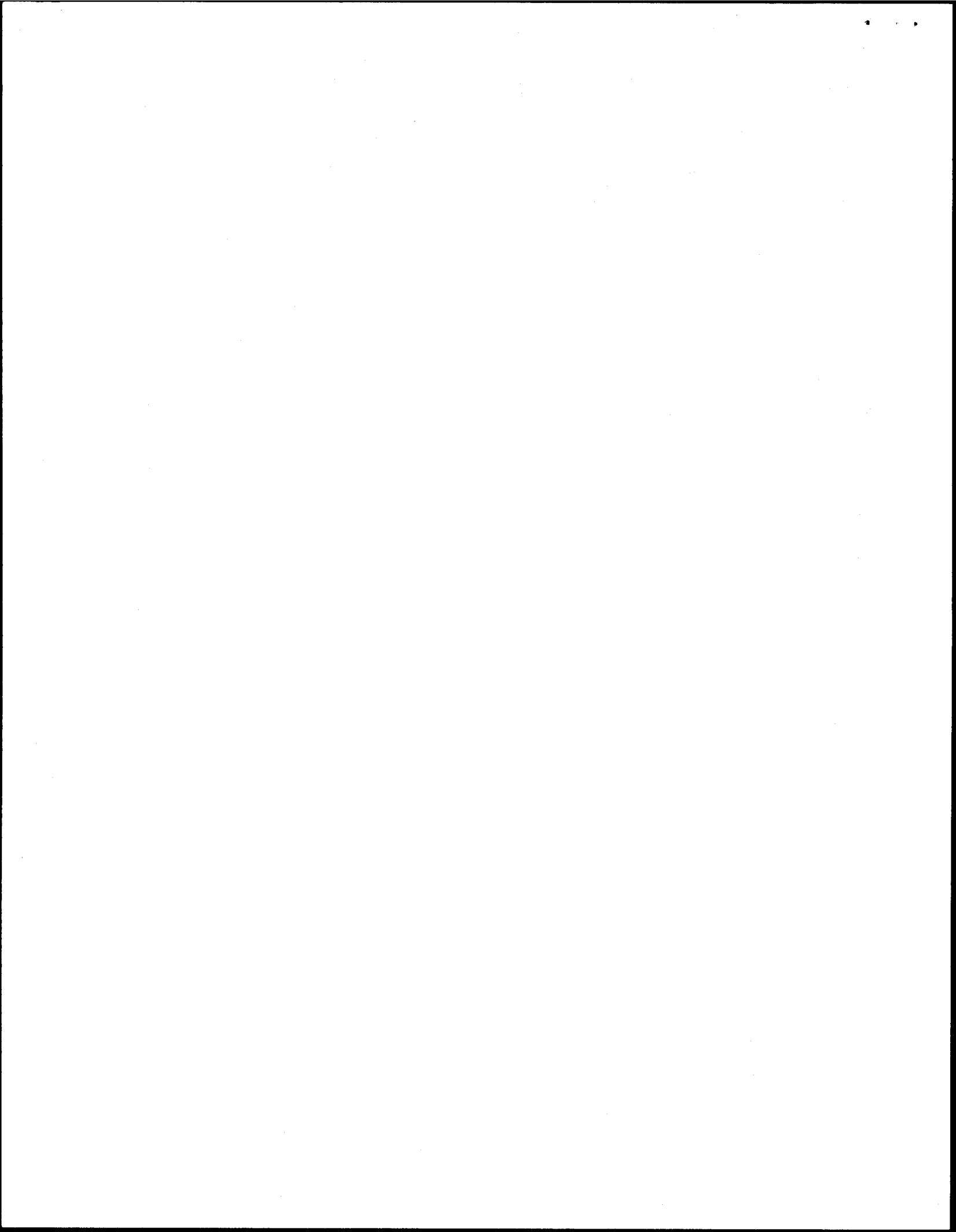
10th of third month - Disconnect

Mailed (service to be terminated within 10 days of date mailed if bill unpaid). Termination notice mailed by certified mail (Note: End of 10 day period should not fall on a weekend)

Motion: Hal moved to accept the recommendation and approve the policy change, RJ seconded; Motion passed.

Agenda items – 2008 Operating Budget and Audit were deferred to the next board meeting, set for the week of November 27th. An exact date to be determined.

Motion: Bill moved to adjourn; seconded by Shirley; motion carried. Meeting adjourned at 12:15 pm.



Report on the Results of the
Three Day Test of the TRR Well Field
October 24 - October 27, 2007.

By

William Meyer

For

The Board of Directors, ICR Water Users Association

December 10, 2007

Introduction

The Board of Directors of the Inscription Canyon Water Users Association has received complaints from homeowners within the TRR subdivision concerning an unacceptable concentration of air in residential water. In addition productive capacity of the TRR well field has proven to be considerably less than the initial estimate, with that from well 3 being only about 46 percent of the latter. The initial estimate assumed pumpage from each well independent of the other two, while, in fact, pumpage from each well reduces the capacity of the other two by some unknown amount.

The reduced capacity resulted in the need to pump the well field at 80 to 90 percent of its total capacity during the June-July 11, 2007 pre-monsoon season with the water demand mainly associated with the need to irrigate the golf course. During this time, wells 1 and 3 pumped a maximum of 24 hours per day while simultaneous pumpage from well 2 was as high as 15 hours per day. Overall, well 1 averaged 16 hours per day from June-July 11 while well 2 averaged 14.8 and well 3 averaged 23.4 hours per day. Maximum combined daily use of the three wells was 66.4 hours (out of a possible 72 hours) on July 2 and 3, with wells 1 and 3 pumped for 24 hours and well 2 pumped for 15.8 hours. Monitoring of each well's yield indicated a general loss in yield as demand, and therefore well use increased. Loss of well yield, in turn, resulted in a general loss of well field capacity over time.

Without a significant change in its size, water demand for the golf course will remain relatively constant during the pre-monsoon season and demand can only increase as more homes are added to the infrastructure. Given the fact that pumpage from each well reduces the capacity of the other two wells, that combined well field yield decreases with increasing well use, and that seasonal water demand field demand will approach or require simultaneous 24 hour per day pumpage from all three wells, there is a need to identify the maximum capacity of the well field with all wells pumping simultaneously.

