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Transcript Exhibit(s)

Docket #(s): W-02824A-07-0388

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TRG1, S1-S9, T1-T6, T8

Arizona Corporation Commission

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NEW APPLICATION

BEFORE THE ARIZONA CORPORATION

COMMISSIONERS

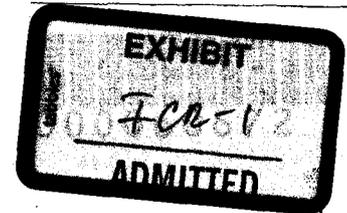
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AZ CORP COMMISSION
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Arizona Corporation Commission
DOCKETED
JUN 26 2007

DOCKETED BY

DOCKET NO. W-02824A-07-0388
APPLICATION

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

ICR Water Users Association, an Arizona non-profit corporation (“ICR” or the “Company”), submits this Application for an order establishing the fair value of its plant and property for the provision of public utility service and, based on such fair value, approving permanent rates and charges for utility service provided by the Company designed to produce a fair return thereon. In support of its request, ICR states as follows:

I. INTRODUCTION

1. ICR is a public service corporation engaged in providing water service in portions of Yavapai County, Arizona, pursuant to a certificate of convenience and necessity (“CC&N”) granted by the Arizona Corporation Commission (“Commission”) in Decision No. 64008 (Aug. 30, 1995). ICR’s current rates were also approved in that same decision.

2. ICR applied for and was granted an extension of its CC&N in Decision No. 64360 (Jan. 15, 2002). In Decision 64360, the Company was ordered to file a rate case within five years. The Company then filed and obtained an extension to file its rate case by July 15, 2007. The Company files this Application in compliance with that requirement.

3. Since the Company’s inception, it has grown and served approximately 360 member-customers at the end of the Test Year. The member-customers elect a board of directors who manage and operate the Company according to its by-laws. The Company expects to add approximately 50 member-customers per year for the next five years, including 2007.

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1 4. ICR operates two water systems, System Nos. 13-303 and 13-263. In addition to
2 serving its member-customers, the Company also furnishes water to be used for construction and
3 a golf course pursuant to a well agreement.

4 **II. FAIR VALUE DETERMINATION AND RATE INCREASE**

5 5. In this Application, ICR seeks a determination of the current, fair value of its property
6 devoted to public service and approval of permanent adjustments to its rates and charges for
7 utility service based upon that determination.

8 6. Filed concurrently in support of this Application is the direct testimony Thomas J.
9 Bourassa, C.P.A., who will be sponsoring the Company's schedules. Mr. Bourassa has prepared
10 the schedules required for the rate applications of Class C water utilities in accordance with
11 A.A.C. R14-2-103, with the exception of Schedules B-3 and B-4 because the Company is
12 requesting to use its original cost rate base ("OCRB") as its FVRB, instead of using a
13 reconstructed cost new rate base. Mr. Bourassa's testimony and supporting schedules are
14 attached as Exhibit A. The Test Year used by the Company in connection with the preparation of
15 such schedules is the 12-month period ending December 31, 2006.

16 7. During the Test Year, the Company's adjusted FVRB was negative \$554,252 and the
17 adjusted operating income was negative \$33,632. Consequently, a rate increase is necessary to
18 earn a reasonable return on the fair value of its utility plant and property devoted to public
19 service. Therefore, the Company requests certain adjustments to its rates and charges for water
20 service be approved by the Commission. The Company is requesting an increase in revenues
21 equal to \$86,899, which constitutes an increase in revenues of 32.43%.

22 **III. APPLICATION REQUIREMENTS RELATING TO WATER QUALITY**

23 8. Per A.A.C. R14-2-103(B)(5), Commission Staff requests additional information
24 relating to water quality to be included in Class C water utility rate applications. In compliance
25 with this request, ICR attaches, as Exhibit B, the Company's Arizona Department of
26 Environmental Quality ("ADEQ") compliance status reports for its two water systems. ICR
27 acknowledges that its water systems are not currently in compliance with ADEQ reporting
28

1 requirements. ICR is currently working with ADEQ and has the following compliance plan in
2 place.

3 In regards to the lead and copper monitoring and reporting deficiencies, ICR has already
4 prepared a sampling plan in accordance with ADEQ rules, where the Company collects two sets
5 of samples, six-months apart. The Company has already completed the first set of sample
6 collections. The second sample collections will be completed by the end of January 2008. The
7 data from these collections will be reported to ADEQ by the end of February 2008. However,
8 ADEQ may require additional or extended monitoring requirements, which would extend the
9 proposed timeframe, even though current water quality results indicate that ICR's water systems
10 meet the current lead and copper standards.

11 As to the Maximum Residual Disinfection Levels reporting deficiencies, all required
12 samples and tests were conducted and previously reported to ADEQ; however, out of caution,
13 ICR re-filed all of the required reports.

14 9. ICR also attaches, as Exhibit C, the Company's 2006 and 2007 annual sampling fee
15 invoices for ADEQ's Monitoring Assistance Program.

16 10. As noted in its Utilities 2006 Annual Report, the arsenic level of each well that ICR
17 uses to provide water service to its member-customers is 2.3 parts per billion, which complies
18 with federal arsenic standards.

19 11. ICR attaches its "Water Use Data Sheet" and "Water Company Plant Description,"
20 respectively as Exhibits D and E. Exhibit D details the amount of water sold and pumped during
21 the Test Year, and Exhibit E provides an inventory of the major plant in service. Mr. Bourassa
22 also prepared Schedules E-5, which details the Company's plant in service.

23 **IV. NOTICE**

24 12. All communications, correspondence, and discovery regarding this Application, as
25 well as communications and pleadings filed by any other parties, should be served on the
26 following:
27
28

1 Robert M. Busch
2 ICR Water Users Association, Inc.
3 P.O. Box 5669
4 Chino Valley, Arizona 86323
5 Phone: (928) 583-0741
6 Fax: (928) 636-9771
7 Email: rmbusch@cableone.net

8 Robert J. Metli, Esq.
9 Marcie A. Shuman, Esq.
10 Snell & Wilmer L.L.P.
11 One Arizona Center
12 Phoenix, Arizona 85004-2202
13 Phone: (602) 382-6000
14 Fax: (602) 382-6070
15 Email: rmetli@swlaw.com
16 mshuman@swlaw.com

17 **V. PRAYER FOR RELIEF**

18 For the foregoing reasons, ICR requests the following relief:

19 A. That the Commission at the earliest time possible conduct a hearing in accordance
20 with A.R.S. § 40-251 and determine the fair value of ICR's utility plant and property devoted to
21 public service;

22 B. Based upon such determination, that the Commission approve permanent
23 adjustments to the rates and charges for utility service provided by ICR, as proposed in this
24 Application, or approve such other just and reasonable rates and charges based upon the fair value
25 of the Company's utility plant and property; and

26 C. That the Commission authorize such other and further relief as may be appropriate
27 to ensure that ICR has an opportunity to earn just and reasonable rates and charges and as may
28 otherwise may be required under Arizona law.

RESPECTFULLY SUBMITTED this 26th day of June, 2007.

SNELL & WILMER

By Marcie Shuman

Robert J. Metli
Marcie A. Shuman
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Original and thirteen (13) copies
filed this 26th day of June, 2007, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

Janice L. Johnson

2009633.1

EXHIBIT A

BEFORE THE ARIZONA CORPORATION COMMISSION

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.

DOCKET NO.

DIRECT TESTIMONY OF
THOMAS J. BOURASSA
ON BEHALF OF
ICR WATER USERS ASSOCIATION

1 **I. INTRODUCTION AND QUALIFICATIONS.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. WHAT IS YOUR PROFESSION AND BACKGROUND?**

6 A. I am a Certified Public Accountant and am self-employed, providing consulting
7 services to utility companies as well as general accounting services. I have a B.S.
8 in Chemistry/Accounting from Northern Arizona University (1980) and an M.B.A.
9 with an emphasis in Finance from the University of Phoenix (1991).

10 **Q. COULD YOU BRIEFLY SUMMARIZE YOUR PRIOR WORK AND
11 REGULATORY EXPERIENCE?**

12 A. Yes. I was employed by High-Tech Institute, Inc., and served as controller and
13 chief financial officer, prior to becoming a private consultant. Prior to working
14 for High-Tech Institute, I worked as a division controller for the Apollo Group,
15 Inc. Before joining the Apollo Group, I was employed at Kozoman & Kermode,
16 CPAs. In that position, I prepared compilations and other write-up work for water
17 and wastewater utilities, as well as tax returns.

18 In my private practice, I have prepared and/or assisted in the preparation of
19 several water and wastewater utility rate applications before the Arizona
20 Corporation Commission ("Commission"). Attached at Exhibit 1 is a summary of
21 my regulatory work experience.

22 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

23 A. I am testifying in this proceeding on behalf of the applicant, ICR Water Users
24 Association ("ICR" or the "Company"). ICR is seeking increases in its rates and
25 charges for water utility service in its certificated service area in Yavapai County.

1 **II. OVERVIEW OF THE COMPANY'S APPLICATION.**

2 **Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?**

3 A. I will testify in support of the Company's proposed rates. I am sponsoring
4 Schedules A through H, which are filed concurrently herewith in support of the
5 Company's application. I was responsible for the preparation of these schedules
6 based on my investigation and review of the relevant books and records for the
7 Company.

8 **Q. PLEASE SUMMARIZE THE COMPANY'S APPLICATION.**

9 A. The test year used by ICR is the 12-month period which ended December 31,
10 2006. Since the Company is a member owned non-profit corporation, a cost of
11 capital analysis has not been performed. Instead, the revenue requirement is
12 determined based on an operating margin approach.

13 The Company proposes a 15 percent operating margin which will provide
14 revenues sufficient to provide sufficient funds for on-going operating expenses
15 help fund capital repairs and improvements and to maintain financial stability.

16 The Company has proposed certain pro forma adjustments to take into
17 account known and measurable changes to rate base, expenses and revenues.
18 These pro forma adjustments are consistent with normal ratemaking and with the
19 Commission's rules and regulations. They are also necessary to obtain a normal
20 or realistic relationship between revenues, expenses and rate base.

21 The Company's fair value rate base is a negative \$554,252. The increase in
22 revenues to provide a 15 percent operating margin is approximately \$86,908, an
23 increase of approximately 32.4 percent over the adjusted and annualized test year
24 revenues.
25

1 Q. WHY IS THE COMPANY FILING FOR RATE INCREASES AT THIS
2 TIME?

3 A. The Company was ordered to file a rate case in its last decision on January 15,
4 2002 (Decision 64360). In Decision 64360, the Company applied for and was
5 granted an extension of its Certificate of Convenience and Necessity ('CC&N').
6 As a condition of that decision, the Company was ordered to file a rate case within
7 5 years. The Company then filed and obtained an extension to file its rate case by
8 July 15, 2007.

9 The Company's initial rates were approved on August 30, 1995. (Decision
10 64008). Since that time the Company has grown and serves approximately 360
11 member-customers at the end of the test year. The member-customers elect a
12 board of directors who manage and operate the Company according to its by-laws.
13 The adjusted test year results show an operating loss of over \$33,000.

14 **III. SUMMARY OF A, E AND F SCHEDULES.**

15 Q. MR. BOURASSA, LET'S TURN TO THE COMPANY'S SCHEDULES.
16 PLEASE DESCRIBE THE SCHEDULES LABELED AS A, E, AND F.

17 A. Schedule A-1 is a summary of the rate base, operating income, current operating
18 margin, required operating margin, operating income deficiency, and the increase
19 in gross revenue. The fair value rate base ("FVRB") on this schedule is based on
20 the original cost rate base ("OCRB"), which is described in more detail on
21 Schedule B-1. The Company requests a 15 percent operating margin. Revenues
22 at present and proposed and customer classifications are also shown on this
23 schedule.

1 Q. WHY IS THE COMPANY REQUESTING A 15 PERCENT OPERATING
2 MARGIN?

3 A. To provide sufficient annual cash flows to pay operating expenses as well as to
4 fund anticipated capital repairs, maintenance and improvements over the next
5 several years, as well as to begin building up a capital replacement reserve. The
6 Company believes it has insufficient emergency power generation equipment to
7 handle power outages. It also expects to clean and repair its main storage tank
8 within two years, purchase and install a Supervisory Control & Data Acquisition
9 ("SCADA") system to provide better monitoring of the Company's well and
10 storage system, as well as refurbish an old booster station. At some point in the
11 next three to five years, the Company may well have to raise additional capital
12 though long-term debt in order to fund additional storage capacity and related
13 system improvements.

14 Q. PLEASE CONTINUE.

15 The A-2 Schedule is a summary of results of operations for the test year,
16 prior years, and a projected year at present rates and proposed rates.

17 Schedule A-3 is not required for a Class C utility and has been excluded.
18 This schedule normally contains the capital structure for the test year and the two
19 prior years.

20 Schedule A-4 contains the plant construction and plant-in-service for the
21 test year and prior years. The projected plant additions are also shown on this
22 schedule.

23 Schedule A-5 is not required for a Class C utility and has been excluded.
24 This schedule is the summary of the changes in financial position (cash flow) for
25

1 the prior two years, the test year at present rates, and a projected year at present
2 and proposed rates.

3 The E Schedules are based on the Company's actual operating results, as
4 reported by the Company in annual reports filed with the Commission. The E-1
5 Schedule contains the comparative balance sheet data the years 2004, 2005, and
6 2006.

