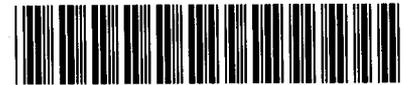


ORIGINAL



0000084811

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

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AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

MAY -7 2008

BEFORE THE ARIZONA CORPORATION COMMISSION

DOCKETED BY

nr

8 IN THE MATTER OF THE)
9 APPLICATION OF VALLEY UTILITIES)
10 WATER COMPANY INC. FOR AN)
11 INCREASE IN ITS WATER RATES FOR)
12 CUSTOMERS WITHIN MARICOPA)
13 COUNTY, ARIZONA.)

DOCKET NO. W-01412A-99-0615

14 IN THE MATTER OF THE)
15 APPLICATION OF VALLEY UTILITIES)
16 WATER COMPANY, INC. FOR)
17 AUTHORITY TO ISSUE PROMISSORY)
18 NOTE(S) AND OTHER EVIDENCES OF)
19 INDEBTEDNESS PAYABLE AT)
20 PERIODS OF MORE THAN TWELVE)
21 MONTHS AFTER THE DATE OF)
22 ISSUANCE)

DOCKET NO. W-01412A-00-0023

**MOTION FOR AN ORDER
CONFIRMING COMPLIANCE AND
RELEASE OF SET-ASIDE FUNDS**

23 Valley Utilities Water Company Inc. (hereinafter "Valley" or the "Company"), by and
24 through the undersigned counsel, hereby submits this Motion for an Order Confirming
Compliance and Release of Set-Aside Funds, and in support of said Motion states as follows:

1. In Decision No. 62908, dated September 18, 2000, the Commission, among other things; (1) granted the Company an increase in its authorized rates, (2) approved a loan from the Water Infrastructure Facilities of Arizona ("WIFA") in the amount of \$452,080 to replace a water storage tank, replace a booster pump replace lines and valves, install new fire hydrants and other improvements (Loan #1), and (3) required the Company to "set-aside" in a separate bank

1 account (the "Set-Aside Account"), one-twelfth of the estimated annual debt service for Loan #1
2 each month, which was estimated to be \$6.35 per bill per month¹. The purpose of the set-aside
3 was to assure that the Company had sufficient cash flow to service the debt of the WIFA Loan
4 #1. This set-aside was to continue, "...Until such time that the exact amount [of the debt
5 service] was known ...".

6 2. The Company began depositing funds into the Set-Aside Account in November 2000,
7 and suspended collecting those "set-asides" in November 2003 after consultation with Staff
8 when it was determined that the draw down on the loan would be substantially less than the full
9 authorized loan amount.

10 3. On January 7, 2005 the Company closed on the WIFA Loan #1 in the amount of
11 \$52,350.00, having determined that it did not need all funds for the specific projects authorized
12 in Decision No. 62809, for the reasons set forth in a letter to Ernest Johnson on December 28,
13 2005, a copy of which is attached hereto as **Exhibit 1**.

14 4. On November 14, 2005 the Commission issued Decision No. 68309 which, among
15 other things, granted approval of a WIFA Loan for approximately \$1.9 million (Loan #2) and
16 cancelled authority for WIFA Loan #1, erroneously assuming it "was never utilized".

17 5. In accordance with Decision No. 68309, the Company duly reported to Staff the
18 status of Set-Aside Account collections, expenditures and balance. On January 9, 2008 the Staff
19 issued a Memorandum regarding its review of the Set-Aside Account, a copy of which is
20 attached hereto as **Exhibit 2**. On March 19, 2008, after meeting with Staff, the Company
21 responded to the Staff Report. A copy of that Response is attached hereto as **Exhibit 3**.

22
23
24 ¹ Note that the average bill was increased by \$6.40 per month per Decision No. 62908, Page 11, Line 21, leaving the
Company with an additional unrestricted cash flow of only \$0.05 per customer per month at that time.
93055.00000.368

1 Original and ten copies of the foregoing
filed this 7th day of May, 2008,
2 with:

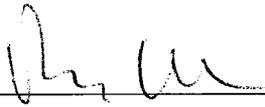
3 Docket Control
Arizona Corporation Commission
4 1200 West Washington
Phoenix, Arizona 85007
5

6 Copies of the foregoing Hand Delivered this 7th
day of May, 2008, to:

7 Hearing Division
8 Arizona Corporation Commission
1200 West Washington
9 Phoenix, Arizona 85007

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

Utilities Division
13 Arizona Corporation Commission
1200 West Washington
14 Phoenix, Arizona 85007

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16  _____

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Valley ORIGINAL Utilities Water Co. Inc.