In response to this need, a three day test of the TRR well field was conducted from 8:00 am Wednesday October 24, 2007 through 8:00 am Saturday October 27, 2007 with all three wells in the field pumping. Pumping rates and water levels in each well were monitored throughout the test. A semi-quantitative method for monitoring air production from each well was also employed in order to help evaluate the possible source of reported problems with aerated water at TRR households. Water levels were also monitored at TRR well 4, a well installed by Harvard Investments about 450 feet from the well field in 2006. The test was conducted as a joint effort between the ICR Water Users Association (Utility) and Harvard Investments.

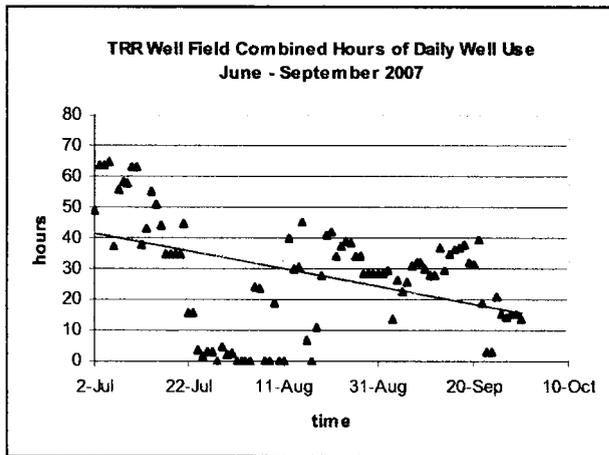
The test had two main purposes. One purpose of the test therefore was to establish the three day yield of the well field with all three wells pumping with the understanding that the short duration of the test combined with other hydrologic issues would not allow the ultimate long-term capacity of the well field to be established with all wells pumping.

The second purpose was to measure air production from each well in order to determine if one or more of the wells represented the source of aerated water. Visual estimates made during the pre-monsoon season had shown that wells 1 and 2 produced significant amounts of air with that from well 1 exceeding that from well 2.

Pre-Test Conditions

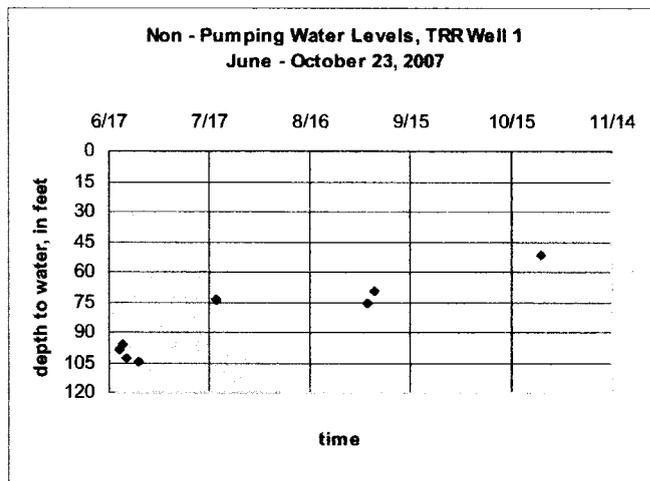
Following the on-set of the monsoon rains in mid-July 2007, water demand from the well field decreased with combined hours of daily well field usage falling from pre- monsoon values (June – July 11) between 50 to just below 70 hours per day to values ranging from zero to about 40 hours per hours per day from mid-July thru September, figure 1.

Figure 1



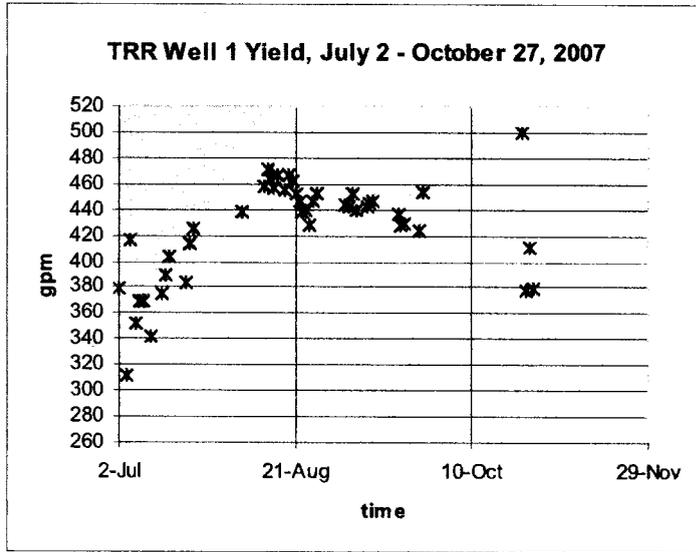
In response to reduced demand, non-pumping water levels in the well field increased, figure 2.

Figure 2



Concurrent to rising water levels, the yield from the wells rose. For instance as shown in figure 3, the yield from well 1 rose from a low of 312 gpm on July 4 to a high of 500 gpm on October 24 immediately following the initiation of the 3-day pumping test.

Figure 3

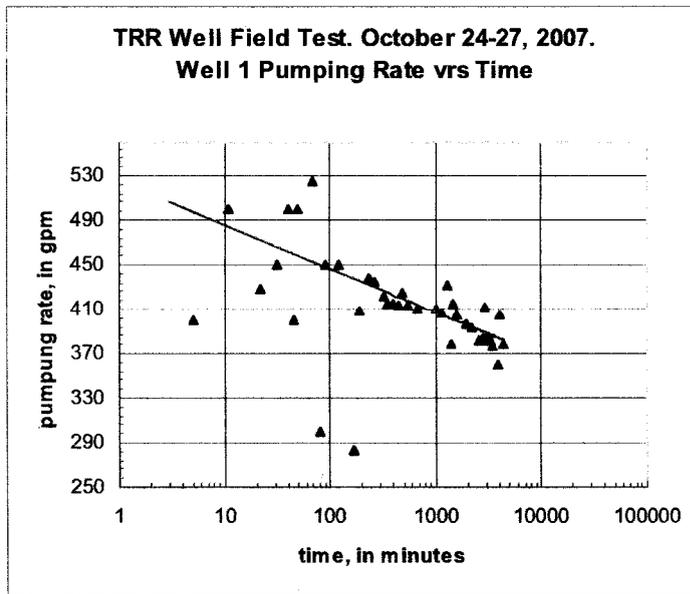


Well Yield during the Three Day Test

As stated above, the production from each well was monitored at selected times throughout the three day test, figures 4 through 6. Production from each well generally declined over the three day period and the pumping rate for each well was continuing to fall at the end of the test. As a result, as discussed below, the combined pumping rate of all three wells had not stabilized and was also continuing to fall at the end of the test.