7 Schedule E-2, page 1, contains the income statement for the years 2004,
8 2005, and 2006.

9 Schedule E-3 is not required for a Class C utility and has been excluded.
10 This schedule normally contains the statements of changes in financial position for
11 the test year and the two prior years.

12 Schedule E-4 is not required for a Class C utility and has been excluded.
13 The schedule normally provides the changes in membership equity.

14 Schedule E-5 contains the Company's plant in service at the end of the test
15 year, and one year prior to the end of the test year.

16 Schedule E-7 contains operating statistics for the years 2004, 2005, and
17 2006.

18 Schedule E-8 contains the taxes charged to operations.

19 The accountant's notes to the financial statements and the financial
20 assumptions used in preparing the rate filing schedules are shown on Schedules E-
21 9 and F-4, respectively, in accordance with the Commission's standard filing
22 requirements. By practice, the Company does not prepare audited financial
23 statements.

24 Schedule F-1 contains the results of operations at the present rates (actual
25 and adjusted), and at proposed rates.

1 Schedule F-2 is not required for a Class C utility and has been excluded.
2 This schedule normally contains the summary of changes in financial position
3 (cash flow) for the prior two years, the test year at present rates, and a projected
4 year at present and proposed rates.

5 Schedule F-3 shows the Company's projected construction requirements for
6 2007, 2008, 2009, and 2010+.

7 Schedule F-4 contains the assumptions used in developing the adjustments
8 and projections contained in the rate filing.

9 **IV. COST OF CAPITAL (D SCHEDULES).**

10 **Q. PLEASE DISCUSS THE D SCHEDULES.**

11 A. Schedule D-1 shows the summary membership equity and long-term debt. Since
12 the Company is a non-profit corporation, a cost of capital analysis has not been
13 performed. There currently is no long-term debt. The Company has recently
14 made a financing application for a line of credit up to \$100,000 as an offensive
15 measure to help the Company with its cash flows until new rates are in effect.

16 **V. RATE BASE (B SCHEDULES).**

17 **Q. WOULD YOU EXPLAIN THE RATE BASE SCHEDULES, WHICH ARE**
18 **LABELED AS THE B SCHEDULES?**

19 A. Yes. I will start with schedules B-5, which is the working capital allowance.
20 The results produced by the "formula method" of computing the working capital
21 allowance are shown on each.

22 **Q. PLEASE CONTINUE.**

23 A. The Company did not file Schedules B-3 and B-4. The Company is requesting its
24 OCRB be used as its FVRB, which is shown on Schedule B-1.

25

1 Q. **HAVE YOU PREPARED SCHEDULES SHOWING ADJUSTMENTS TO**
2 **THE ORIGINAL COST RATE BASE?**

3 A. Yes. Schedule B-2 shows adjustments to the OCRB proposed by the
4 Company. Adjustment number 1 reduces accumulated depreciation to the re-
5 computed amounts per the Company's plant schedules. Adjustment number 2
6 increases accumulated amortization of contributions in aid of construction
7 ("CIAC") to the re-computed amounts. Adjustment number 3 reflects the
8 Company proposed working capital allowance. Pages 2, 2a through 2m,
9 and 3 of schedule B-2 detail the calculations that support the adjustments 1 and 2
10 to the OCRB, while Schedule B-5 supports adjustment 3 to the OCRB.

11 Q. **DO THE PLANT AND ACCUMULATED DEPRECIATION SHOWN ON**
12 **B-2 REFLECT THE LAST COMMISSION RATE ORDER?**

13 A. Yes. The plant shown on Schedule B-2 started with the Commission-determined
14 plant from the last rate case. Pages 2a through 2k of Schedule B-2 show plant
15 additions and retirements since the test year of the last rate case that have been
16 added to and deducted from total plant shown on Schedule B-2. Pages 2l and 2m
17 of Schedule B-2 show the computed accumulated depreciation balances by year
18 since the last test year through the end of the test year in the instant case.

19 Q. **WHY WAS THERE A DIFFERENCE BETWEEN THE RECORDED**
20 **ACCUMULATED DEPRECIATION AT THE END OF THE TEST YEAR**
21 **AND THE RECOMPUTED AMOUNT?**

22 A. Because the Company incorrectly recorded accumulated depreciation in the past
23 and has been corrected here.
24
25

1 **VI. TEST YEAR INCOME STATEMENTS (C SCHEDULES).**

2 **Q. LET'S MOVE ON TO THE C SCHEDULES. PLEASE EXPLAIN THE**
3 **FIRST TWO ADJUSTMENTS YOU ARE PROPOSING TO THE INCOME**
4 **STATEMENT AS SHOWN ON SCHEDULES C-1 AND C-2.**

5 A. Adjustment 1 annualizes depreciation expense. The depreciation rates
6 approved in the prior rate case was a composite 2.5 percent. The Company
7 proposes change to the depreciation rate from a composite 2.5 percent to
8 individual rates by plant account. Individual rates by plant account more
9 accurately reflect individual plant lives and the rates used in this case are adopted
10 from the Commission's Utilities Division Staff's ("Staff") "typical and
11 customary" depreciation rates. The proposed depreciation rate for each
12 component of utility plant is shown on Schedule C-2, page 2.

13 Adjustment 2 increases the property taxes based on proposed revenues.
14 The Company has recognized the recently passed Arizona legislation (H.B. 2779)
15 now codified in A.R.S. § 42-15001, entitled "Assessed Valuation of Class One
16 Property." A.R.S. § 42-15001 reduces the assessment ratio one-half percent for
17 the next ten years starting in 2006. The Company has proposed a three year
18 reduction in the assessment ratio or a reduction from 25 percent to 23.5 percent.

19 **Q. HOW DID YOU COMPUTE THE PROPERTY TAXES AT PROPOSED**
20 **RATES?**

21 A. To determine full cash value, I used the method employed by the Arizona
22 Department of Revenue - Centrally Valued Properties ("ADOR" or the
23 "Department"). This method determines full cash value by using twice the
24 average of three years of revenue, plus an addition for construction work in
25 progress ("CWIP") and a deduction for the book value of transportation

1 equipment. In the instant case, I used two times the adjusted revenues for 2006,
2 and revenues at proposed rates. The assessed value (23.5 percent of full cash
3 value) was then multiplied by the property tax rate to determined adjusted property
4 tax expense.

5 **Q. IS THIS SYNCHRONIZATION OF PROPERTY TAX EXPENSE WITH**
6 **REVENUES PROPER RATE MAKING?**

7 A. Yes. Like income taxes, property taxes must be adjusted to ensure that the new
8 rates are sufficient to produce the authorized return on rate base. For this reason,
9 the Commission has repeatedly utilized proposed revenue increases to determine
10 an appropriate level of property tax expense to be recovered through rates.

11 **Q. IS THIS CONSISTENT WITH PRIOR COMMISSION DECISIONS?**

12 A. Yes. See, e.g., Chaparral City Water Company, Decision No. 68176 (Sept. 30,
13 2005); Rio Rico Utilities, Decision No. 67279 at 8; Arizona Water Company,
14 Decision No. 64282 at 12-13; Bella Vista Water Company, Decision No. 65350 at
15 16; Arizona-American Water Company, Decision No. 67093 at 9-10. In fact, the
16 methodology is consistent with these decisions where two years of adjusted test
17 year revenues and one year of proposed revenues were used to determine full cash
18 value. In the Arizona-American Water Company rate proceeding (Decision
19 67093), the Commission concluded that "Staff calculated property taxes using its
20 proposed adjusted test year revenues twice and its recommended revenues once to
21 calculate a three year average of revenues. We agree with Staff that using only
22 historical revenues to calculate property taxes to include in the cost of service fails
23 to capture the effects of future revenue from new rates, and can result in an
24 understatement or overstatement of property tax expense." Decision 67093 at 9-
25 10.

1 Q. MR. BOURASSA, ISN'T THERE A LAG FROM THE TIME NEW RATES
2 CHARGED CUSTOMERS GO INTO EFFECT AND THE DATE ON
3 WHICH PROPERTY TAXES ARE ACTUALLY PAID?

4 A. Yes. As an example, if new rates for the Company went into effect on January 1,
5 2007, property taxes based on these new rates would first appear on the property
6 tax bill received in September 2008. However, the Company should be accruing
7 property taxes to match the revenues collected. Thus, there is no mismatch
8 between revenues and expenses. Moreover, the property taxes resulting from my
9 calculation are based on only a portion of proposed revenues. To properly
10 consider the future impact of the rate increases, I should have computed the
11 proposed property taxes based only on proposed revenues rather than averaging
12 proposed and historic revenues. Consequently, this adjustment is conservative.

13 Q. PLEASE DISCUSS ADJUSTMENT 3 TO THE INCOME STATEMENT.

14 A. Adjustment 3 shows the rate case expense. Rate case expense is estimated to be
15 \$60,000. The Company is proposing to amortize rate case expense over three
16 years. The impact on the test year is \$20,000.

17 Q. DO YOU BELIEVE THIS IS A REASONABLE AMOUNT OF RATE CASE
18 EXPENSE GIVEN THE REQUESTED INCREASE IN REVENUE?

19 A. Yes. Factors that influence rate case expense include the nature and requirements
20 of the Commission's ratemaking process and the number of parties, issues and
21 complexity of the proceedings.

22 Q. PLEASE DISCUSS THESE FACTORS.

23 A. The Company cannot raise its rates except by filing for rate relief and the
24 Commission dictates the process for obtaining rate relief. The Company, with
25 roughly 360 member-customers at the end of the test year, is a Class C utility,

1 which requires a notice and hearing. In addition, as a Class C utility, the
2 Commission requires the Company to file most of the same schedules as a Class A
3 (i.e., APS, Arizona Water, SW Gas) utility with hundreds of thousands of
4 customers. The Company must also prepare three rounds of pre-filed testimony,
5 participate in all of the procedural and evidentiary hearings and open meetings,
6 and file closing briefs.

7 The number of parties also has a substantial impact on rate case expense.
8 Customers and other interveners add to rate case expense and the complexity of
9 the proceedings. The number and complexity of disputed issues also influences
10 total rate case expense, and those impacts cannot be known until the case
11 proceeds.

12 **Q. IS THIS WHY YOU REFERRED TO THE RATE CASE EXPENSE AS AN**
13 **ESTIMATE?**

14 **A.** Yes, and I can only consider the foreseeable. If things turn out to be more
15 complicated than anticipated, i.e., if there are third-party interveners, the Company
16 will modify its request to account for that increased expense. Conversely, if the
17 case proceeds and rate case expense is lower than expected, we would make an
18 appropriate adjustment downward.

19 **Q. SHOULDN'T THE COMPANY BEAR SOME OF THE BURDEN OF RATE**
20 **CASE EXPENSE?**

21 **A.** As a practical matter, the utility always does. My estimate of \$60,000 assumes the
22 Company will actually incur a higher amount of total rate case expense. I would
23 also agree that if the utility does something improper, or advances positions in
24 bad-faith, it should shoulder the burden of such actions. But, as I testified, the
25

1 Commission dictates the process, not the utility and absent such circumstances, the
2 utility must be allowed to recover its reasonably incurred rate case expense.

3 **Q. WHY IS THE COMPANY PROPOSING TO USE A THREE-YEAR**
4 **AMORTIZATION PERIOD?**

5 A. This is approximately the time period the Company expects to file another case.

6 **Q. PLEASE DISCUSS ADJUSTMENTS 4, 5, AND 6 TO THE INCOME**
7 **STATEMENT.**

8 Adjustment 4 annualizes revenues to the year-end number of customers for each
9 meter size. This adjustment is intended to increase revenues on the basis that the
10 number of customers at year end were receiving service during the entire 12
11 months of the test year. The annualization was based on the number of customers
12 at the end of the test year, compared to the actual number of customers on each
13 size meter during each month of the test year. Average revenues by month were
14 computed for the test year for each meter size. The average revenues were then
15 multiplied by the increase (or decrease) in number of customers for each month of
16 the test year. Customer growth during the test year was less than 30 customers.

17 Adjustment 5 annualizes purchased power costs based on the additional
18 gallons sold by annualizing revenues to the year-end number of customers.

19 Adjustment 6 reverses an amount recorded during the test year which was
20 applicable to a prior year.

21 **Q. PLEASE EXPLAIN WHY ADJUSTMENT 6 REVERSES A PREVIOUSLY**
22 **RECORDED AMOUNT.**

23 Q. An entry was made to repairs and maintenance expense in 2006 to re-class a 2005
24 repairs and maintenance expense to plant-in-service. This entry reduced repairs
25

1 and maintenance expense for the test year. Without this adjustment, repairs and
2 maintenance expense is understated.

3 **Q. PLEASE DISCUSS THE REMAINING ADJUSTMENTS TO THE**
4 **INCOME STATEMENT.**

5 A. Adjustment 7 increases outside service costs for operations provided to the
6 Company by A Quality Water Company. The increase is based on the contract
7 between ICR and A Quality Water Company.

8 Adjustment 8 increases outside service costs for billing and accounting
9 provided to the Company by MDI Financial Services. The increase is based on
10 the contract between ICR and MDI Financial Services.

11 Adjustment 9 increases outside service costs for management services
12 provided to the Company by MDI Financial Services. The increase is based on
13 the contract between ICR and MDI Financial Services.