December 28, 2005

HAND DELIVERY

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

AZ CORP COMMISSION
DOCUMENT CONTROL

2005 DEC 29 12:41

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Subject: Valley Utilities Water Company, Inc. Docket Nos. ~~W-1412A-04-0736~~; W-01412A-04-0849; Decision No. ~~68369~~; Compliance
68369

Dear Mr. Johnson:

This 30 day Compliance Item is filed today after consultation with Commission Staff in that regard. This cover letter is intended to provide clarity regarding the WIFA Set-Asides and the WIFA loan itself by way of history and dialog.

Valley Utilities Water Company, Inc. (VUWCO) with a staff of 4 persons intended to secure a loan in order to facilitate many needed upgrades to VUWCO's system in order to continue to provide safe and dependable water service to its customers. The critical items to the loan requirement were the "Big Ticket" items. These were the replacement of a failing 90,000 gallon storage tank, a new 500,000 gallon storage tank and the rebuild of the Glendale Avenue Well and Booster Station (GAWBS) including new booster pumps. The upgrades were to include new electric service, 220v to 480v along with new controls. This was all needed to meet the growth in the area that was coming via infill in our existing service area. The next priority was to abandon and reroute main lines in the oldest area that VUWCO serves and to install fire hydrants in the Casitas Bonitas and Rancho de Loma subdivisions, where there is no fire protection. This area includes 173 homes; of those 11 are "Section 8" houses that provide homes to low income families.

The next component of the loan request was for the lowest priority items. These included the replacement of approximately 200 service lines that were 20 years old and older and were deteriorating and failing at an alarming rate. In conjunction with the service lines, VUWCO also intended to replace approximately 2850 feet of 4 inch Type II asbestos/cement mains. These mains were also failing at a high rate. With the replacement of the 4 inch pipe by 6 inch pipe, VUWCO intended to install 12 fire hydrants in the Luke Field Homes subdivision where there is no fire protection for

Mr. Ernest Johnson
December 28, 2005
Page 2

approximately 260 homes. All in all a rather ambitious scope of work for a company the size of VUWCO.

WIFA, as you know, goes through a vetting process and assigns a priority to all applicants. VUWCO did not meet the public health and urgency requirements for the first couple of years but we finally closed the loan January 7, 2005. The WIFA loan Agreement, Number 920092-05 was for a reduced amount, \$52,350.00 and covered only the abandonment and realignment of the main lines in the Luke Field Homes subdivision and for the installation of fire hydrants for the Casitas Bonitas and Rancho de Loma subdivisions.

During the time between October, 2000 and the WIFA loan closing many changes happened. VUWCO was inundated with developers who wished to build new subdivisions both large and small. The first was the Dreaming Summit subdivision. During this time the "Big Ticket" items were taken care of during the building and rebuilding of new and old facilities. The Maryland Avenue Booster Station (MABS) was built adding storage capacity not only for the requirements of the Dreaming Summit subdivision but also for the infill growth alluded to earlier. The Glendale Avenue Well & Booster Station (GAWBS) was rebuilt at this time. During the construction of the MABS and GAWBS facilities, VUWCO used in house expertise to complete a significant amount of the work, lowering costs and allowing for the needed upgrades. The storage tank at MABS was increased from 300,000 gallons to nearly 600,000 gallons. The booster station was intended only to have one Variable Frequency Drive (VFD), it now has 4. The 90,000 gallon storage tank at GAWBS was to be replaced in kind; it was increased to 110,000 gallons. At the Lux Well & Booster Station (LWABS) VUWCO rehabilitated the number 3 well raising production from 30 GPM to 130 GPM. Then VUWCO installed a third booster pump controlled by a VFD. All of these things were done to enhance our ability to serve safe, dependable drinking water to an ever increasing demand.

With the addition of the VFD's, the extra storage and increased well production, the operating characteristics of the system improved. The number of main breaks reduced to a level lower than had been experienced in the last 15 years. The service line issue had been taken on as a project by establishing a plan that identified and prioritized service lines by their condition. This allowed for a proactive replacement program that minimized outage times, cost and contamination. The service lines were being replaced by design at the most opportune times and not by emergency. VUWCO was trying to close the WIFA loan but needed to revise the scope of work. A problem became evident when WIFA Staff and Arizona Corporation Commission (ACC) Staff were discussing the change in scope and individual items that were found on the revised application to WIFA.