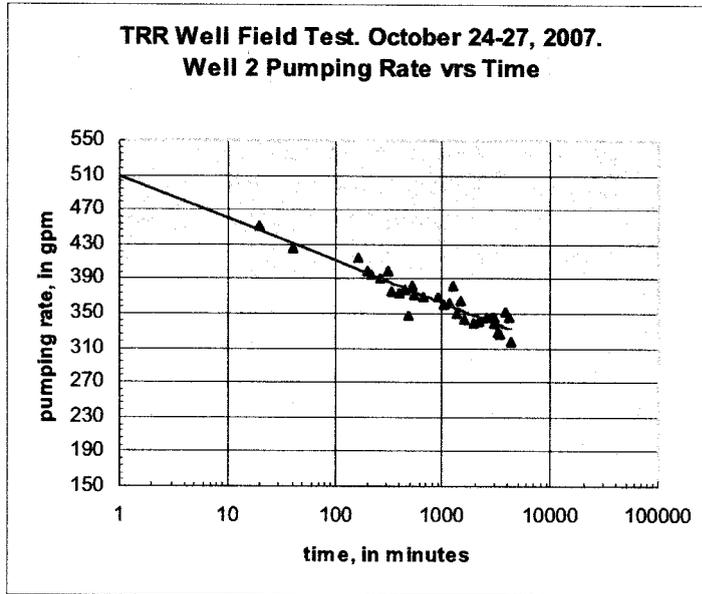
The initial yield from well 1 was 500 gallons per minute (gpm). At the end of the test its yield had declined to 379 gpm and yield was continuing to decline, figure 4. The rates that are significantly above or below the trend line in figure 4 are early time data when the highest potential for error in the actual time of reading the flow meter exists. Overall, the decline in production from the well was about 24 percent.

Figure 4



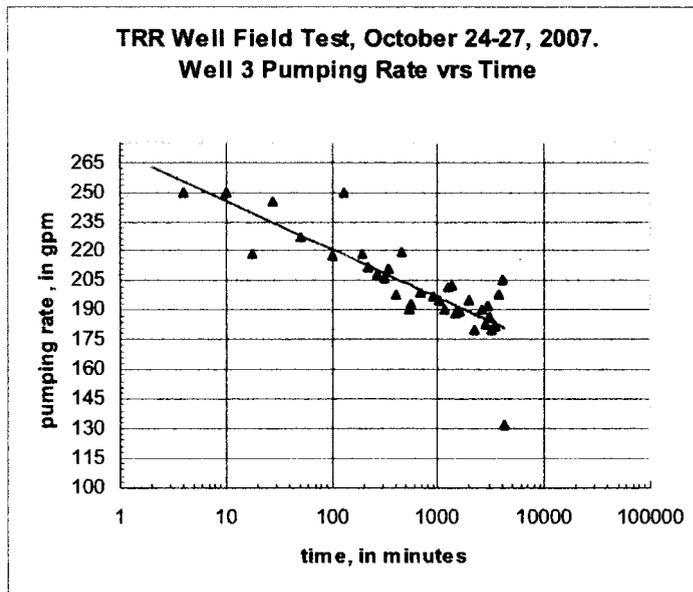
Initial and final yields from well 2 during the October 24-27, 2007 test were 451 gpm and 317 gpm respectively, figure 5. The overall decline in production from the well was about 30 percent.

Figure 5



Initial yield from well 3 was 250 gpm while the yield over the final four hours of the test was only 132 gpm, figure 6. The latter value is considerably below the general decline in the well's yield. The well's flow meter was independently read by two separate individuals (including myself) at the end of the test however so that the value is not suspect. The overall decline in production was about 47 percent.

Figure 6



Combined Yield

Given the decline of yield in individual wells during the test, the combined yield from the three wells generally declined over the test period, falling from about 1,200 gpm at the beginning of the test to 828 gpm at the end. Overall decline in combined yield was about 31 percent, figures 7 and 8.

Figure 7

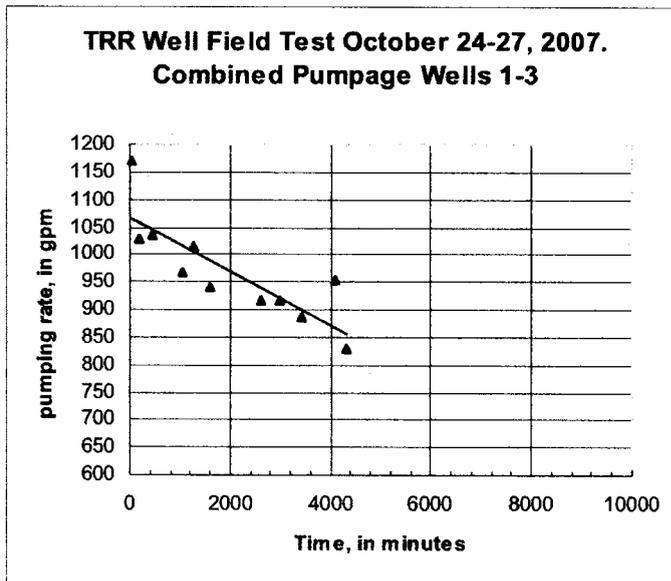
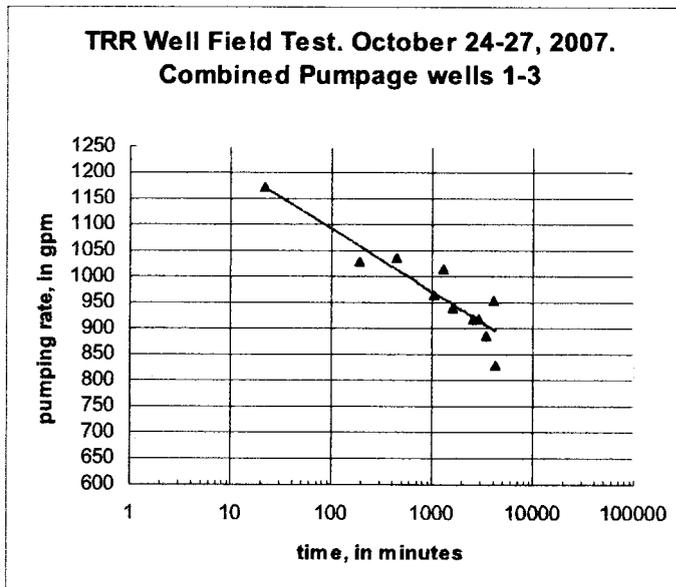


Figure 8



Air Production

A semi-quantitative method for measuring air production from each well as a percent of air per unit volume of water was used at selected times during the three day test in order to help evaluate the possible source and magnitude of reported problems with aerated water at TRR households. Times of measurement and estimated air content in water produced at each well are shown in table 1.