14 Adjustment 10 removes from legal expense amounts related to rate case
15 expense. Rate case expense is included separately and removal is necessary in
16 order to avoid double counting the expense.

17 Adjustment 11 removes costs from outside services related to a contract
18 termination settlement. These costs are non-recurring and appropriately excluded
19 from the test year expenses.

20 **VII. EFFECT OF PROPOSED RATE SCHEDULES (H SCHEDULES).**

21 **Q. WHAT ARE THE COMPANY'S PRESENT RATES?**

22 A. The proposed rates for customers with a water meter size of:

23	Meter 24 <u>Size</u>	Monthly 24 <u>Minimum</u>	Gallons included 24 <u>in Monthly Minimum</u>
25	5/8	\$ 20.00	0

1	3/4	\$ 20.00	0
2	1	\$ 50.00	0
3	1 1/2	\$ 100.00	0
4	2	\$ 160.00	0
5	3	\$ 300.00	0
6	4	\$ 500.00	0
7	6	\$1,000.00	0

8 The commodity charges and tiers by meter size are:

9	<u>Meter</u>		<u>Charge</u>
10	<u>Size</u>	<u>Tier (gallons)</u>	<u>per 1,000 gallons</u>
11	All meter sizes	All gallons	\$ 2.80

12 The standpipe service or bulk rate has no minimum charge but follows the
13 commodity rates specified above.

14 **Q. WHAT ARE THE COMPANY'S PROPOSED RATES?**

15 **A.** The proposed rates for customers with a water meter size of:

16	<u>Meter</u>	<u>Monthly</u>	<u>Gallons included</u>
17	<u>Size</u>	<u>Minimum</u>	<u>in Monthly Minimum</u>
18	5/8	\$ 25.50	0
19	3/4	\$ 38.25	0
20	1	\$ 63.75	0
21	1 1/2	\$ 127.50	0
22	2	\$ 204.00	0
23	3	\$ 382.50	0
24	4	\$ 637.50	0
25	6	\$1,275.00	0

1 The commodity charges and tiers by meter size are:

2	<u>Meter</u>		<u>Charge</u>
3	<u>Size</u>	<u>Tier (gallons)</u>	<u>per 1,000 gallons</u>
4	5/8 and 3/4	1 to 4,000	\$ 3.19
5		4,001 to 10,000	\$ 3.83
6		Over 10,000	\$ 4.47
7	1	1 to 25,000	\$ 3.83
8		Over 25,000	\$ 4.47
9	1 1/2	1 to 50,000	\$ 3.83
10		Over 50,000	\$ 4.47
11	2	1 to 80,000	\$ 3.83
12		Over 80,000	\$ 4.47
13	3	1 to 160,000	\$ 3.83
14		Over 80,000	\$ 4.47
15	4	1 to 250,000	\$ 3.83
16		Over 250,000	\$ 4.47
17	6	1 to 500,000	\$ 3.83
18		Over 500,000	\$ 4.47

19 The proposed standpipe rate and bulk water rate is \$3.83 per 1,000 gallons with no
20 minimum monthly charge.

21 **Q. DID YOU PREPARE A COST OF SERVICE STUDY TO DERIVE THE**
22 **MONTHLY MINIMUMS AND COMMODITY RATES?**

23 **A.** No. The monthly minimums are based on the rates from the prior rate case
24 increased by the same percentage for all meter sizes. The percentage increase
25 applied to the monthly minimums is higher than that applied to the commodity

1 rates in order to achieve a similar level of revenues derived from the monthly
2 minimums as was obtained from the present rates.

3 **Q. HOW MUCH OF THE REVENUE REQUIREMENT IS DERIVED FROM**
4 **THE MONTHLY MINIMUMS?**

5 A. Approximately 37 percent. Most of the revenue requirement is derived from the
6 commodity charges. Too much of the revenue requirement derived from the
7 commodity charges can result in revenue instability and increased risk.

8 **Q. PLEASE CONTINUE.**

9 A. In the prior rate case the monthly minimums were scaled based on the flows from
10 a 5/8 inch meter, except for the 3/4 inch meters which was set at the same rate as the
11 5/8 inch meter. In the instant case, the Company proposes to scale the 3/4 inch
12 meter to be consistent with the scaling on the other meter sizes. Simply due to the
13 scaling, the 3/4 inch metered customers will see the greatest increase.

14 **Q. HOW MANY 3/4 INCH METERED CUSTOMERS ARE AFFECTED?**

15 A. Zero. The Company currently has no 3/4 inch metered customers.

16 **Q. WOULD A COST OF SERVICE STUDY DETERMINE THE**
17 **COMMODITY RATES, IF THE COMMODITY RATES ARE INVERTED,**
18 **THAT IS THE CHARGE PER 1,000 GALLONS INCREASES AS MORE**
19 **WATER IS USED?**

20 A. No. A cost of service study will determine the revenues that should be collected
21 from monthly minimum charges and the revenues that should be collected from
22 the rates charged for the commodity. Inverted rates for the commodity charge are
23 not justified based cost of service. Inverted rates are really to encourage
24 conservation.

25

1 Q. ARE THE TIERS FOR THE COMMODITY RATES THE SAME FOR
2 EACH SIZE METER? IF NOT, WOULD YOU PLEASE EXPLAIN WHY
3 THE TIERS ARE DIFFERENT?

4 A. No, the commodity rate tiers are different for 5/8 inch and 3/4 inch, and 1 inch and
5 larger meters. The 5/8 and 3/4 inch meters have a three tier design, while the 1 inch
6 and larger meters have a two tier design with break over points scaled by meter
7 size. The monthly minimum charges are higher for meters larger than 5/8 inch
8 and reflect the higher potential demand that these customers place on the system.
9 A customer on a meter size larger than 5/8 inch, is already paying for his or her
10 higher demand. Thus, the commodity rate tiers reflect the higher monthly
11 minimums already being paid. To achieve a balance for higher monthly
12 minimums being paid, customers on larger sized meters should have more gallons
13 in each rate tier.

14 Q. WHAT IS THE IMPORTANCE OF THE COMMODITY RATES, AND
15 HOW DID YOU COMPUTE THEM?

16 A. The first goal of commodity rates should be to generate the revenue requirement.
17 Thus, commodity rates are very important. The second goal of the commodity
18 rates should be that they are understandable by customers. The third goal of the
19 commodity rates is to give customers a price signal to encourage water usage
20 conservation.

21 Q. WHY IS THE COMPANY PROPOSING THIS RATE DESIGN?

22 A. The Company chose this rate design to help maintain some revenue stability,
23 distribute the rate increase to all meter sizes as equitably as possible, and
24 encourage water conservation,
25

1 Q. WHAT IS THE RATE IMPACT ON RESIDENTIAL CUSTOMERS USING
2 THE MONTHLY AVERAGE WATER USAGE?

3 A. Customers on 5/8 meters who consume the average quantity of water (7,085
4 gallons per month) will experience a rate increase of \$13.05 per month, or an
5 increase of approximately 35.24 percent.

6 Q. WHAT IS THE RATE IMPACT ON THE 1 INCH AND 2 INCH
7 CUSTOMERS USING THE MONTHLY AVERAGE WATER USAGE?

8 A. Customers on 1 inch meters who consume the average quantity of water (144,861
9 gallons per month) will experience a rate increase of \$26.31 per month, or an
10 increase of approximately 35.7 percent.

11 Customers on 2 inch meters who consume the average quantity of water
12 (82,182 gallons per month) will experience a rate increase of \$168.05 per month,
13 or an increase of approximately 43.39 percent.

14 Q. ARE THERE ANY CHANGES TO MISCELLANEOUS CHARGES?

15 A. Yes. The Company wishes to add an after hours reconnection fee, which will be
16 double the current reconnection fee. The doubling of the fee is similar to the
17 establishment fee during business hours and after business hours. All other
18 miscellaneous charges remain the same.

19 The Company also proposes new service line and meter installation charges
20 that are based on Staff Engineering estimates. It has been over 10 years since the
21 current charges were set and need to be updated to reflect more current costs.

22 Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

23 A. Yes.

24
25 2008473.5

EXHIBIT 1

Exhibit 1
RESUME OF THOMAS J. BOURASSA, CPA

EDUCATIONAL BACKGROUND

B.S. Northern Arizona University Chemistry/Accounting (1980)
M.B.A. University of Phoenix with Emphasis in Finance (1991)
C.P.A. State of Arizona (1995)

EMPLOYMENT EXPERIENCE

1995 – Present	<p>CPA - Self Employed Consultant to utilities on regulatory matters including all aspects of rate applications (rate base, income statement, cost of capital, cost of service, and rate design), rate reviews, certificates of convenience and necessity (CC&N), CC&N extensions, financing applications, accounting order applications, and off-site facilities hook-up fee applications. Provide expert testimony as required.</p> <p>Consult on various aspects of business, financial and accounting matters including best business practices, generally accepted accounting principles, project analysis, cash flow analysis, regulatory treatment of certain expenditures and investments, business valuations, and rate reviews.</p>
1992-1995	Employed by High-Tech Institute, Phoenix, Arizona as Controller and C.F.O.
1989-1992	Employed by Alta Technical School, a division of University of Phoenix as Division Controller.
1985-1989	Employed by M.L.R. Builders, Tampa and Pensacola, Florida as Operations/Accounting Manager
1982-1985	Employed by and part owner in Area Sand and Clay Company, Pensacola, Florida.
1981-1982	Employed by Purdue University, West Lafayette, Indiana as Teaching Assistant.

**SUMMARY OF REGULATORY WORK EXPERIENCE AS SELF EMPLOYED
CONSULTANT**

<u>COMPANY/CLIENT</u>	<u>FUNCTION</u>
ICR Water Users Association	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design.
Diamond Ventures – Verano	Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.
Valley Utilities	Financing Application.
Litchfield Park Service Company	Accounting Order. Assist in preparing definition and scope of costs for deferral for future regulatory consideration and treatment.
Golden Shores Water Company	Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Diablo Village Water Company	Off-site facilities hook-up fee application.
Utility Source, L.L.C.	Permanent Rate Application- Water and Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.
Goodman Water Company	Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, and Cost of Capital.
Links at Coyote Wash Utilities	Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

COMPANY/CLIENT

FUNCTION

New River Utilities

Extension Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, and financing.

Johnson Utilities

Extension of Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Bachmann Springs Utility

Permanent Rate Application – Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.

Avra Valley Co-Op

Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Gold Canyon Sewer Company

Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Far West Water and Sewer Company

Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Black Mountain Sewer Company

Permanent Rate Application – Sewer. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, Rate Design, and Cost of Capital.

Balterra Sewer Company

Certificate of Convenience and Necessity – Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

COMPANY/CLIENT

Community Water Company

McClain Water Systems

Valley Utilities Water Company

Beardsley Water Company

Chaparral City Water Company

Pine Water Company, Inc.

Tierra Linda Home Owners Association

Diamond Ventures - Red Rock Utilities

FUNCTION

Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Permanent Rate Application – Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Rate Design.

Permanent Rate Application – Water. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.

Permanent Rate Application. Prepared schedules and testified on Rate Base, Plant, and Income Statement. Assisted in preparation Rate Design.

Interim and Permanent Rate Application, Financing Application - Water. Prepared schedules and testified on Rate Base, Plant, Income Statement, Cost of Capital, and Rate Design.

Certificate of Convenience and Necessity – Water. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

Certificate of Convenience and Necessity – Water and Sewer. Prepared pro-forma balance sheets, income statements, plant schedules, rate base, financing, and initial rate design.

COMPANY/CLIENT

FUNCTION

Arizona-American Water Company, Inc.

Permanent Rate Application Water and Sewer (10 divisions). Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Rate Design.

Bella Vista Water Company, Inc.

Permanent Rate Application - Water. Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Cost of Capital and Rate Design.

Green Valley Water Company

Permanent Rate Application. Prepared schedules and testimony on Rate Base, Plant, Income Statement, and Revenue Requirement. Assisted in preparation of Cost of Capital and Rate Design.

Gold Canyon Sewer Company

Permanent Rate Application - Sewer. Prepared schedules and testimony on Rate Base, Plant, Revenue Requirement, and Income Statement. Assisted in preparation of Cost of Capital and Rate Design.

Rio Verde Utilities, Inc.

Permanent Rate Application - Water and Sewer. Prepared schedules and testimony on Rate Base, Plant, Revenue Requirement, and Income Statement. Assisted in preparation of Cost of Capital and Rate Design.

Chaparral City Water Company

Permanent Rate Application - Water. Prepared schedules and testimony on Rate Base, Plant, Revenue Requirement, and Income Statement. Assisted in preparation of Cost of Capital and Rate Design.

Livco Water and Sewer Company

Permanent Rate Application - Water and Sewer. Prepared short-form schedules for Rate Base, Income Statement, Plant, Bill Counts, and Rate Design.

COMPANY/CLIENT

FUNCTION

Cave Creek Sewer Company

Revenue Requirement, Rate Adjustment and Rate Design - Sewer.

Avra CO-OP, Inc.

Permanent Rate Application – Water. Assisted in preparation of Rate Base, Plant, Income Statement, Revenue Requirement, and Rate Design.

Town of Oro Valley

Revenue Requirements, Water Rate Adjustments and Rate Design.