Mr. Ernest Johnson
December 28, 2005
Page 3

VUWCO was advised that it could not add any new items to the list that had been filed with the original Financing Request that had been previously approved. VUWCO could only apply for the funds needed to satisfy those items that remained on the list. With the Type II AC pipe breakage under control and the service line replacement plan well underway the only items left for VUWCO to complete were the main abandonment/realignment and the fire hydrant installation. These two jobs were engineered by Coe and Van Loo and have been approved by Maricopa County Department of Environmental Services. VUWCO has the Certificate to Construct for both jobs. The contractor who bid the job originally, AFC Inc. was willing to work with VUWCO on materials procurement, equipment and labor in order to keep costs down. Unfortunately, AFC has relocated, due to a large job requirement and has left the state requiring the jobs to be re-bid. Currently, RAM Pipeline has provided a bid to complete the work but the costs have escalated dramatically. The original bid for the installation of a fire hydrant was for \$2,000.00 each. For the installation of 17 hydrants, the cost would have been \$34,000.00. The new bid is for \$4,347.00 each for a total of \$73,897.00. The bid for the abandonment/realignment is not available at this time but I am confident that it to will have seen significant increases. As historical information, the abandonment/realignment portion of the project was held up for several months due to the discovery of a 2 inch gas main, belonging to Southwest Gas, which had been installed lying directly on a VUWCO water main.

This brings us to the current time. I hope that this narrative has brought an understanding of what we at VUWCO have done and that we are doing the best we can with the resources available to us.

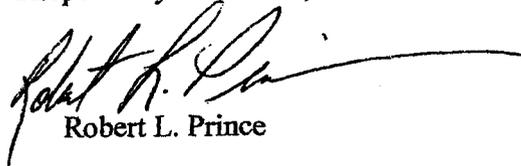
Attached is a summary of the WIFA Set-Aside collections as required by the subject Decision. As I indicated during the Open Meeting on this matter, we discontinued collecting the authorized Set-Aside in October 2003 after discussing with Staff the smaller WIFA loan requirement and the fact that the fund balance exceeded that anticipated WIFA loan amount. I also indicated at the Open Meeting that some of those funds were temporarily used for operational needs. Most of those funds have been redeposited as indicated by the post-December 12, 2003 account activity in the Summary.

With the need for the remaining facilities contemplated in the first WIFA loan as discussed above, I would like to meet with your Staff to discuss the process of obtaining a Commission order to permit utilization of the Set-Aside funds for those purposes, and applying the balance of those funds to the second WIFA loan as approved in the subject Decision. I will be contacting Mr. Olea right after the first of the year to discuss that process.

Mr. Ernest Johnson
December 28, 2005
Page 4

If there are any questions, please call.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Robert L. Prince", with a long horizontal flourish extending to the right.