Air production in wells 1 and 3 averaged 1.22 and 2.20 percent per unit volume and was significantly below that in well 2 where the average was 11.27. The average air production from the well field during the test was about 5.3 percent per unit volume. Based on complaints received from homeowners and air present at the pumping station, this is still above an acceptable level.

Table 1. Air Production in Percent of Volume for Selected Times during the October 24- 27, 2007 TRR Well Field Test.

Well 1		Well 2		Well 3	
time (minutes)	% Air content	time (minutes)	% Air content	time (minutes)	% Air content
08	0.23	30	0.11	37	0.4
65	0.22	80	3.78	90	0.35
295	2.12	125	5.95	320	1.96
397	2.44	305	12.31	415	1.55
515	2.22	405	8.75	525	2.45
725	2.08	517	10.75	765	2.37
1,190	2.42	755	9.18	1,225	1.98
1,430	0.2	1,230	8.51	1,455	2.35
1,605	0.18	1,418	9.8	1,590	2.89
1,955	0.43	1,578	15.42	1,980	3.5
2,170	0.22	1,585	15.18	2,199	3.04
2,850	0.23	1,940	12.4	2,608	2.71
3,265	2.22	1,970	14.7	2,865	2.5
3,425	1.65	2,180	12.73	3,275	3.2
3,800	1.91	2,590	13.54	3,435	2.02
4,110	1.78	2,885	12.0	3,830	2.34
4,297	0.22	3,255	14.9	4,135	2.4
		3,418	14.89	4,290	1.63
		3,815	14.71		
		4,125	14.17		
		4,277	12.89		
Average	1.22		11.27		2.20

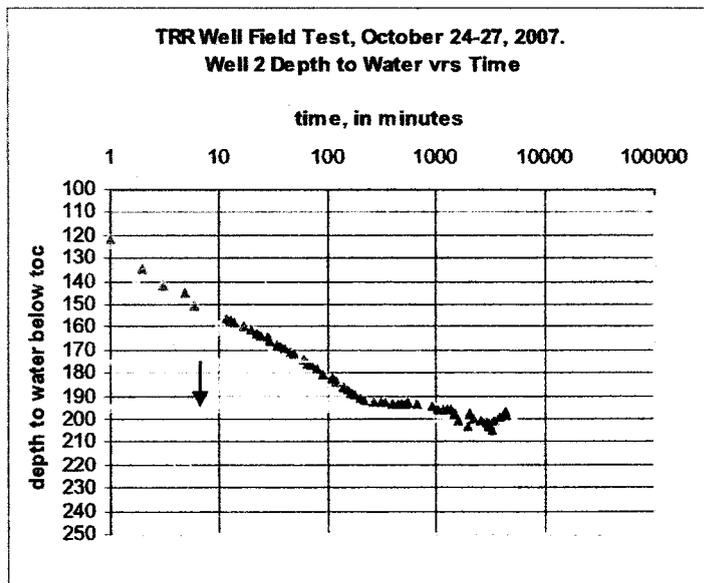
Although production of air from well 1 was less than that observed in the other two wells, past experience has shown this well to be a significant producer of air also. This was particularly true during the June-July pre monsoon season when the average daily use of the well averaged about 16 hours per day. The lack of air production during the test suggests that the zone of air production in the well is below the maximum water level decline that occurred during the test, i.e. about 169 feet.

The water level in a pumping well is generally below the water level in the aquifer thereby creating an opportunity for water to fall or cascade from the aquifer into the well. If the vertical distance over which water falls is relatively great and/or the amount of cascading water is significant in its own right, air may become entrapped in the water column.

As shown in table 1, the production of air at well 2 increased from 3.78 percent per unit volume at 80 minutes into the test to 12.31 percent at 305 minutes. After this, the production of air remained relatively stable averaging about 12.6 percent. At 80 minutes into the test the depth to water in the well was about 178 feet. At 305 minutes, the depth to water was about 192 feet, a depth that closely corresponds to that observed during the pre-monsoon season when considerable air production was visually observed. The increase in air production between the depths of 178 to 192 feet suggest that if cascading water is the source of air in the well it largely originates within this zone, figure 9.

The well log for well 2 indicates that basalt occurs from a depth of 108 to 149 feet. Permeable sand, silt, and gravel underlies the basalt extending from 149 feet to a depth of 262 ft. The permeable sand, silt, and gravel rock unit is underlain by relatively impermeable granite at 262 feet. The permeable rock is described by Southwest Groundwater Consultants, Inc. as "light brown, medium to very coarse sand with layers of gravel." It is possible that the zone of air production is a layer of gravel situated between the depths of 178 ft and 192 ft.

Figure 9



Legend



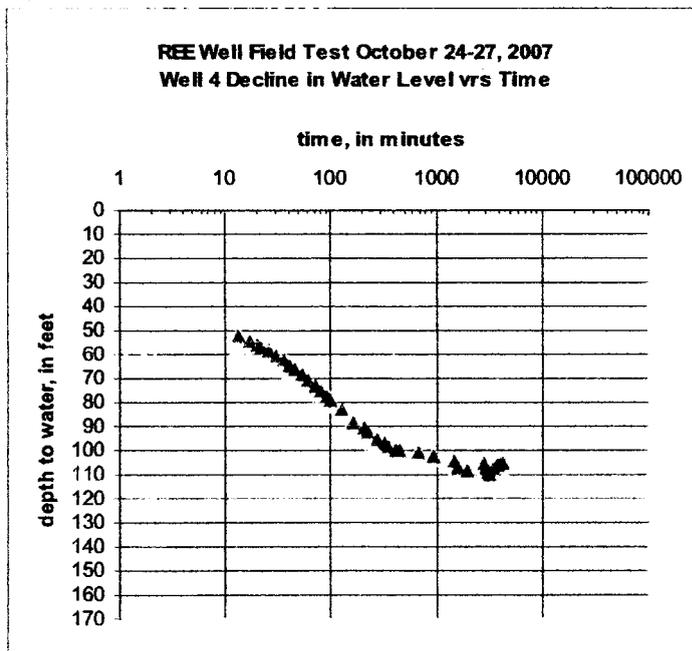
Potential zone of air production.