Far West Water Company (Water and Sewer)

Permanent Rate Application – Water. Assisted in preparation of schedules for Rate Base, Income Statement, Revenue Requirement, Lead-Lag Study, Cost of Capital, and Rate Design.

Sedona Venture Water and Sewer

Permanent Rate Application – Water and Sewer. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

Vail Water Company

Permanent Rate Application. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

E&T Water Company

Permanent Rate Application - Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

New River Utility

Permanent Rate Application - Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

Golden Shores Water

Permanent Rate Application – Water. Assisted in preparation of schedules for Rate Base, Plant, Income Statement, and Rate Design.

Ponderosa Utility Company

Permanent Rate Application – Water. Assisted in preparation of schedules for

COMPANY/CLIENT

FUNCTION

Rate Base, Plant, Income Statement, and
Rate Design.

ICR Water Users Association
 Test Year Ended December 31, 2006
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Schedule A-1
 Page 1
 Witness: Bourassa

Line				
<u>No.</u>				
1	Fair Value Rate Base		\$	(554,252)
2				
3	Adjusted Operating Income			(33,632)
4				
5	Current Rate of Return			N/A
6				
7	Required Operating Income	Operating Margin = 15.00%	\$	53,276
8				
9	Required Rate of Return on Fair Value Rate Base (Operating Margin)			N/A
10				
11	Operating Income Deficiency		\$	86,908
12				
13	Gross Revenue Conversion Factor			1.0000
14				
15	Increase in Gross Revenue Requirement		\$	86,908
16				
17				
18	Customer	Present	Proposed	Dollar
19	Classification	Rates	Rates	Increase
20	(Residential Commercial, Irrigation)			Percent
21	5/8 x 3/4 Inch Residential	\$ 148,282	\$ 206,976	\$ 58,694 39.58%
22	3/4 Inch Residential	-	-	- 0.00%
23	1 Inch Residential	15,942	21,935	5,993 37.59%
24	2 Inch Residential	39,929	57,841	17,912 44.86%
25	Construction Water	417	571	154 36.82%
26				- 0.00%
27	Revenue Annualization	9,957	14,104	4,147 41.64%
28				
29	Subtotal	\$ 214,528	\$ 301,427	\$ 86,899 40.51%
30				
31	Other Water Revenues	53,403	53,403	- 0.00%
32				
33				
34	Total of Water Revenues (a)	\$ 267,931	\$ 354,830	\$ 86,899 32.43%
35				
36				
37				
38				
39				
40				
41	<u>SUPPORTING SCHEDULES:</u>			
42	B-1			
43	C-1			
44	C-3			
45	H-1			
46				

ICR Water Users Association
 Test Year Ended December 31, 2006
 Summary of Results of Operations

Exhibit
 Schedule A-2
 Page 1
 Witness: Bourassa

Line No.	Description	Prior Years Ended		Test Year		Projected Year	
		12/31/2004	12/31/2005	Actual 12/31/2006	Adjusted 12/31/2006	Present Rates 12/31/2007	Proposed Rates 12/31/2007
1	Gross Revenues	\$ 123,675	\$ 147,067	\$ 258,309	\$ 258,921	\$ 258,921	\$ 333,380
2							
3	Revenue Deductions and	224,438	244,016	295,734	300,042	300,042	299,997
4	Operating Expenses						
5							
6	Operating Income	\$ (100,763)	\$ (96,949)	\$ (37,425)	\$ (41,122)	\$ (41,122)	\$ 33,383
7							
8	Other Income and	-	5,983	779	959	959	959
9	Deductions						
10							
11	Interest Expense	-	-	-	-	-	-
12							
13	Net Income	\$ (100,763)	\$ (90,967)	\$ (36,646)	\$ (40,162)	\$ (40,162)	\$ 34,342
14							
15	Earned Per Average						
16	Common Share	(0.22)	(0.20)	(0.08)	(0.09)	(0.09)	0.07
17							
18	Dividends Per						
19	Common Share	-	-	-	-	-	-
20							
21	Payout Ratio	-	-	-	-	-	-
22							
23	Return on Average						
24	Invested Capital	-2.00%	-1.83%	-0.75%	-0.81%	-0.66%	0.57%
25							
26	Return on Year End						
27	Capital	-2.00%	-1.84%	-0.75%	-0.81%	-0.56%	0.48%
28							
29	Return on Average						
30	Common Equity	64.57%	30.16%	8.97%	9.64%	9.11%	-8.51%
31							
32	Return on Year End						
33	Common Equity	48.68%	22.95%	8.71%	9.20%	8.71%	-8.89%
34							
35	Times Bond Interest Earned						
36	Before Income Taxes	-	-	-	-	-	-
37							
38	Times Total Interest and						
39	Preferred Dividends Earned						
40	After Income Taxes	-	-	-	-	-	-
41							
42							
43	<u>SUPPORTING SCHEDULES</u>						
44	C-1						
45	E-2						
46	F-1						

ICR Water Users Association
Test Year Ended December 31, 2006
Construction Expenditures
and Gross Utility Plant in Service

Exhibit
Schedule A-4
Page 1
Witness: Bourassa

Line No.		<u>Construction Expenditures</u>	<u>Net Plant Placed in Service</u>	<u>Gross Utility Plant in Service</u>
1				
2	Prior Year Ended 12/31/2003	3,528,300	3,528,300	3,528,300
3				
4	Prior Year Ended 12/31/2004	456,133	456,133	456,133
5				
6	Prior Year Ended 12/31/2005	15,168	15,168	15,168
7				
8	Test Year Ended 12/31/2006	29,066	29,066	29,066
9				
10	Projected Year Ended 12/31/2007	2,350,000	2,350,000	2,350,000
11				
12				
13				
14				
15	<u>SUPPORTING SCHEDULES:</u>			
16	B-2			
17	E-5			
18	F-3			
19				
20				

ICR Water Users Association
Test Year Ended December 31, 2008
Summary of Rate Base

Exhibit
Schedule B-1
Page 1
Witness: Bourassa

Line No.		<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1			
2	Gross Utility Plant in Service	\$ 5,331,978	\$ 5,331,978
3	Less: Accumulated Depreciation	<u>625,682</u>	<u>625,682</u>
4			
5	Net Utility Plant in Service	\$ 4,706,296	\$ 4,706,296
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	3,932,263	3,932,263
10	Contributions in Aid of		
11	Construction - Net of amortization	1,330,469	1,330,469
12	Customer Meter Deposits	20,550	20,550
13	Deferred Income Taxes & Credits	-	-
14	Investment tax Credits	-	-
15			
16			
17	<u>Plus:</u>		
18	Unamortized Finance		
19	Charges	-	-
20	Deferred Tax Assets	-	-
21	Allowance for Working Capital	22,734	22,734
22			
23			
24	Total Rate Base	<u>\$ (554,252)</u>	<u>\$ (554,252)</u>
25			
26			
27			
28	<u>SUPPORTING SCHEDULES:</u>		
29	B-2		
30	B-3		
31	B-5		
32	E-1		
33			

ICR Water Users Association
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments

Exhibit
Schedule B-2
Page 1
Witness: Bourassa

Line No.		Actual at End of Test Year	Proforma Label	Adjustments Amount	Adjusted at end of Test Year
1	Gross Utility				
2	Plant in Service	\$ 5,331,978			\$ 5,331,978
3					
4	Less:				
5	Accumulated				
6	Depreciation	601,004	1	24,678	625,682
7					
8					
9	Net Utility Plant				
10	in Service	\$ 4,730,974			\$ 4,706,296
11					
12	Less:				
13	Advances in Aid of				
14	Construction	3,932,263			3,932,263
15					
16	Contributions in Aid of				
17	Construction - Net	1,344,539	2	(14,070)	1,330,469
18					
19	Customer Refundable Meter Deposits	20,550			20,550
20	Deferred Income Tax Liability	-			-
21	Investment Tax Credits	-			-
22		-			-
23					
24	Plus:				
25	Unamortized Finance				
26	Charges	-			-
27	Deferred Income Tax Asset	-			-
28	Working capital	-	3	22,734	22,734
29		-			-
30					
31	Total	<u>\$ (566,378)</u>			<u>\$ (554,252)</u>

35 **SUPPORTING SCHEDULES:**
36 B-2, pages 2-3
37 B-5
38 E-1
39
40
41
42
43
44

RECAP SCHEDULES:
B-1

ICR Water Users Association
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 1

Exhibit
Schedule B-2
Page 2
Witness: Bourassa

Line
No.

1 Accumulated Depreciation Adjustment

2

3 Computed Balance \$ 625,682

4 Balance per Company Schedule E-1 601,004

5 Difference \$ 24,678

6

7

8

9

10

11 Increase (Decrease) to Accumulated Depreciation \$ 24,678

12

13

14

15 SUPPORTING SCHEDULES

16 B-2, pages 2a-3m

17

18

19

20

ICR Water Users Association
 Plant Additions and Retirements

Exhibit
 Schedule B-2
 Page 2a
 Witness: Bourassa

Account No.	Description	Deprec. Rate	12/31/1995	Accum. Depr.	1996 Plant Additions	1996 Plant Adjustments	Adjusted Plant Additions	1996 Plant Retirements	1996 Plant Balance	1996 Depr.
301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	-	-	73,011	913
304	Structures and Improvements	2.50%	-	-	73,011	-	73,011	-	-	-
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	49,559	-	49,559	-	49,559	619
307	Wells and Springs	2.50%	-	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	-	-	-	-	-	-	-
320	Water Treatment Equipment	2.50%	-	-	68,454	-	68,454	-	68,454	856
330	Distribution Reservoirs & Standpipe	2.50%	-	-	304,860	-	304,860	-	304,860	3,811
331	Transmission and Distribution Mains	2.50%	-	-	65,835	-	65,835	-	65,835	823
333	Services	2.50%	-	-	-	-	-	-	-	-
334	Meters	2.50%	-	-	-	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-	-	-	-	-
348	Other Tangible Plant	2.50%	-	-	11,763	-	11,763	-	11,763	147
	Plant Held for Future Use		-	-	-	-	-	-	-	-

TOTAL WATER PLANT	573,482	573,482	573,482	7,169
Depreciation	-	-	-	7,169
Staff Accumulated Depreciation Allocated to Plant.	-	-	-	-
Retirements (excluding land)	-	-	-	-
Accumulated Depreciation Balance	-	-	-	7,169
Half Year Convention used on depreciation	-	-	-	-

(a)

ICR Water Users Association
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	Deprec. Rate	1997 Plant Additions	1997 Plant Adjustments	1997 Adjusted Plant Additions	1997 Plant Retirements	1997 Plant Balance	1997 Deprec.
301	Organization Cost	0.00%	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	76,913	1,874
304	Structures and Improvements	2.50%	3,902	-	3,902	-	-	-
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	-	-
307	Wells and Springs	2.50%	-	-	-	-	49,559	1,239
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	28,235	-	28,235	-	96,689	2,064
320	Water Treatment Equipment	2.50%	-	-	-	-	466,471	9,642
330	Distribution Reservoirs & Standpipe	2.50%	161,611	-	161,611	-	68,233	1,676
331	Transmission and Distribution Mains	2.50%	2,398	-	2,398	-	-	-
333	Services	2.50%	-	-	-	-	-	-
334	Meters	2.50%	-	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-	11,799	-
348	Other Tangible Plant	2.50%	36	-	36	-	-	295
	Plant Held for Future Use							

196,182	-	196,182	-	769,684	16,789
TOTAL WATER PLANT					
Depreciation					
Staff Accumulated Depreciation Allocated to Plant.					
Retirements (excluding land)					
Accumulated Depreciation Balance					23,958
Half Year Convention used on depreciation					

(a)

ICR Water Users Association
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	1988 Deprec. Rate	1988 Plant Additions	1988 Plant Adjustments	1988 Adjusted Plant Additions	1988 Plant Retirements	1988 Plant Balance	1988 Deprec.
301	Organization Cost	0.00%	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	76,913	1,923
304	Structures and Improvements	2.50%	-	-	-	-	-	-
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	49,559	1,239
307	Wells and Springs	2.50%	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	-	-	-	96,689	2,417
320	Water Treatment Equipment	2.50%	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.50%	152,112	-	152,112	-	618,583	13,563
331	Transmission and Distribution Mains	2.50%	-	-	-	-	68,233	1,706
333	Services	2.50%	-	-	-	-	-	-
334	Meters	2.50%	-	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-	-	-
348	Other Tangible Plant	2.50%	-	-	-	-	11,799	295
	Plant Held for Future Use		-	-	-	-	-	-
TOTAL WATER PLANT			152,112	-	152,112	-	921,776	21,143

(a) Depreciation
Staff Accumulated Depreciation Allocated to Plant.
Retirements (excluding land)
Accumulated Depreciation Balance
Half Year Convention used on depreciation