Robert L. Prince

Enclosure

Cc: Docket Control (15 Copies)
Steve Olea

VALLEY UTILITIES WATER COMPANY, INC.
 ACTUAL WIFA SET ASIDES
 FROM NOVEMBER 2000
 TO SEPTEMBER 2005

Date	Deposit Amt	Amt Withdrawn	Reason	Balance
12/5/2000	\$4,032			\$4,032
6/27/2001	\$24,611		Catch up payment due to insufficient cash flow in the previous months.	\$28,643
9/5/2001	\$4,208			\$32,851
11/1/2001	\$4,282			\$37,103
12/20/2001	\$4,537			\$41,640
1/18/2002	\$4,610			\$46,250
2/14/2002	\$4,802			\$51,052
3/20/2002	\$5,059			\$56,111
4/16/2002	\$5,147			\$61,258
5/30/2002	\$5,468			\$66,726
6/26/2002	\$5,799			\$72,525
8/22/2002	\$6,321			\$78,846
9/11/2002	\$6,346			\$85,192
10/21/2002	\$6,439			\$91,631
11/25/2002	\$6,442			\$98,073
1/30/2003	\$13,342		Catch up payment due to insufficient cash flow in the previous month.	\$111,415
3/19/2003	\$7,017			\$118,432
4/25/2003	\$7,058			\$125,490
5/21/2003	\$7,345			\$132,835
6/12/2003	\$7,534			\$140,369
7/5/2003	\$7,618			\$147,987
8/8/2003	\$7,708			\$155,695
9/10/2003	\$7,680			\$163,375
10/9/2003		\$10,000	Payroll shortfall and the account was over funded by \$17,630.00	\$153,375
10/15/2003		\$12,000	LX Payback Acct. was funded. WIFA account still over funded by \$7,526.00	\$141,376
11/12/2003	\$7,710			\$149,086
11/17/2003		\$10,000	Funds needed in checking account in order to satisfy accounts payable requirements.	\$139,086
12/8/2003	\$4,261			\$143,346
4/2/2004		\$20,000	Insufficient funds to satisfy accounts payable.	\$123,346
5/2/2004		\$5,000	Payroll short fall.	\$118,346
5/12/2004	\$2,649			\$120,995
6/12/2004		\$510	WIFA Project Engineering Invoice	\$120,485
6/9/2004		\$2,871	WIFA Project Engineering Invoice	\$117,614
8/8/2004	\$5,845			\$123,459
9/30/2004	\$5,845			\$128,305
11/12/2004	\$8,345			\$137,650
12/10/2004	\$3,161			\$140,811
1/14/2005		\$5,000	Arsenic Remediation Coalition (ARC) one time dues	\$135,811
2/10/2005		\$10,000	Payroll short fall.	\$125,811
2/28/2005	\$3,420			\$129,231
3/11/2005		\$10,000	Payroll short fall and income taxes.	\$119,231
3/28/2005		\$20,000	Insurance, liability & vehicle. Well repair #4 well.	\$99,231
4/6/2005		\$10,000	Payroll short fall.	\$89,231
6/16/2005	\$6,292			\$95,523
7/12/2005		\$119	WIFA Project, legal opinion for closing documents.	\$95,404
9/29/2005	\$6,300			\$101,704

MEMORANDUM

TO: Darron Carlson

FROM: Marvin Millsap

DATE: January 9, 2008

RE: Staff's Analysis of Valley Utilities Water Company, Inc. WIFA Set-aside Account

Staff has analyzed Valley Utilities Water Company, Inc.'s (Valley or Company) WIFA Set-aside Account activity through December 31, 2007. This account was established in response to Decision No. 68309, which required that the Company set-aside in a separate, interest bearing account \$6.35 out of its revenues per water customer billed per month in order that the Company would have funds to pay the debt on an anticipated WIFA loan. The loan was never applied for and Staff's opinion is that the Decision for a subsequent rate proceeding vacated the set-aside requirement. No Commission action seems to have given the Company authority to close the account or access it for purposes other than WIFA debt service. The account was opened in November, 2000, and revenue set-aside requirement was discontinued in November, 2003.

It appears to Staff that the account balance as of December 31, 2007, should be \$215,540.07 but is actually only \$59,942.10 per the Chase Bank statement. In a report to the Utilities Division Director dated December 28, 2005, Valley reported a balance of \$101,725 as of November 30, 2005. The bank statement for that date indicated a balance of \$101,574.47. There are three reasons for the difference revealed by Staff's analysis:

First is that interest credited by the bank based on the balance each month is \$8,120.65 whereas the calculated interest based on what the monthly balance should have been is \$20,544.27, a difference of \$12,423.62. Some of this difference results because the Company's deposits were not made on a monthly basis, thus the amount credited monthly was lower than it should have been based on the balance at the time.

Second is that the difference in Set Aside deposits appears to be \$25,521.55 based on the Company's deposits of \$169,474.25 from November, 2000, through November, 2003 - based on the customer count provided in a data request the deposits should have totaled \$194,995.80. Interestingly, higher customer counts were presented in the Company's Annual Report to the Commission.

Third is that the Company has withdrawn, beginning in August, 2003, a total of \$228,432.02 while only \$110,779.22 has been re-deposited, leaving the Company owing the Fund \$117,652.80 in re-deposits.

Therefore, the Fund is short a total of \$155,597.97. Staff notes that subsequent orders indicate that the Fund be used only for "other" WIFA debt obligations.