Well 4

Water levels in well 4 located about 450-475 feet north of the TRR well field were monitored throughout the test, figure 10. The water level in the well fell from a pre-pumping value of 50.34 feet to 103.22 feet, a decline of 52.88 feet over the three day test. It was continuing to fall at the end of the test.

The decline in water level caused water to begin to cascade into the well at depth of about 100 feet below land surface. The well is open to the aquifer from a depth of about 97 feet to about 239 feet below land surface. The point where cascading water began to occur was is only about three feet below the depth that the well is first open to the aquifer.

Figure 10



Based on a single day of testing, production from this well (constructed during July and August 2006) was rated by Southwest Groundwater Consultants, Inc. (SWGC) at 200 gpm assuming production independent of the existing TRR well field. SWGC also constrained capacity by limiting pumpage to a value that would preclude the water level falling below 166 feet based on geologic considerations. Obviously, the test results indicate that production from well 4 is not independent of pumpage from the existing TRR well field thereby limiting its potential use to a value much less than 200 gpm.

As stated immediately above, water levels were continuing to decline at the end of the test and this decline can be expected to continue to decline for years.. This thought is important to the Board because it has to think in terms of providing a water supply over a

100 year period. The magnitude of the potential decline in water levels over this period is suggested by an analysis conducted by Southwest Groundwater Associates as part of an application they filed with the Arizona Department of Water Resources for a water report for the Valley View Ranch Subdivision located about 2 miles south of the ICR well field. This analysis produced a water level decline in TRR well 4 of more than 100 feet whereas the three day test produced a decline of about 64 feet. The analysis also indicated that pumpage from the TRR well field will cause a water level decline in the ICR well field of about 100 feet. The measured decline in the latter well field caused by the three day test was about 1 foot.

The potential use of TRR well 4 as an additional source of water for the existing TRR well field is further limited by: 1) the presence of cascading water, and 2) the potential for contamination from Mint Creek.

Another factor that will ultimately reduce, and potentially severally limit the capacity of the well to a production rate less than that established in the single day test is the accepted fact that the aquifer pinches out in an easterly direction. This fact will reduce the ultimate yield from this well significantly below that indicated by a one-day test.

Given all of the above, the Utility should not consider well 4 as a viable addition to the capacity of the existing TRR well field.

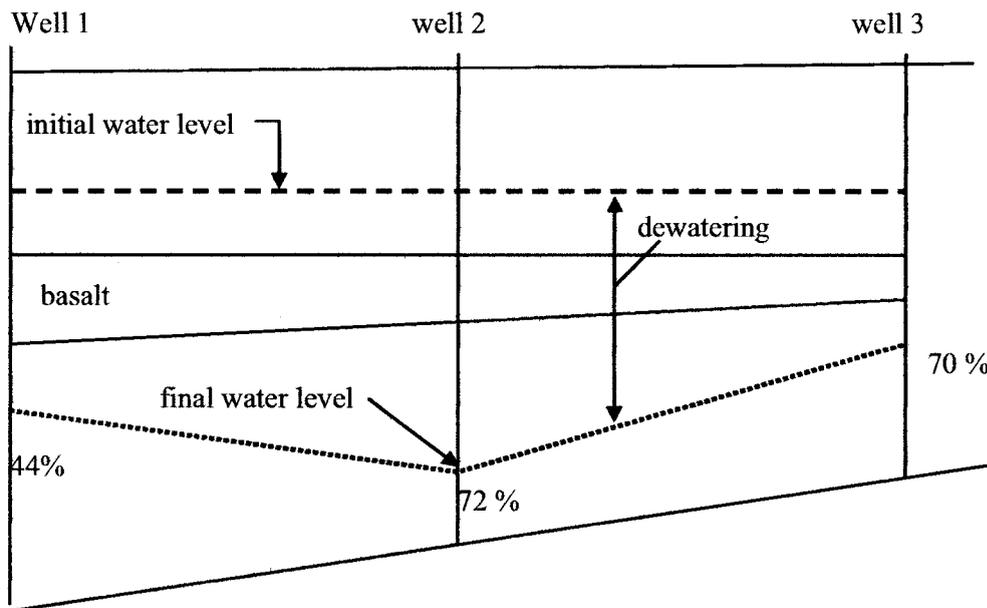
Aquifer Thinning

The decline in well yield as the test progressed is not a normal characteristic of a well field unless it is being over-pumped given its hydro-geologic setting. In this case there are several factors that could induce this effect, but given the general trend in the decline in water levels during the test, the most likely cause is related to thinning of the aquifer in the vicinity of the well field induced by well field pumpage.

Figure 11 shows the initial and final water levels measured during the test. As can be seen the decline in water levels induced a loss in aquifer thickness of 44, 72, and 70 percent at well 1, 2, and 3 respectively. This loss is significant since well yield is directly related to aquifer thickness.

The decline in water levels measured in the three pumping wells during the test would have, in all likelihood, been greater than that in the adjacent aquifer owing to well loss. This would result in lower dewatering values from those calculated. Even so, the latter values are sufficiently high to suggest that dewatering is in all likelihood one of the problems associated with the decline in the well field's yield observed during the test and during the pre-monsoon season.

Figure 11 Aquifer thinning induced by the 3-day test.



CONCLUSIONS

Well Field Yield

1. The combined yield from the three wells generally declined over the three day test period, falling from about 1,200 gpm at the beginning of the test to 828 gpm at the end. Overall decline in yield was about 31 percent.
2. Because production from the well field had not stabilized at the end of the test, the ultimate value for the combined yield of the three wells over a longer period of pumping cannot be determined from the test, but it is less than 828 gpm. Had the trend in decline continued, combined yield would have fallen to 800 gpm in 3.8 days, 750 gpm in 4.5 days, and 700 gpm in 6.7 days.
3. Well field yield is directly related to water levels. If the affect of pumpage from the J.B.T. well located across Mint Creek is removed, it is apparent that water levels were continuing to decline at the end of the test and can be expected to continue to decline for years. This thought is important to the Board because it has to think in terms of providing a water supply over a 100 year period.