ICR Water Users Association
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	Deprec. Rate	1999 Plant Additions	1999 Plant Adjustments	1999 Adjusted Plant Additions	1999 Plant Retirements	1999 Plant Balance	1999 Deprec.
301	Organization Cost	0.00%						
302	Franchise Cost	0.00%						
303	Land and Land Rights	0.00%				76,913	1,923	
304	Structures and Improvements	2.50%						
305	Collecting and Impounding Res.	2.50%						
306	Lake River and Other Intakes	2.50%				49,559	1,239	
307	Wells and Springs	2.50%						
308	Infiltration Galleries and Tunnels	2.50%						
309	Supply Mains	2.50%						
310	Power Generation Equipment	2.50%						
311	Electric Pumping Equipment	2.50%				96,689	2,417	
320	Water Treatment Equipment	2.50%						
330	Distribution Reservoirs & Standpipe	2.50%	91,955		91,955	710,538	16,614	
331	Transmission and Distribution Mains	2.50%				68,233	1,706	
333	Services	2.50%						
334	Meters	2.50%						
335	Hydrants	2.50%						
336	Backflow Prevention Devices	2.50%						
338	Other Plant and Miscellaneous Equipment	2.50%						
340	Office Furniture and Fixtures	2.50%						
341	Transportation Equipment	2.50%						
342	Stores Equipment	2.50%						
343	Tools and Work Equipment	2.50%						
344	Laboratory Equipment	2.50%						
345	Power Operated Equipment	2.50%						
346	Communications Equipment	2.50%						
347	Miscellaneous Equipment	2.50%						
348	Other Tangible Plant	2.50%				11,799	295	
	Plant Held for Future Use							

	91,955	91,955	1,013,731	24,194
TOTAL WATER PLANT			1,013,731	24,194

(a) Depreciation
 Staff Accumulated Depreciation Allocated to Plant.
 Retirements (excluding land)
 Accumulated Depreciation Balance
 Half Year Convention used on depreciation

Account No.	Description	Deprec. Rate	2000 Plant Additions	2000 Plant Adjustments*	2000 Adjusted Plant Additions	2000 Plant Retirements	2000 Plant Balance	2000 Deprec.
301	Organization Cost	0.00%	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	76,913	1,923
304	Structures and Improvements	2.50%	-	-	-	-	-	-
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	49,559	1,239
307	Wells and Springs	2.50%	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	-	-	-	96,689	2,417
320	Water Treatment Equipment	2.50%	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.50%	-	-	-	-	814,344	19,061
331	Transmission and Distribution Mains	2.50%	103,806	-	103,806	-	68,233	1,706
333	Services	2.50%	-	-	-	-	-	-
334	Meters	2.50%	-	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-	-	-
348	Other Tangible Plant	2.50%	-	-	-	-	11,799	295
	Plant Held for Future Use		-	-	-	-	-	-
	TOTAL WATER PLANT		103,806	-	103,806	-	1,117,537	26,641

(a) Depreciation
 Staff Accumulated Depreciation Allocated to Plant.
 Retirements (excluding land)
 Accumulated Depreciation Balance
 Half Year Convention used on depreciation

* Adjustment for actual expenses
 adjustment recorded in 2005

103,806	-	103,806	-	1,117,537	26,641
				95,936	

ICR Water Users Association
Plant Additions and Retirements

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Witness: Bourassa

Account No.	Description	Deprec. Rate	2001 Plant Additions	2001 Plant Adjustments	2001 Adjusted Plant Additions	2001 Plant Retirements	2001 Plant Balance	2001 Deprec.
301	Organization Cost	0.00%	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	76,913	1,923
304	Structures and Improvements	2.50%	-	-	-	-	-	-
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	49,559	1,239
307	Wells and Springs	2.50%	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	-	-	-	96,689	2,417
320	Water Treatment Equipment	2.50%	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.50%	121,998	-	121,998	-	936,342	21,864
331	Transmission and Distribution Mains	2.50%	-	-	-	-	68,233	1,706
333	Services	2.50%	-	-	-	-	-	-
334	Meters	2.50%	-	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-	-	-
348	Other Tangible Plant	2.50%	-	-	-	-	11,799	295
	Plant Held for Future Use		-	-	-	-	-	-

TOTAL WATER PLANT		121,998	-	121,998	-	1,239,535	29,463
(a)	Depreciation	-	-	-	-	-	-
	Staff Accumulated Depreciation Allocated to Plant	-	-	-	-	-	-
	Retirements (excluding land)	-	-	-	-	-	-
	Accumulated Depreciation Balance	-	-	-	-	125,599	-
	Half Year Convention used on depreciation	-	-	-	-	-	-

Account No.	Description	Deprec. Rate	2003 Plant Additions	2003 Plant Adjustments	2003 Adjusted Plant Additions	2003 Plant Retirements	2003 Plant Retirements To Date	2003 Plant Balance	2003 Deprec.
301	Organization Cost	0.00%	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-	-
303	Land and Land Rights	2.50%	321,135	-	321,135	-	398,048	5,937	-
304	Structures and Improvements	2.50%	-	-	-	-	-	-	-
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	607,439	-	607,439	-	656,998	8,832	-
307	Wells and Springs	2.50%	-	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	10,000	-	10,000	-	106,689	2,542	-
320	Water Treatment Equipment	2.50%	-	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.50%	2,589,728	-	2,589,728	-	3,588,861	57,350	-
331	Transmission and Distribution Mains	2.50%	-	-	-	-	68,233	1,706	-
333	Services	2.50%	-	-	-	-	-	-	-
334	Meters	2.50%	-	-	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-	982	25	-
346	Communications Equipment	2.50%	-	-	-	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-	11,799	295	-
348	Other Tangible Plant	2.50%	-	-	-	-	-	-	-
	Plant Held for Future Use		-	-	-	-	-	-	-
	TOTAL WATER PLANT		3,528,300	-	3,528,300	-	4,831,610	76,687	-

TOTAL WATER PLANT	
Depreciation	76,687
Staff Accumulated Depreciation Allocated to Plant Retirements (excluding land)	-
Accumulated Depreciation Balance	233,871
Half Year Convention used on depreciation	-

(*)

Account No.	Description	Deprec. Rate	2004 Plant Additions	2004 Plant Adjustments	2004 Adjusted Plant Additions	2004 Plant Retirements	2004 Plant Retirements To Date	2004 Plant Balance	2004 Deprec.
301	Organization Cost	0.00%							
302	Franchise Cost	0.00%							
303	Land and Land Rights	0.00%						398,048	9,951
304	Structures and Improvements	2.50%							
305	Collecting and Impounding Res.	2.50%							
306	Lake River and Other Intakes	2.50%						656,998	16,425
307	Wells and Springs	2.50%							
308	Infiltration Galleries and Tunnels	2.50%							
309	Supply Mains	2.50%							
310	Power Generation Equipment	2.50%							
311	Electric Pumping Equipment	2.50%					106,689		2,667
320	Water Treatment Equipment	2.50%						4,037,457	95,329
330	Distribution Reservoirs & Standpipe	2.50%	448,596		448,596		68,233		1,706
331	Transmission and Distribution Mains	2.50%							
333	Services	2.50%							
334	Meters	2.50%							
335	Hydrants	2.50%							
336	Backflow Prevention Devices	2.50%							
339	Other Plant and Miscellaneous Equipment	2.50%							
340	Office Furniture and Fixtures	2.50%							
341	Transportation Equipment	2.50%							
342	Stores Equipment	2.50%							
343	Tools and Work Equipment	2.50%							
344	Laboratory Equipment	2.50%							
345	Power Operated Equipment	2.50%						982	25
346	Communications Equipment	2.50%							
347	Miscellaneous Equipment	2.50%						19,336	389
348	Other Tangible Plant	2.50%	7,537		7,537				
	Plant Held for Future Use								
	TOTAL WATER PLANT		456,133	-	456,133	-	-	5,287,743	126,492
	Depreciation							126,492	
(a)	Staff Accumulated Depreciation Allocated to Plant.								
	Retirements (excluding land)								
	Accumulated Depreciation Balance								360,363
	Half Year Convention used on depreciation								

456,133	-	456,133	-	5,287,743	126,492
					360,363

ICR Water Users Association
Plant Additions and Retirements

Account No.	Description	Deprec. Rate	2005 Plant Additions	2005 Plant Adjustments	2005 Adjusted Plant Additions	2005 Plant Retirements To Date	2005 Plant Balance	2005 Deprec.
301	Organization Cost	0.00%	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	398,048	9,951
304	Structures and Improvements	2.50%	-	-	-	-	-	-
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	656,998	16,425
307	Wells and Springs	2.50%	-	-	-	-	-	-
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	-	-	-	106,689	2,667
320	Water Treatment Equipment	2.50%	-	-	-	-	-	-
330	Distribution Reservoirs & Standpipe	2.50%	-	-	-	-	4,037,457	100,936
331	Transmission and Distribution Mains	2.50%	-	-	-	-	68,233	1,706
333	Services	2.50%	-	-	-	-	-	-
334	Meters	2.50%	-	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-
338	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	9,551	-	9,551	-	10,533	144
346	Communications Equipment	2.50%	1,495	-	1,495	-	1,495	19
347	Miscellaneous Equipment	2.50%	4,122	-	4,122	-	23,458	535
348	Other Tangible Plant	2.50%	-	-	-	-	-	-
	Plant Held for Future Use		-	-	-	-	-	-

TOTAL WATER PLANT	15,168	15,168	5,302,911	132,383
Depreciation	-	-	-	-
Staff Accumulated Depreciation Allocated to Plant.	-	-	-	-
Retirements (excluding land)	-	-	-	-
Accumulated Depreciation Balance	-	-	-	-
Half Year Convention used on depreciation	-	-	-	-

Account No.	Description	Deprec. Rate	2006 Plant Additions	2006 Plant Adjustments	2006 Adjusted Plant Additions	2006 Plant Retirements	Plant Retirements To Date	2006 Plant Balance	2006 Deprec.
301	Organization Cost	0.00%							
302	Franchise Cost	0.00%							
303	Land and Land Rights	0.00%						398,048	9,951
304	Structures and Improvements	2.50%							
305	Collecting and Impounding Res.	2.50%							
306	Lake River and Other Intakes	2.50%						656,998	16,425
307	Wells and Springs	2.50%							
308	Infiltration Galleries and Tunnels	2.50%							
309	Supply Mains	2.50%							
310	Power Generation Equipment	2.50%	1,808		1,808			1,808	23
311	Electric Pumping Equipment	2.50%						106,689	2,667
320	Water Treatment Equipment	2.50%							
330	Distribution Reservoirs & Standpipe	2.50%						4,037,457	100,936
331	Transmission and Distribution Mains	2.50%						68,233	1,706
333	Services	2.50%	27,117		27,117			27,117	339
334	Meters	2.50%							
335	Hydrants	2.50%							
336	Backflow Prevention Devices	2.50%							
339	Other Plant and Miscellaneous Equipment	2.50%							
340	Office Furniture and Fixtures	2.50%	141		141			141	2
341	Transportation Equipment	2.50%							
342	Stores Equipment	2.50%							
343	Tools and Work Equipment	2.50%							
344	Laboratory Equipment	2.50%							
345	Power Operated Equipment	2.50%						10,533	263
346	Communications Equipment	2.50%						1,495	37
347	Miscellaneous Equipment	2.50%						23,458	586
348	Other Tangible Plant	2.50%							
	Plant Held for Future Use								
TOTAL WATER PLANT			29,066	29,066	29,066			5,331,977	132,936
								132,936	

(a) Depreciation
Staff Accumulated Depreciation Allocated to Plant.
Retirements (excluding land)
Accumulated Depreciation Balance
Half Year Convention used on depreciation

625,682

ICR Water Users Association
Plant Additions and Retirements

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 Witness: Bouras

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account							
			1995	1996	1997	1998	1999	2000	2001	
301	Organization Cost	0.00%	-	-	-	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	-	-	-	-
304	Structures and Improvements	2.50%	913	2,787	4,710	6,632	8,555	10,478		
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	-	-	-	-
307	Wells and Springs	2.50%	619	1,858	3,097	4,336	5,575	6,814		
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	-	-	-	-	-	-	-
320	Water Treatment Equipment	2.50%	856	2,920	5,337	7,754	10,172	12,589		
330	Distribution Reservoirs & Standpipe	2.50%	-	-	-	-	-	-	-	-
331	Transmission and Distribution Mains	2.50%	3,811	13,452	27,016	43,630	62,691	84,574		
333	Services	2.50%	823	2,499	4,205	5,910	7,616	9,322		
334	Meters	2.50%	-	-	-	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	-	-	-	-
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-	-	-	-
345	Power Operated Equipment	2.50%	-	-	-	-	-	-	-	-
346	Communications Equipment	2.50%	-	-	-	-	-	-	-	-
347	Miscellaneous Equipment	2.50%	-	-	-	-	-	-	-	-
348	Other Tangible Plant	2.50%	147	442	737	1,032	1,326	1,621		
	Plant Held for Future Use		-	-	-	-	-	-	-	-
TOTAL WATER PLANT			7,169	23,958	45,101	69,295	95,936	125,399		

(e) Depreciation
 Staff Accumulated Depreciation Allocated to Plant.
 Retirements (excluding land)
 Accumulated Depreciation Balance
 Half Year Convention used on depreciation