Analysis of Valley Utilities Reveue Set Aside Balance

Sep-05	5,845.37	172.72		101,716.74	201,169.25	0.0221	370.49
Oct-05		224.27	265.58	101,675.43	201,539.74	0.0263	441.71
Nov-05		222.79	323.75	101,574.47	201,981.45	0.027	454.46
Dec-05	1,500.00	226.10	603.92	102,696.65	202,435.91	0.0274	462.23
Jan-06	5,000.00	250.36		107,947.01	202,898.14	0.0279	471.74
Feb-06	3,500.00	238.14		111,685.15	203,369.87	0.0289	489.78
Mar-06		271.26		111,956.41	203,859.66	0.029	492.66
Apr-06	3,500.00	214.15	115,670.56	-	204,352.32	0.0299	509.18
Bank One A/C #2337698779							
Apr-06	115,670.56	33.94	51,000.00	64,704.50	204,861.49	0.0296	505.33
May-06		149.99	9,200.00	55,654.49	205,366.82	0.029	496.30
Jun-06	10,000.00	145.83	-	65,800.32	205,863.12	0.0303	519.80
Jul-06		170.99		65,971.31	206,382.93	0.031	533.16
Aug-06		171.44		66,142.75	206,916.08	0.031	534.53
Sep-06		160.79		66,303.54	207,450.62	0.031	535.91
Oct-06		177.86		66,481.40	207,986.53	0.031	537.30
Nov-06		166.19		66,647.59	208,523.83	0.0308	535.21
Dec-06		159.37		66,806.96	209,059.04	0.0305	531.36
Jan-07		183.88		66,990.84	209,590.40	0.0309	539.70
Feb-07		164.44		67,155.28	210,130.09	0.0325	569.10
Mar-07	10,000.00	174.56		77,329.84	210,699.20	0.0318	558.35
Apr-07		200.95		77,530.79	211,257.55	0.031	545.75
May-07		201.48		77,732.27	211,803.30	0.031	547.16
Jun-07		149.72	24,579.91	53,302.08	212,350.46	0.0298	527.34
Jul-07		131.66	10,464.34	42,969.40	212,877.79	0.0287	509.13
Aug-07		102.54		43,071.94	213,386.93	0.0285	506.79
Sep-07		86.55		43,158.49	213,893.72	0.0265	472.35
Oct-07	10,000.00	91.67		53,250.16	214,366.07	0.0236	421.59
Nov-07		95.75		53,345.91	214,787.66	0.0221	395.57
Dec-07	6,500.00	96.19		59,942.10	215,183.22	0.0199	356.85
	110,779.22	8,120.65			215,540.07		20,544.27
			228,432.02		194,995.80		

Analysis of Valley Utilities Reveue Set Aside Balance

<u>Month/Year</u>	<u>Customers per Data Request</u>	<u>Set Aside Amount</u>
Nov-00	635	4,032.25
Dec-00	635	4,032.25
Jan-01	640	4,064.00
Feb-01	639	4,057.65
Mar-01	647	4,108.45
Apr-01	654	4,152.90
May-01	654	4,152.90
Jun-01	656	4,165.60
Jul-01	648	4,114.80
Aug-01	650	4,127.50
Sep-01	658	4,178.30
Oct-01	688	4,368.80
Nov-01	709	4,502.15
Dec-01	721	4,578.35
Jan-02	751	4,768.85
Feb-02	791	5,022.85
Mar-02	804	5,105.40
Apr-02	853	5,416.55
May-02	905	5,746.75
Jun-02	941	5,975.35
Jul-02	977	6,203.95
Aug-02	990	6,286.50
Sep-02	1,004	6,375.40
Oct-02	1,039	6,597.65
Nov-02	1,036	6,578.60
Dec-02	1,046	6,642.10
Jan-03	1,056	6,705.60
Feb-03	1,085	6,889.75
Mar-03	1,100	6,985.00
Apr-03	1,145	7,270.75
May-03	1,174	7,454.90
Jun-03	1,186	7,531.10
Jul-03	1,200	7,620.00
Aug-03	1,197	7,600.95
Sep-03	1,194	7,581.90
Oct-03		



Valley Utilities Water Co. Inc.

March 19, 2008

Mr. Marvin Millsap
Arizona Corporation Commission
Utilities Division
1200 West Washington Street
Phoenix, Arizona 85007

Re: Staff's Analysis of Valley Utilities Water Co.'s WIFA Set Aside Account

Dear Mr. Millsap:

Thank you for the opportunity to respond to your analysis of the set asides for Valley Utilities Water Company. In the first paragraph you state that Valley never applied for a WIFA loan. The loan was not only applied for, WIFA loan number 920092-05, but was approved and closed on January 7, 2005 in the amount of \$52,350.00. This amount was a smaller amount than was originally requested for the reasons listed in my letter to Mr. Earnest Johnson dated December 28, 2005, requested by Staff for Decision No. 68309. Decision No. 62908, dated September 18, 2000 approved the WIFA loan and established the set aside account. This loan was subsequently cancelled by the Commission in Decision No. 68309, dated November 11, 2005 and WIFA cancelled the loan August 14, 2005 pursuant to that Decision.