The magnitude of the potential decline in water levels over this period is suggested by an analysis conducted by Southwest Groundwater Associates as part of an application they filed with the Arizona Department of Water Resources for a water report for the Valley View Ranch Subdivision located about 2 miles south of the ICR well field. In this analysis, pumpage from the TRR well field caused a water level decline in the ICR well field of about 100 feet. The measured decline in the latter well field caused by the three day test was about 1 foot. The same analysis produced a water level decline in TRR well 4 of more than 100 feet whereas the three day test produced a decline of about 64 feet.

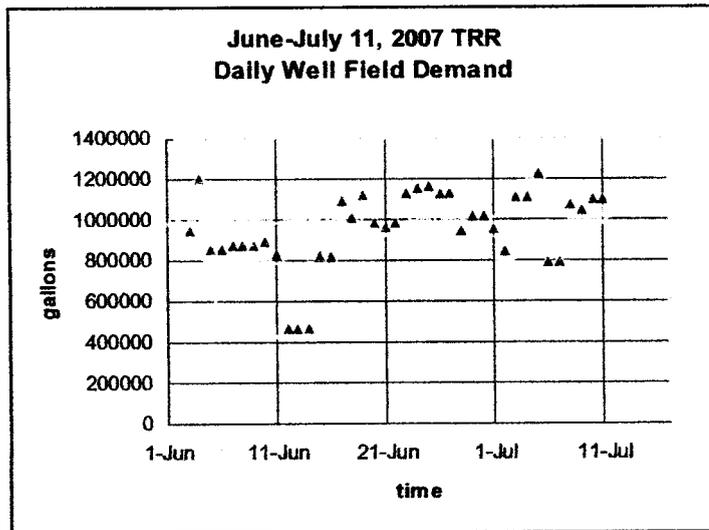
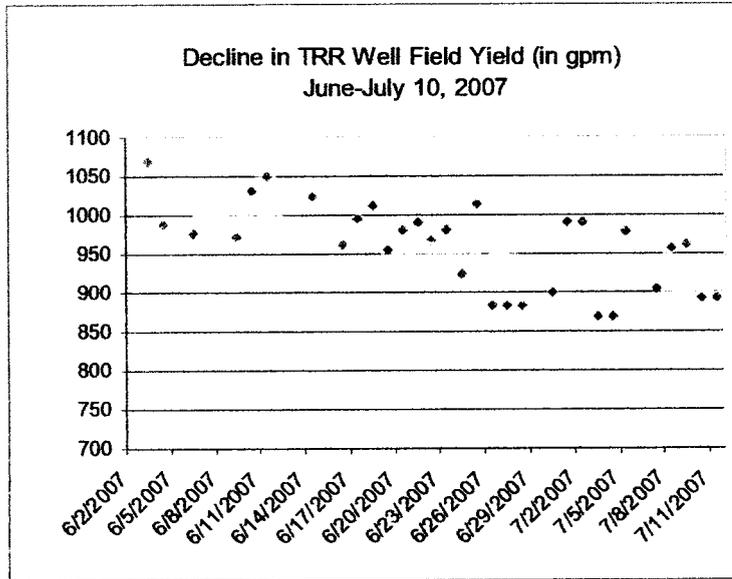
4. Ultimately, assuming that the pumps on the wells are not oversized, the yield from the well field would be expected to stabilize at a value below 828 gpm that is sustainable.
5. The decline in well yield as the test progressed is not a normal characteristic of a well field unless it is being over-pumped given its hydro-geologic setting. In this case, reduced yield is most likely related to thinning of the aquifer in the vicinity of the well field induced by well field pumpage.
6. The pattern of declining yield with time is identical to that observed during the 2007 pre-monsoon season (June-July 11,2007) where combined yield fell from 1,069 gpm on June 2 to 893 gpm on July 10, a decline in yield of about 26 percent.

7. Maximum demand from the well field over the 2007 pre-monsoon season equaled 1,227,500 gallons on July 5, most of which was golf course demand. This demand required an average combined well field yield of 852 gpm, about 24 gpm more than the combined yield at the end of the three-day test.
8. **Based upon the well field's history of use and the results from the three day test, it is apparent that the 2007 pre-monsoon demand was essentially equal to the well field's maximum yield.**
9. Air production in wells 1 and 3 averaged 1.22 and 2.20 percent per unit volume and was significantly below that in well 2 where the average was 11.27. The average air production from the well field during the test was about 5.3 percent per unit volume.

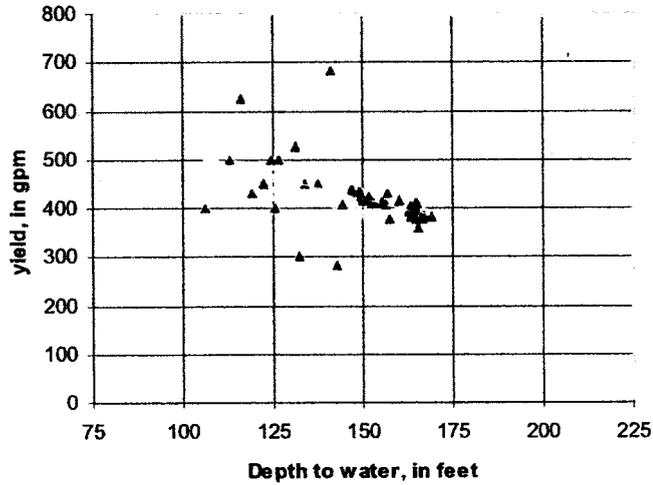
Although production of air from well 1 was less than that observed in the other two wells, past experience has shown this well to be a significant producer of air also. This was particularly true during the June-July pre monsoon season when the average daily use of the well averaged about 16 hours per day. The lack of air production during the test suggests that the zone of air production in the well is below the maximum water level decline that occurred during the test, i.e. about 169 feet.