ICR Water Users Association
Plant Additions and Retirements

isa

Account No.	Description	Deprec. Rate	Year End Accumulated Depreciation by Account				
			2002	2003	2004	2005	2006
301	Organization Cost	0.00%	-	-	-	-	-
302	Franchise Cost	0.00%	-	-	-	-	-
303	Land and Land Rights	0.00%	-	-	-	-	-
304	Structures and Improvements	2.50%	12,401	18,338	28,289	38,240	48,191
305	Collecting and Impounding Res.	2.50%	-	-	-	-	-
306	Lake River and Other Intakes	2.50%	-	-	-	-	-
307	Wells and Springs	2.50%	8,053	16,865	33,310	49,735	66,160
308	Infiltration Galleries and Tunnels	2.50%	-	-	-	-	-
309	Supply Mains	2.50%	-	-	-	-	-
310	Power Generation Equipment	2.50%	-	-	-	-	-
311	Electric Pumping Equipment	2.50%	-	-	-	-	23
320	Water Treatment Equipment	2.50%	15,006	17,548	20,216	22,883	25,550
330	Distribution Reservoirs & Standpipe	2.50%	108,768	166,118	261,447	362,383	483,319
331	Transmission and Distribution Mains	2.50%	11,028	12,734	14,440	16,145	17,851
333	Services	2.50%	-	-	-	-	339
334	Meters	2.50%	-	-	-	-	-
335	Hydrants	2.50%	-	-	-	-	-
336	Backflow Prevention Devices	2.50%	-	-	-	-	-
339	Other Plant and Miscellaneous Equipment	2.50%	-	-	-	-	2
340	Office Furniture and Fixtures	2.50%	-	-	-	-	-
341	Transportation Equipment	2.50%	-	-	-	-	-
342	Stores Equipment	2.50%	-	-	-	-	-
343	Tools and Work Equipment	2.50%	-	-	-	-	-
344	Laboratory Equipment	2.50%	-	-	-	-	-
345	Power Operated Equipment	2.50%	12	37	61	205	469
346	Communications Equipment	2.50%	-	-	-	19	56
347	Miscellaneous Equipment	2.50%	-	-	-	-	-
348	Other Tangible Plant	2.50%	1,916	2,211	2,601	3,136	3,722
	Plant Held for Future Use		-	-	-	-	-

TOTAL WATER PLANT	157,185	233,871	360,363	492,746	625,662
-------------------	---------	---------	---------	---------	---------

(a) Depreciation
Staff Accumulated Depreciation Allocated to Plant.
Retirements (excluding land)
Accumulated Depreciation Balance
Half Year Convention used on depreciation

ICR Water Users Association
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 2

Exhibit
Schedule B-2
Page 3
Witness: Bourassa

Line
No.

1	Computation of Accumulated Amortization		
2			
3	Contributions added in 2004	\$	1,419,166
4	Composite Depreciation Rate		2.50%
5	Number of Years (half-year convention)		2.5
6	Accumulated Amortization Balance at 12/31/2006	\$	88,698
7			
8	Accumulated Amortization Balance per Books	\$	<u>74,628</u>
9			
10	Difference	\$	14,070
11			
12	Decrease (Increase) to Accumulated Amortization	\$	<u>(14,070)</u>
13			
14			
15			
16			

ICR Water Users Association
Test Year Ended December 31, 2006
Computation of Working Capital

Exhibit
Schedule B-5
Page 1
Witness: Bourassa

Line No.			
1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	21,791
3	Pumping Power (1/24 of Pumping Power)		677
4	Purchased Water (1/24 of Purchased Water)		266
5	Material and Supplies Inventories		-
6	Prepayments		-
7			
8			
9	Total Working Capital Allowance	\$	<u>22,734</u>
10			
11			
12	Working Capital Requested	\$	<u>22,734</u>
13			
14			
15	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>	
16	E-1	B-1	
17			

ICR Water Users Association
 Test Year Ended December 31, 2006
 Income Statement

Exhibit
 Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Book Results	Label	Adjustment	Test Year Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues						
2	Metered Water Revenues	\$ 204,906	4	\$ 9,957	\$ 214,863	\$ 86,908	\$ 301,771
3	Unmetered Water Revenues						
4	Other Water Revenues	53,403			53,403		53,403
5		<u>\$ 258,309</u>		<u>\$ 9,957</u>	<u>\$ 268,266</u>	<u>\$ 86,908</u>	<u>\$ 355,174</u>
6	Operating Expenses						
7	Salaries and Wages - Employees	\$ -			\$ -		\$ -
8	Purchased Water	6,388			6,388		6,388
9	Purchased Power	15,577	5	662	16,239		16,239
10	Fuel for Power Production	-			-		-
11	Chemicals	2,516			2,516		2,516
12	Water Testing	4,946			4,946		4,946
13	Repairs and Maintenance	8,170	6	6,372	14,542		14,542
14	Office Expense	1,720			1,720		1,720
15	Contractual Services - Accounting	32,549			32,549		32,549
16	Contractual Services - Legal	2,911	10	(2,398)	513		513
17	Contractual Services - Operations	107,355	7/8/9/11	(23,392)	83,963		83,963
18	Contractual Services - Other	-			-		-
19	Rental of Building/Real Property	3,600			3,600		3,600
20	Rental of Equipment	-			-		-
21	Transportation Expenses	-			-		-
22	Telephone	751			751		751
23	Insurance	8,995			8,995		8,995
24	Reg. Comm. Exp. - Amortization of Rate Case	-	3	20,000	20,000		20,000
25	Bad Debt Expense	-			-		-
26	Miscellaneous Expenses	235			235		235
27	Depreciation Expenses	97,180	1	(3,432)	93,748		93,748
28	Property Taxes	2,795	2	8,353	11,148		11,148
29	Payroll Taxes	-			-		-
30	Sales Tax Expense	-			-		-
31	Income Tax	45			45		45
32							
33	Total Operating Expenses	<u>\$ 295,734</u>		<u>\$ 6,164</u>	<u>\$ 301,898</u>	<u>\$ -</u>	<u>\$ 301,898</u>
34	Operating Income	<u>\$ (37,425)</u>		<u>\$ 3,793</u>	<u>\$ (33,632)</u>	<u>\$ 86,908</u>	<u>\$ 53,276</u>
35	Other Income (Expense)						
36	Interest Income	180			180		180
37	Other income	779			779		779
38	Interest Expense	-			-		-
39	Other Expense	-			-		-
40							
41	Total Other Income (Expense)	<u>\$ 959</u>		<u>\$ -</u>	<u>\$ 959</u>	<u>\$ -</u>	<u>\$ 959</u>
42	Net Profit (Loss)	<u>\$ (36,466)</u>		<u>\$ 3,793</u>	<u>\$ (32,673)</u>	<u>\$ 86,908</u>	<u>\$ 54,235</u>

43
 44 SUPPORTING SCHEDULES:
 45 C-2
 46 E-2
 47

RECAP SCHEDULES:
 A-1

ICR Water Users Association
 Test Year Ended December 31, 2006
 Adjustments to Revenues and Expenses

Exhibit
 Schedule C-2
 Page 1
 Witness: Bourassa

Line No.	Adjustments to Revenues and Expenses						Subtotal
	1 Depreciation Expense	2 Property Taxes	3 Rate Case Expense	4 Revenue Annualization	5 Purchased Power Annualization	6 Corr. to Repairs and Maint. Expense	
1				9,957			9,957
2							
3	Revenues						
4							
5	Expenses	(3,432)	8,353	20,000		662	31,955
6							
7	Operating Income	3,432	(8,353)	(20,000)	9,957	(662)	(21,998)
8							
9							
10	Interest Expense						
11	Other Income / Expense						
12							
13							
14							
15							
16	Net Income	3,432	(8,353)	(20,000)	9,957	(662)	(21,998)
17							
18							
19							
20		Adjustments to Revenues and Expenses					Subtotal
21	7 Contract Operator Expense	8 Annualize Customer Billing and Accounting	9 Management Services	10 Remove Rate Case Expense	11 Remove Non-Recurring Exp.	12	
22							9,957
23	Revenues						
24							
25	Expenses	2,119	325	1,590	(2,398)	(27,426)	6,164
26							
27	Operating Income	(2,119)	(325)	(1,590)	2,398	27,426	3,793
28							
29							
30	Interest Expense						
31	Other Income / Expense						
32							
33							
34							
35	Net Income	(2,119)	(325)	(1,590)	2,398	27,426	3,793
36							
37							
38							
39		Adjustments to Revenues and Expenses					Total
40		13	14	15	16	17	18
41							
42							
43	Revenues						9,957
44							
45	Expenses						6,164
46							
47	Operating Income						3,793
48							
49							
50	Interest Expense						
51	Other Income / Expense						
52							
53							
54							
55	Net Income						3,793
56							

ICR Water Users Association
 Test Year Ended December 31, 2006
 Adjustments to Revenues and Expenses
 Adjustment Number 1

Exhibit
 Schedule C-2
 Page 2
 Witness: Bourassa

Line No.	Account	Description	Original Cost	Proposed Rate	Depreciation Expense
1	<u>Depreciation Expense</u>				
2					
3					
4	No.	Description	Original Cost	Proposed Rate	Depreciation Expense
5	301	Organization Cost	-	0.00%	-
6	302	Franchise Cost	-	0.00%	-
7	303	Land and Land Rights	-	0.00%	-
8	304	Structures and Improvements	398,048	3.33%	13,255
9	305	Collecting and Impounding Res.	-	2.50%	-
10	306	Lake River and Other Intakes	-	2.50%	-
11	307	Wells and Springs	656,998	3.33%	21,878
12	308	Infiltration Galleries and Tunnels	-	6.67%	-
13	309	Supply Mains	-	2.00%	-
14	310	Power Generation Equipment	-	5.00%	-
15	311	Electric Pumping Equipment	1,808	12.50%	226
16	320	Water Treatment Equipment	106,689	3.33%	3,553
17	330	Distribution Reservoirs & Standpipe	-	2.22%	-
18	331	Transmission and Distribution Mains	4,037,457	2.00%	80,749
19	333	Services	68,233	3.33%	2,272
20	334	Meters	27,117	8.33%	2,259
21	335	Hydrants	-	2.00%	-
22	336	Backflow Prevention Devices	-	6.67%	-
23	339	Other Plant and Miscellaneous Equipment	-	6.67%	-
24	340	Office Furniture and Fixtures	141	6.67%	9
25	341	Transportation Equipment	-	20.00%	-
26	342	Stores Equipment	-	4.00%	-
27	343	Tools and Work Equipment	-	5.00%	-
28	344	Laboratory Equipment	-	10.00%	-
29	345	Power Operated Equipment	-	5.00%	-
30	346	Communications Equipment	10,533	10.00%	1,053
31	347	Miscellaneous Equipment	1,495	10.00%	150
32	348	Other Tangible Plant	23,458	10.00%	2,346
33					
34		TOTALS	\$ 5,331,977		\$ 127,750
35					
36					
37					
38		Less: Amortization of Contributions - Balance End of TY	\$ 1,419,166	2.3959%	\$ (34,002)
39					
40		Total Depreciation Expense			\$ 93,748
41					
42		Test Year Depreciation Expense			97,180
43					
44		Increase (decrease) in Depreciation Expense			(3,432)
45					
46		Adjustment to Revenues and/or Expenses			\$ (3,432)
47					

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Schedule C-2
Page 3
Witness: Bourassa

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Adjusted Revenues in year ended 09/31/05	\$ 268,266
4	Adjusted Revenues in year ended 09/31/05	268,266
5	Proposed Revenues	<u>355,174</u>
6	Average of three year's of revenue	\$ 297,235
7	Average of three year's of revenue, times 2	\$ 594,471
8	Add:	
9	Construction Work in Progress at 10%	\$ 120
10	Deduct:	
11	Book Value of Transportation Equipment	<u>-</u>
12		
13	Full Cash Value	\$ 594,471
14	Assessment Ratio	<u>23.50%</u>
15	Assessed Value	139,701
16	Property Tax Rate	7.9800%
17		
18	Property Tax	11,148
19	Tax on Parcels	0
20		
21	Total Property Tax at Proposed Rates	\$ 11,148
22	Property Taxes in the test year	<u>2,795</u>
23	Change in Property Taxes	<u>\$ 8,353</u>
24		
25		
26	Adjustment to Revenues and/or Expenses	<u>\$ 8,353</u>
27		
28		

ICR Water Users Association
Test Year Ended December 31, 2006
ADJUSTMENTS TO REVENUES AND/OR EXPENSES
Adjustment Number 3

Exhibit
Schedule C-2
Page 4
Witness: Bourassa

Line No.		
1	<u>Rate Case Expense</u>	
3	Estimated Rate Case Expense	\$ 60,000
4		
5	Estimated Amortization Period in Years	3
6		
7	Annual Rate Case Expense	<u>\$ 20,000</u>
8		
9	Test Year Rate Case Expense	\$
10		
11	Increase(decrease) Rate Case Expense	<u>\$ 20,000</u>
12		
13	Adjustment to Revenue and/or Expense	<u>\$ 20,000</u>
14		
15		
16		
17		
18		
19		
20		

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Schedule C-2
Page 5
Witness: Bourassa

Line
No.