Valley attempted to change the scope of the work from the original scope and in discussions with Mr. Steve Olea, in 2003 regarding this loan but I was advised that the scope of work could not be amended to include anything that was not originally included. Items could be removed but nothing could be added as a replacement item, therefore the scope of work ended up as what was left over from the original list of items. As Valley applied for that loan through the process at WIFA, we were not placed on the funding cycle until February, 2004 as indicated by the letter that I received from Jay R. Spector, Executive Director of WIFA. As mentioned previously, the loan closed January 7, 2005.

As indicated in my letter to Mr. Johnson, dated December 28, 2005 and shown on the spreadsheet that accompanied the letter, Valley suspended the collection of set asides in October 2003 because the balance was substantially over the amount needed to service the WIFA loan. With a loan amount of \$52,350 and set asides in the amount of \$141,128, Valley had enough funds not only to service the loan for a year but to pay it off completely.

Mr. Marvin Millsap
March 19, 2008
Page 2

In the last paragraph of my letter to Mr. Johnson, I suggested that some of the set aside money could be used to pay for the cost increases for the items that had been contemplated in the loan package. There had been a significant cost increase to complete this work and the loan amount was insufficient to complete the entire scope of work. I indicated that I would call Staff after the first of the year (2006) to discuss this issue. I placed the call to Staff after the first of the year, but did not get a return call.

The past, and continuing, financial strain on Valley is making it difficult to put the money required for the set asides into the set aside account while at the same time meeting the requirements of payroll and other expenses necessary to continue serving water to our customers. As you saw from the spreadsheet there were times when we paid into the account and times when we had to take money from the account. Also, when the amount calculated did not equal the amount deposited that merely reflects the fact that Valley did not have the funds available to meet the obligation at that time. It was not that we were miscalculating or misstating the number of customers in our system.

Valley currently has \$73,451.00 in the set aside account, still more than enough to satisfy the WIFA loan that was cancelled. The reason that this amount is not at the \$141,128 as shown on the spreadsheet is for the reasons that were stated in my testimony for Decision No. 70138. The expenditure of money was required in an attempt to rehabilitate a failing No. 6 well and maintain water service to our customers. This is the same No. 6 well that eventually failed and is now being replaced with a new WIFA loan pursuant to Decision No. 70138.

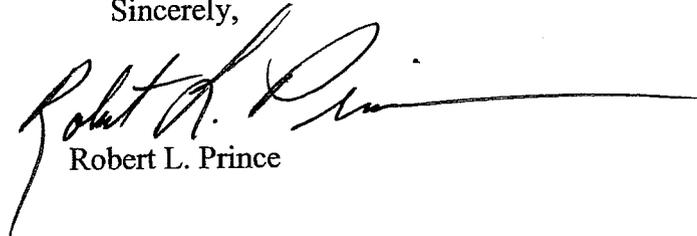
Please recall that the revenues for the set aside amounts were fully supported by the rates granted in Decision No. 62908. This was not a surcharge of "extra" money to support the loan. The set aside was a device the Commission implemented to assure that the modest rate increase that was granted would first support the WIFA loan payments. The remaining WIFA loan is being paid in a timely fashion and by right the set aside funds should now be released for the Company's other urgent cash needs. We would request that the Staff make whatever recommendation necessary to release those funds which are no longer needed for the first WIFA loan that has now been rolled into the new WIFA loan package. There was no set aside required for the new WIFA loan authorized in Decision No. 70138. If nothing else, we should be directed to pay the \$53,350 initial loan balance, with the remainder of the set aside account released for the other Company needs.

Valley is trying, with available resources, to maintain daily work requirements, secure Maricopa County approval for a Special Use Permit for arsenic treatment, build the arsenic treatment facilities, build a new 1 million gallon storage tank, drill a new 20" replacement well for the failed Well No. 6, answer questions from Staff to show that we are doing all that we can with what we have while providing the highest quality water service to our customers.

Mr. Marvin Millsap
March 19, 2008
Page 3

We would appreciate Staff's effort to resolve this difficult financial matter for the Company.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert L. Prince", with a long horizontal flourish extending to the right.

Robert L. Prince

cc Richard L. Sallquist
File