10. The Utility should not consider well 4 as a viable addition to the capacity of the existing TRR well field.

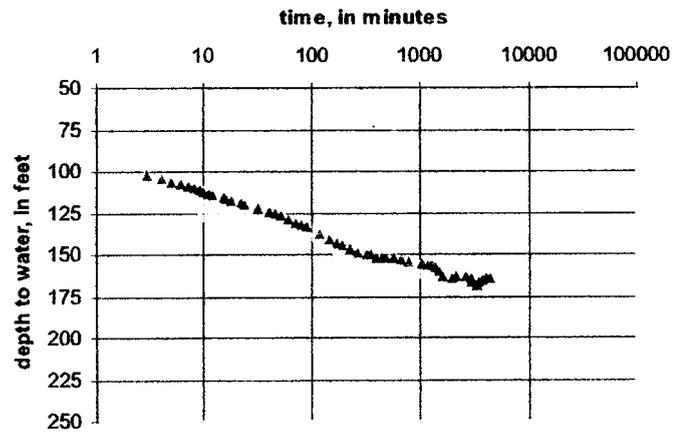
Appendixes



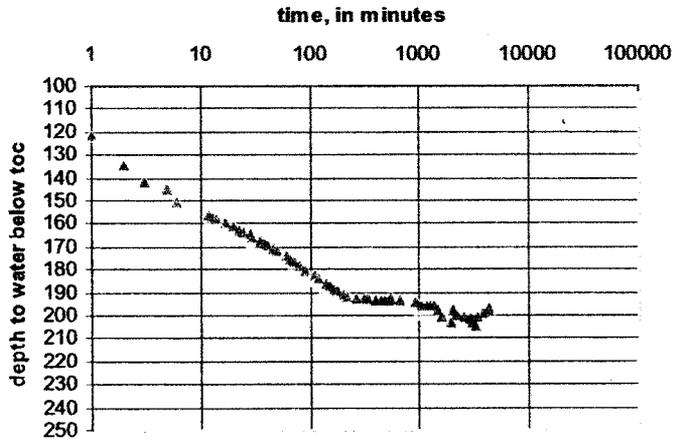
**TRR Well Field Test October 24-27, 2007.
Well 1 Yield vrs Depth to Water**



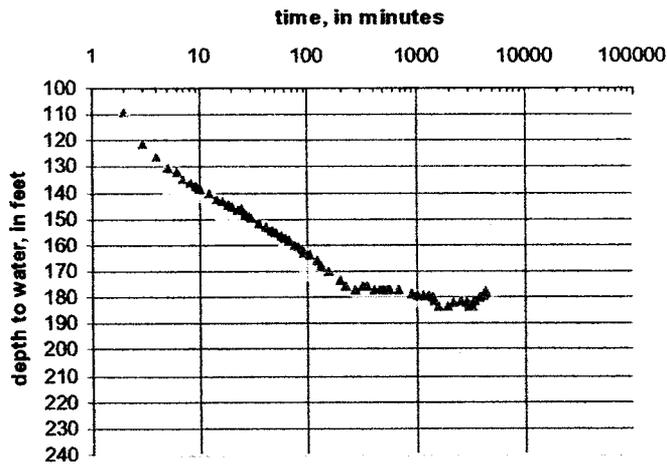
**TRR Well Field Test, October 24-27, 2007.
Well 1 Depth to Water vrs Time**

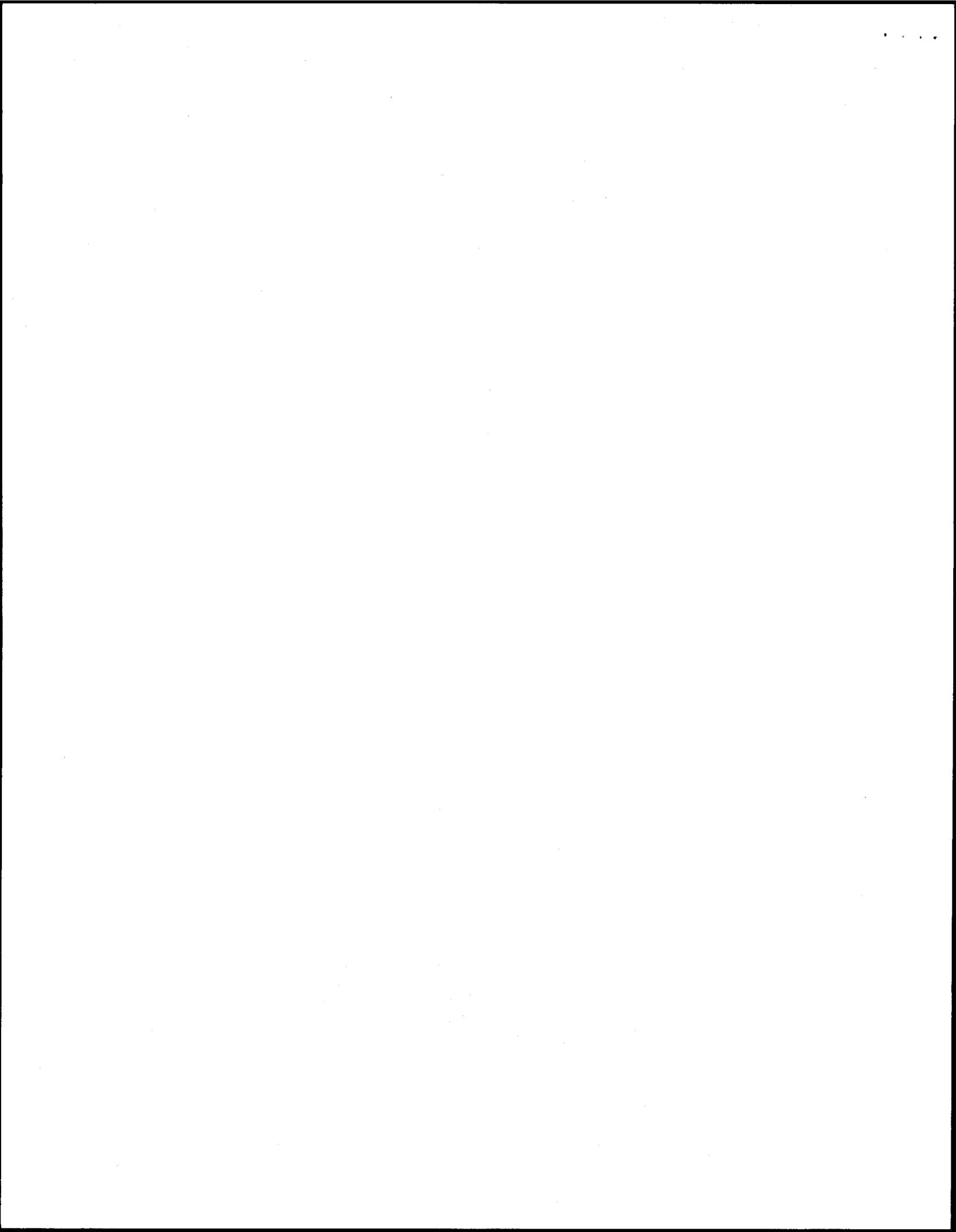


TRR Well Field Test, October 24-27, 2007.
Well 2 Depth to Water vrs Time



TRR Well Field Test, October 24-27, 2007.
Well 3 Depth to Water vrs Time





ICR Water Users Association Data Responses to
Dayne Taylor's First Set of Data Requests, Dated January 14, 2008

DT 1-12 **2006 Monthly Manager Reports (each month and a summary report) that includes a report of monthly water use (water pumped, sold, and loss).**

Response:

ICR's manager was not required to and did not prepare reports for each month during 2006. ICR encloses copies of all 2006 Manager Reports provided by its manager and 2006 monthly water use reports. (See CD enclosed).