1 Revenue Annualization

2

3

4 Revenue Annualization

\$ 9,957

5

6

7

8 Total Revenue from Annualization

\$ 9,957

9

10
11 Adjustment to Revenue and/or Expense

\$ 9,957

12

13 SUPPORTING SCHEDULES

14 C-2 pages 5a to 5c

15 H-1

16

17

18

19

20

ICR Water Users Association

Revenue Annualization to Year End Customers: 5/8 Inch Meter
 Test Year Ended December 31, 2006

Exhibit
 Schedule C-2
 Page 5a
 Witness: Bourassa

Line No.		Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July
1	Year End Number of Customers	334	334	334	334	334	334	334
2	Actual Customers	312	313	317	321	332	333	334
3	Increase in Number of Customers/Bills	22	21	17	13	2	1	-
4	Average Revenue / Present Rates	\$ 34.62	\$ 31.39	\$ 29.02	\$ 33.02	\$ 51.82	\$ 45.08	\$ 37.66
5	Revenue Annualization / Present Rates	\$ 762	\$ 659	\$ 493	\$ 429	\$ 104	\$ 45	\$ -
6								
7	Increase in Number of Customers	22	21	17	13	2	1	-
8	Average Revenue / Proposed Rates	\$ 46.77	\$ 42.36	\$ 39.12	\$ 44.60	\$ 71.82	\$ 61.10	\$ 50.93
9	Revenue Annualization / Proposed Rates	\$ 1,029	\$ 890	\$ 665	\$ 580	\$ 144	\$ 61	\$ -
10	Additional Gallons to be Produced	6,864	6,573	5,389	4,173	664	333	-
11								
12								
13								
14								
15	Year End Number of Customers	334	334	334	334	334	334	334
16	Actual Customers	344	334	344	343	339	-	51
17	Increase in Number of Customers/Bills	(10)	(9)	(5)	(1)	-	-	-
18	Average Revenue / Present Rates	\$ 42.40	\$ 33.79	\$ 36.12	\$ 36.42	\$ 36.42	\$ 36.42	\$ 36.42
19	Revenue Annualization / Present Rates	\$ (424)	\$ (304)	\$ (181)	\$ (36)	\$ -	\$ -	\$ 1,547
20								
21	Increase in Number of Customers	(10)	(9)	(5)	(1)	-	-	-
22	Average Revenue / Proposed Rates	\$ 57.42	\$ 45.65	\$ 48.83	\$ 49.24	\$ 49.24	\$ 49.24	\$ 49.24
23	Revenue Annualization / Proposed Rates	\$ (424)	\$ (304)	\$ (181)	\$ (36)	\$ -	\$ -	\$ 2,090
24	Additional Gallons to be Produced	(3,440)	(3,087)	(1,695)	(335)	-	-	15,439

ICR Water Users Association
Revenue Annualization to Year End Customers:
Test Year Ended December 31, 2006
1 Inch Meter

Line No.		Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July
1	Year End Number of Customers	20	20	20	20	20	20	20
2	Actual Customers	13	16	11	16	18	18	19
3	Increase in Number of Customers/Bills	7	4	9	4	2	2	1
4	Average Revenue / Present Rates	\$ 51.66	\$ 54.38	\$ 75.98	\$ 50.00	\$ 50.00	\$ 50.00	\$ 50.00
5	Revenue Annualization / Present Rates	\$ 362	\$ 218	\$ 684	\$ 200	\$ 100	\$ 100	\$ 50
6								
7	Increase in Number of Customers	7	4	9	4	2	2	1
8	Average Revenue / Proposed Rates	\$ 69.85	\$ 73.57	\$ 103.13	\$ 63.75	\$ 63.75	\$ 63.75	\$ 63.75
9	Revenue Annualization / Proposed Rates	\$ 489	\$ 294	\$ 928	\$ 255	\$ 128	\$ 128	\$ 64
10	Additional Gallons to be Produced	11,139	10,252	92,504	72	38	40	24

Line No.		Month of Aug.	Month of Sept.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year
11							
12							
13							
14							
15	Year End Number of Customers	20	20	20	20	20	
16	Actual Customers	20	19	20	24	21	26
17	Increase in Number of Customers/Bills	-	(4)	(1)	2	-	
18	Average Revenue / Present Rates	\$ 50.00	\$ 50.00	\$ 50.00	\$ 50.00	\$ -	
19	Revenue Annualization / Present Rates	\$ -	\$ (200)	\$ (50)	\$ 100	\$ -	\$ 1,563
20							
21	Increase in Number of Customers	-	(4)	(1)	2	-	
22	Average Revenue / Proposed Rates	\$ 63.75	\$ 63.75	\$ 63.75	\$ 63.75	\$ -	
23	Revenue Annualization / Proposed Rates	\$ -	\$ (200)	\$ (50)	\$ 100	\$ -	\$ 2,094
24	Additional Gallons to be Produced	-	(72)	(20)	428	-	114,404

Line No.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July
1	10	10	10	10	10	10	10
2	10	10	6	7	8	8	9
3	-	-	4	3	2	2	1
4	\$ 224.12	\$ 279.81	\$ 229.53	\$ 626.84	\$ 458.55	\$ 856.57	\$ 581.24
5	\$ -	\$ -	\$ 918	\$ 1,881	\$ 917	\$ 1,713	\$ 581
6	-	-	4	3	2	2	1
7	\$ 295.56	\$ 383.76	\$ 303.50	\$ 937.72	\$ 669.08	\$ 1,304.43	\$ 864.93
8	\$ -	\$ -	\$ 1,214	\$ 2,813	\$ 1,338	\$ 2,609	\$ 865
9	-	-	103,335	503,187	215,250	499,550	151,445
10	-	-	-	-	-	-	-
11	Month of Aug.	Month of Sept.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year	
12	10	10	10	10	10		
13	10	9	10	5	11		
14	-	5	(1)	1	-	17	
15	\$ 408.28	\$ 175.12	\$ 289.26	\$ 250.72	\$ 250.72		
16	\$ -	\$ 876	\$ (289)	\$ 251	\$ -	\$ 6,847	
17	-	5	(1)	1	-		
18	\$ 588.83	\$ 228.52	\$ 398.84	\$ 337.32	\$ 337.32		
19	\$ -	\$ 876	\$ (289)	\$ 251	\$ -	\$ 9,920	
20	-	32,002	(47,164)	50,556	-	1,508,161	
21	-	-	-	-	-		
22	-	-	-	-	-		
23	-	-	-	-	-		
24	-	-	-	-	-		

ICR Water Users Association
Test Year Ended December 31, 2001
Adjustment to Revenues and Expenses
Adjustment Number 5

Exhibit
Schedule C-2
Page 6
Witness: Bourassa

Line

No.

1	<u>Annualize power cost for additional gallons from annualization of revenues</u>		
2			
3	Test Year Power Costs	\$	15,577
4	Gallons sold in Test Year (1,000's)		38,525
5	Cost per 1,000 gallons		0.40432
6	Additional gallons from annualization (in 1,000's)		1,638
7			
8	Additional Expense	\$	<u>662</u>
9			
10			
11	Adjustment to Revenue and/or Expense	\$	<u>662</u>
12			
13			
14			
15			
16			
17			
18			
19			
20			

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 6

Exhibit
Schedule C-2
Page 7
Witness: Bourassa

Line

No.

1	<u>Remove reclassification of Repairs and Maintenance for a 2005 amount</u>		
2			
3			
4	Capital item recorded as expense in 2005 but reclassification recorded in 2006	\$	6,372
5			
6			
7	Increase (decrease) in Outside Services	\$	6,372
8			
9			
10	Adjustment to Revenue and/or Expense	\$	<u>6,372</u>
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 7

Exhibit
Schedule C-2
Page 8
Witness: Bourassa

Line No.			
1	<u>Expected Increase in Outside Service Operator Costs for AQuality Water Co.</u>		
2			
3			
4	Current Annual Contract Amount	\$ 70,620	
5	CPI	3.0%	
6	Increase (decrease) in Outside Services	\$	2,119
7		\$	<u>2,119</u>
8	Adjustment to Outside Services		
9			
10			
11			
12			
13	Adjustment to Revenue and/or Expense	\$	<u>2,119</u>
14			
15			
16			
17			
18			
19			
20			

ICR Water Users Association
 Test Year Ended December 31, 2006
 Adjustment to Revenues and Expenses
 Adjustment Number 8

Exhibit
 Schedule C-2
 Page 9
 Witness: Bourassa

Line			
No.			
1	<u>Annualization of Outside Service Costs for Accounting and Billing from MDI Financial Services.</u>		
2			
3	<u>Billing</u>		
4	Cost per Customer Per Month	\$ 2.50	
5	Additional Bills from Annualization of Revenues	94	
6	Increase (decrease) in per Billing Charges		\$ 235
7			
8	<u>Accounting</u>		
9	Accounting Fees effective July 2007 (\$160 per month)	\$ 1,920	
10	Accounting Fees Recorded during Test Year		
11	January thru June 2006 (\$150 per month)	\$ 900	
12	July thru December 2006 (\$155 per month)	930	
13	Annual Cost recorded during the test year	<u>1,830</u>	
14	Increase (decrease) in Accounting Fees		<u>\$ 90</u>
15			
16	Increase (decrease) to Outside Services		\$ 325
17			
18			
19			
20	Adjustment to Revenue and/or Expense		<u>\$ 325</u>
21			
22			
23	Note: Excludes non-routine services		
24			
25			

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 9

Exhibit
Schedule C-2
Page 10
Witness: Bourassa

<u>Line</u>			
<u>No.</u>			
1	<u>Annualization of Outside Service Costs for Management Services from Miscellaneous Deductions Inc.</u>		
2			
3			
4	Annual Cost at 351-450 customer level starting June 2007 (\$1,040 per month)	\$	12,480
5	Amounts Recorded during Test Year Per Contract for 2006		
6	January thru June 2006 (\$805 per month)	\$	4,830
7	July thru December 2006 (\$1,010 per month)		6,060
8	Annual Cost recorded during the test year	\$	10,890
9	Increase (decrease) in Outside Services	\$	1,590
10			
11			
12	Adjustment to Revenue and/or Expense	\$	<u>1,590</u>
13			
14			
15			
16			
17	Note: Excludes non-routine services		
18			
19			
20			
21			
22			
23			

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 10

Exhibit
Schedule C-2
Page 11
Witness: Bourassa

Line

No.

1 Remove Rate Case Expenses from Legal Expense

2

3

4 Accounting Services - Snell & Wilmer

5 August 2006

\$ 558

6 October 2006

471

7 December 2006

1,369

8 Total

\$ 2,398

9

10

11

12 Adjustment to Revenue and/or Expense

\$ (2,398)

13

14

15

16

17

18

19

20

21

22

23

24

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 11

Exhibit
Schedule C-2
Page 12
Witness: Bourassa

Line No.		
1	<u>Remove Non-recurring Expense from Outside Services</u>	
2		
3	Yavapai Water Productions (Contract Termination Settlement)	\$ 27,426
4		
5		
6		
7		
8		
9		
10	Adjustment to Revenue and/or Expense	<u>\$ (27,426)</u>
11		
12		
13		
14		
15		
16		
17		
18		
19		
20		

ICR Water Users Association
 Test Year Ended December 31, 2006
 Computation of Gross Revenue Conversion Factor

Exhibit
 Schedule C-3
 Page 1
 Witness: Bourassa

Line No.	Description	Percentage of Incremental Gross Revenues
1	Federal Income Taxes	0.00%
2		
3	State Income Taxes	0.00%
4		
5	Other Taxes and Expenses	0.00%
6		
7		
8	Total Tax Percentage	0.00%
9		
10	Operating Income % = 100% - Tax Percentage	100.00%
11		
12		
13		
14		
15	$\frac{1}{\text{Operating Income \%}}$ = Gross Revenue Conversion Factor	
16		1.0000
17		
18	<u>SUPPORTING SCHEDULES:</u>	<u>RECAP SCHEDULES:</u>
19		A-1
20		

ICR Water Users Association
Test Year Ended December 31, 2006
Summary of Cost of Capital

Line No.	Item of Capital	End of Test Year			End of Projected Year			
		Dollar Amount	Percent of Total	(e) Cost Rate	Weighted Cost	Dollar Amount	Percent of Total	(e) Cost Rate
1	Long-Term Debt		0.00%	0.00%	N/A		0.00%	N/A
2	Member Equity (1) (2)	(431,465)	100.00%	0.00%	N/A	(377,229)	100.00%	0.00%
3								
4								
5	Totals	(431,465)	100.00%	0.00%	0.00%	(377,229)	100.00%	0.00%
6								
7								
8	(1) Increase (decrease) Equity for A/D adjustment 1, B-2, page \$							
9	(2) Increase (decrease) Equity for CIAC Adjustment, B-2, pag \$							
10								
11	SUPPORTING SCHEDULES:							
12	D-1							
13	D-3							
14	D-4							
15	E-1							
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								
31								

(1) Increase (decrease) Equity for A/D adjustment 1, B-2, page \$ (24,678)
(2) Increase (decrease) Equity for CIAC Adjustment, B-2, pag \$ 14,070

RECAP SCHEDULES:
A-3

ICR Water Users Association
 Test Year Ended December 31, 2006
 Cost of Long Term Debt

Exhibit
 Schedule D-2
 Page 1
 Witness: Bourassa

Line No.	Description of Debt	End of Test Year			End of Projected Year		
		Amount Outstanding	Annual Interest	Interest Rate	Amount Outstanding	Annual Interest	Interest Rate
1		-	-	0.00%	-	-	0.00%
2		-	-	0.00%	-	-	0.00%
3		-	-	0.00%	-	-	0.00%
4		-	-	0.00%	-	-	0.00%
5		-	-	0.00%	-	-	0.00%
6		-	-	0.00%	-	-	0.00%
7		-	-	0.00%	-	-	0.00%
8		-	-	0.00%	-	-	0.00%
9		-	-	0.00%	-	-	0.00%
10		-	-	0.00%	-	-	0.00%
11		-	-	0.00%	-	-	0.00%
12		-	-	0.00%	-	-	0.00%
13	Totals	\$ -	-	-	0.00% \$ -	-	0.00%