Respondent: Bob Busch, ICR Water Company Manager

DT 1-13 **2006 methodology for calculating Harvard's reimbursement for their proportionate share for Operation, Maintenance and Repair of wells jointly used, the Pump Station, and the chlorination facilities. Submittal should include formula used to calculate charges.**

Response:

Pursuant to the Well Agreement, the golf course pays a pro rata share of the operation, maintenance and repair expenses for the TRR water system each month based upon the percentage of water pumped from ICR's well to the golf course. This pro rata share is subject to a true-up at the end of each year. ICR encloses its 2006 calculation of the developer's pro rata share of the operation, maintenance and repair expenses of the TRR water system. (See CD enclosed).

Respondent: Bob Busch, ICR Water Company Manager

DT 1-14 **2006 electric power cost for each well in the TRR well field.**

Response:

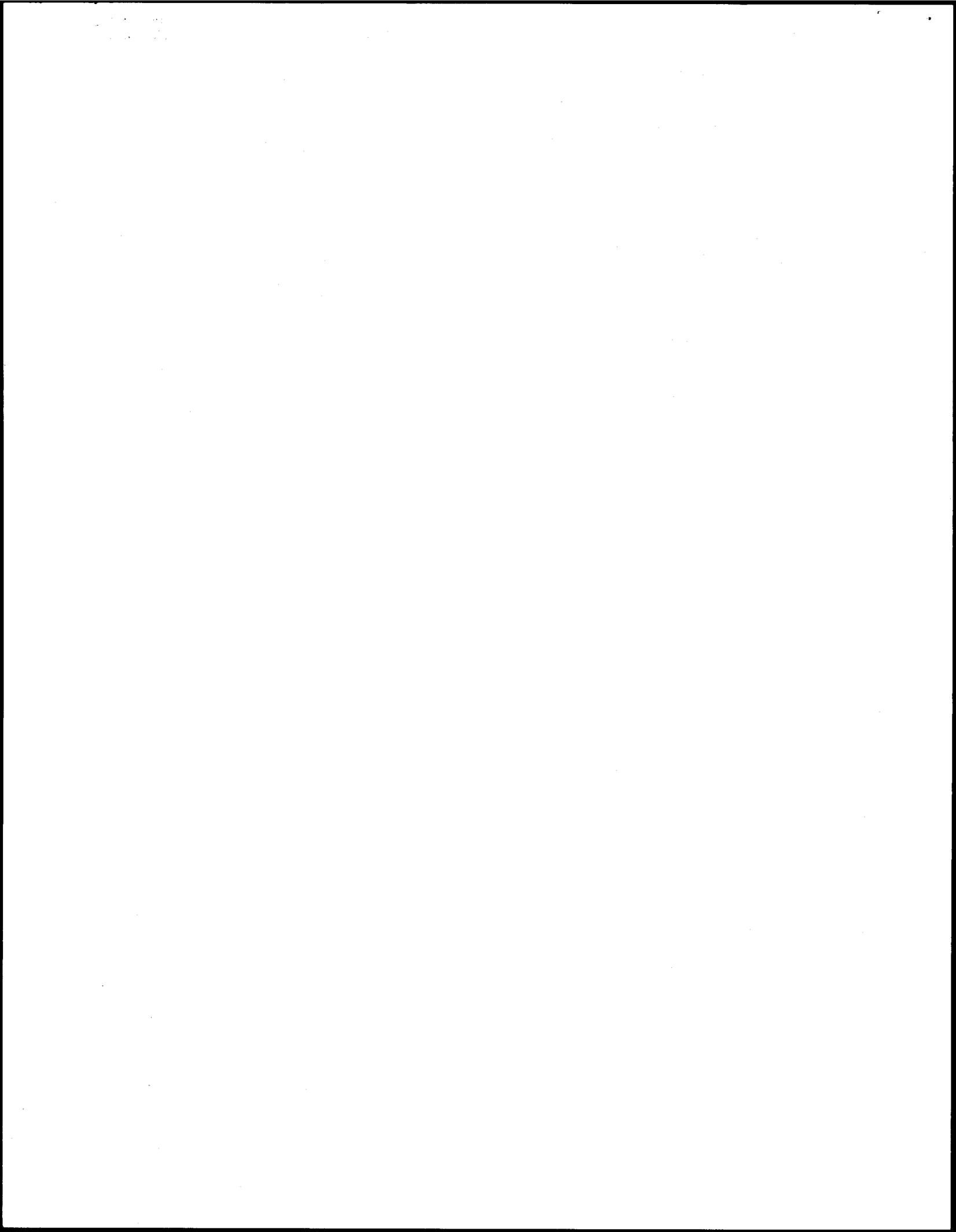
The developer of TRR is billed directly for these electric power costs for each well in the TRR well field and the associated boost stations. ICR does not pay any power costs for these wells and boost stations, and has no copies of the electric bills.

Respondent: Bob Busch, ICR Water Company Manager

DT 1-15 **2006 electric power cost for the main Pump or Boost Station and for the second boost station.**

Response:

See response to DT 1-14.



**RESPONSE OF ICR WATER USERS ASSOCIATION, INC.
TO ARIZONA CORPORATION COMMISSION
STAFF'S REVISED FOURTH SET OF DATA REQUESTS
DOCKET NO.W-02824A-07-0388
January 25, 2008**

CM4.16 Does the Talking Rock Golf Course pay any other expenses for the Company other than the operating and maintenance expenses of the wells and pump house?

Response: Yes, see response to CM 4.7. In addition to the O&M expenses outlined in ICR's response to CM 4.7, the Golf Club directly pays for all the electric costs to operate all equipment, the three wells, and pump stations for the TRR water system. ICR does not know how much the Golf Club paid. The Company paid no electric expenses for the TRR water system for the 2006 Test Year and for 2007.

Prepared by: Bob Busch
ICR Water Users Association, Inc.
P.O. Box 5669
Chino Valley, AZ 86323