14
 15 Supporting Schedules:
 16 E-2
 17
 18
 19
 20
 21

ICR Water Users Association
 Test Year Ended December 31, 2006
 Comparative Balance Sheets

Exhibit
 Schedule E-1
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended 12/31/2006	Year Ended 12/31/2005	Year Ended 12/31/2004
1	ASSETS			
2	Plant In Service	\$ 5,331,978	\$ 5,302,911	\$ 5,287,744
3				
4	Non-Utility Plant	-	-	-
5	Construction Work in Progress	1,200	-	-
6	Less: Accumulated Depreciation	(601,004)	(465,033)	(330,574)
7	Net Plant	\$ 4,732,174	\$ 4,837,878	\$ 4,957,170
8				
9	Debt Reserve Fund	\$ -	\$ -	\$ -
10				
11		\$ -	\$ -	\$ -
12				
13	CURRENT ASSETS			
14	Cash and Equivalents	\$ 129,437	\$ 82,819	\$ 74,664
15	Restricted Cash	-	-	-
16	Accounts Receivable, Net	12,372	10,074	826
17	Notes/Receivables from Assoc. Companies	-	-	-
18	Unbilled Revenues	-	-	-
19	Materials and Supplies	-	-	-
20	Prepayments	-	-	-
21	Other Current Assets	3,673	-	-
22	Total Current Assets	\$ 145,482	\$ 92,893	\$ 75,490
23				
24	Deferred Debits	\$ -	\$ -	\$ -
25				
26	Other Investments & Special Funds	\$ -	\$ -	\$ -
27				
28	TOTAL ASSETS	\$ 4,877,656	\$ 4,930,771	\$ 5,032,660
29				
30				
31	LIABILITIES AND STOCKHOLDERS' EQUITY			
32				
33	Member Equity	\$ (420,856)	\$ (396,325)	\$ (206,994)
34				
35	Long-Term Debt	\$ -	\$ -	\$ -
36				
37	CURRENT LIABILITIES			
38	Accounts Payable	\$ -	\$ -	\$ 892
39	Current Portion of Long-Term Debt	-	-	-
40	Payables to Associated Companies	-	-	-
41	Customer Meter Deposits, Current	-	-	5,950
42	Accrued Taxes	1,009	929	428
43	Accrued Interest	-	-	-
44	Other Current Liabilities	151	151	-
45	Total Current Liabilities	\$ 1,160	\$ 1,080	\$ 7,270
46	DEFERRED CREDITS			
47	Customer Meter Deposits, less current	\$ 20,550	\$ 11,550	\$ 43,325
48	Advances in Aid of Construction	3,932,263	3,930,773	3,769,893
49	Accumulated Deferred Income Taxes	-	-	-
50	Contributions In Aid of Construction, Net	1,344,539	1,383,693	1,419,166
51	Asset Retirement Obligations	-	-	-
52	Total Deferred Credits	\$ 5,297,352	\$ 5,326,016	\$ 5,232,384
53				
54	Total Liabilities & Common Equity	\$ 4,877,656	\$ 4,930,771	\$ 5,032,660
55				
56	SUPPORTING SCHEDULES:			
57	E-5			
58				

ICR Water Users Association
 Test Year Ended December 31, 2006
 Comparative Income Statements

Exhibit
 Schedule E-2
 Page 1
 Witness: Bourassa

Line No.		Test Year Ended 12/31/2006	Prior Year Ended 12/31/2005	Prior Year Ended 12/31/2004
1	Revenues			
2	Metered Water Revenues	\$ 204,906	\$ 132,894	\$ 118,706
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	53,403	14,172	4,969
5	Total Revenues	\$ 258,309	\$ 147,067	\$ 123,675
6	Operating Expenses			
7	Salaries and Wages - Employees	\$ -	\$ -	\$ -
8	Purchased Water	6,388	4,460	3,766
9	Purchased Power	15,577	15,656	13,255
10	Fuel for Power Production	-	-	-
11	Chemicals	2,516	612	-
12	Water Testing	4,946	1,294	1,828
13	Repairs and Maintenance	8,170	12,137	19,825
14	Office Expense	1,720	4,410	7,739
15	Contractual Services - Accounting	32,549	14,726	-
16	Contractual Services - Legal	2,911	-	-
17	Contractual Services - Operations	107,355	74,598	46,950
18	Contractual Services - Other	-	-	-
19	Rental of Building/Real Property	3,600	1,200	-
20	Rental of Equipment	-	-	-
21	Transportation Expenses	-	-	-
22	Telephone	751	465	-
23	Insurance	8,995	2,489	2,462
24	Reg. Comm. Exp. - Amortization of Rate Case	-	-	-
25	Bad Debt Expense	-	-	-
26	Miscellaneous Expenses	235	10,159	-
27	Depreciation Expenses	97,180	98,985	126,163
28	Property Taxes	2,795	2,095	1,390
29	Payroll Taxes	-	-	-
30	Sales Tax Expense	-	680	1,010
31	Income Tax	45	50	50
32				
33				
34	Total Operating Expenses	\$ 295,734	\$ 244,016	\$ 224,438
35	Operating Income	\$ (37,425)	\$ (96,949)	\$ (100,763)
36	Other Income (Expense)			
37	Interest Income	180	97	62
38	Other income	779	5,983	-
39	Interest Expense	-	-	-
40	Other Expense	-	(1,528)	(1,189)
41				
42	Total Other Income (Expense)	\$ 959	\$ 4,552	\$ (1,127)
43	Net Profit (Loss)	\$ (36,466)	\$ (92,397)	\$ (101,890)
44				
45				

ICR Water Users Association
 Test Year Ended December 31, 2006
 Detail of Plant in Service

Exhibit
 Schedule E-5
 Page 1
 Witness: Bourassa

Line No.	Acct. No.	Plant Description	Plant Balance at 12/31/2005	Plant Additions, Reclassifications or Retirements	Plant Balance at 12/31/2006
1					
2	301	Organization Cost	\$ -	\$ -	\$ -
3	302	Franchise Cost	-	-	-
4	303	Land and Land Rights	-	-	-
5	304	Structures and Improvements	398,048	-	398,048
6	305	Collecting and Impounding Res.	-	-	-
7	306	Lake River and Other Intakes	-	-	-
8	307	Wells and Springs	656,998	-	656,998
9	308	Infiltration Galleries and Tunnels	-	-	-
10	309	Supply Mains	-	-	-
11	310	Power Generation Equipment	-	-	-
12	311	Electric Pumping Equipment	-	1,808	1,808
13	320	Water Treatment Equipment	106,689	-	106,689
14	330	Distribution Reservoirs & Standpipe	-	-	-
15	331	Transmission and Distribution Mains	4,037,457	-	4,037,457
16	333	Services	68,233	-	68,233
17	334	Meters	-	27,117	27,117
18	335	Hydrants	-	-	-
19	336	Backflow Prevention Devices	-	-	-
20	339	Other Plant and Miscellaneous Equipment	-	-	-
21	340	Office Furniture and Fixtures	-	141	141
22	341	Transportation Equipment	-	-	-
23	342	Stores Equipment	-	-	-
24	343	Tools and Work Equipment	-	-	-
25	344	Laboratory Equipment	-	-	-
26	345	Power Operated Equipment	-	-	-
27	346	Communications Equipment	10,533	-	10,533
28	347	Miscellaneous Equipment	1,495	-	1,495
29	348	Other Tangible Plant	23,458	-	23,458
30		Plant Held for Future Use	-	-	-
31					
32		TOTAL WATER PLANT	\$ 5,302,911	\$ 29,066	\$ 5,331,977

SUPPORTING SCHEDULES

RECAP SCHEDULES:

A-4
 E-1

ICR Water Users Association
Test Year Ended December 31, 2006
Operating Statistics

Exhibit
Schedule E-7
Page 1
Witness: Bouras

Line No.		Test Year Ended <u>12/31/2006</u>	Prior Year Ended <u>12/31/2005</u>	Prior Year Ended <u>12/31/2004</u>
1	<u>WATER STATISTICS:</u>			
2				
3				
4				
5	Total Gallons Sold (in Thousands)	38,674	35,909	30,994
6				
7				
8				
9	Water Revenues from Customers:	\$ 204,906	\$ 132,894	\$ 118,706
10				
11				
12				
13				
14	Year End Number of Customers	364	302	214
15				
16				
17	Annual Gallons (in Thousands)			
18	Sold Per Year End Customer	106	119	145
19				
20				
21				
22	Annual Revenue per Year End Customer	\$ 562.93	\$ 440.05	\$ 554.70
23				
24	Pumping Cost Per 1,000 Gallons	\$ 0.4028	\$ 0.4360	\$ 0.4277
25	Purchased Water Cost per 1,000 Gallons	\$ -	\$ -	\$ -

ICR Water Users Association
Test Year Ended December 31, 2006
Taxes Charged to Operations

Exhibit
Schedule E-8
Page 1
Witness: Bourassa

Line No.	Description	Test Year Ended 12/31/2006	Prior Year Ended 12/31/2005	Prior Year Ended 12/31/2004
1				
2				
3	Federal Income Taxes	\$ -	\$ -	\$ -
4	State Income Taxes	45	50	50
5	Payroll Taxes	-	-	-
6	Property Taxes	2,795	2,095	1,390
7				
8	Totals	<u>\$ 2,840</u>	<u>\$ 2,145</u>	<u>\$ 1,440</u>
9				
10				
11				
12				
13				
14				

ICR Water Users Association
Test Year Ended December 31, 2006
Notes To Financial Statements

Exhibit
Schedule E-9
Page 1
Witness: Bourassa

The Company does not conduct independent audits

ICR Water Users Association
Test Year Ended December 31, 2006
Projected Income Statements - Present & Proposed Rates

Exhibit
Schedule F-1
Page 1
Witness: Bourassa

Line No.		Test Year Actual Results	At Present Rates Year Ended 12/31/2007	At Proposed Rates Year Ended 12/31/2007
1	Revenues			
2	Metered Water Revenues	\$ 204,906	\$ 214,863	\$ 301,771
3	Unmetered Water Revenues	-	-	-
4	Other Water Revenues	53,403	53,403	53,403
5		<u>\$ 258,309</u>	<u>\$ 268,266</u>	<u>\$ 355,174</u>
6	Operating Expenses			
7	Salaries and Wages - Employees	\$ -	\$ -	\$ -
8	Purchased Water	6,388	6,388	6,388
9	Purchased Power	15,577	16,239	16,239
10	Fuel for Power Production	-	-	-
11	Chemicals	2,516	2,516	2,516
12	Water Testing	4,946	4,946	4,946
13	Repairs and Maintenance	8,170	14,542	14,542
14	Office Expense	1,720	1,720	1,720
15	Contractual Services - Accounting	32,549	32,549	32,549
16	Contractual Services - Legal	2,911	513	513
17	Contractual Services - Operations	107,355	83,963	83,963
18	Contractual Services - Other	-	-	-
19	Rental of Building/Real Property	3,600	3,600	3,600
20	Rental of Equipment	-	-	-
21	Transportation Expenses	-	-	-
22	Telephone	751	751	751
23	Insurance	8,995	8,995	8,995
24	Reg. Comm. Exp. - Amortization of Rate Case	-	20,000	20,000
25	Bad Debt Expense	-	-	-
26	Miscellaneous Expenses	235	235	235
27	Depreciation Expenses	97,180	93,748	93,748
28	Property Taxes	2,795	11,148	11,148
29	Payroll Taxes	-	-	-
30	Sales Tax Expense	-	-	-
31	Income Tax	45	45	45
32				
33	Total Operating Expenses	<u>\$ 295,734</u>	<u>\$ 301,898</u>	<u>\$ 301,898</u>
34	Operating Income	<u>\$ (37,425)</u>	<u>\$ (33,632)</u>	<u>\$ 53,276</u>
35	Other Income (Expense)			
36	Interest Income	180	180	180
37	Other income	779	779	779
38	Interest Expense	-	-	-
39	Other Expense	-	-	-
40	Gain/Loss Sale of Fixed Assets	-	-	-
41	Total Other Income (Expense)	<u>\$ 959</u>	<u>\$ 959</u>	<u>\$ 959</u>
42	Net Profit (Loss)	<u>\$ (36,466)</u>	<u>\$ (32,673)</u>	<u>\$ 54,235</u>
43				

ICR Water Users Association
Test Year Ended December 31, 2006
Projected Construction Requirements

Line No.	Account Number	Plant Asset:	Test Year	2007	2008	2009	2010+
			\$	\$	\$	\$	\$
1	301	Organization Cost	-	-	-	-	-
2	302	Franchise Cost	-	-	-	-	-
3	303	Land and Land Rights	-	-	-	-	-
4	304	Structures and Improvements	-	8,500	20,000	45,000	
5	306	Lake, River and Other Intakes	-	-	-	-	
6	307	Wells and Springs	-	-	-	600,000	
7	310	Power Generation Equipment	-	40,000	40,000	75,000	
8	311	Electric Pumping Equipment	-	-	-	40,000	
9	320	Water Treatment Equipment	-	-	50,000	-	
10	330	Distribution Reservoirs & Standpipe	-	-	10,000	840,000	
11	331	Transmission and Distribution Mains	1,808	50,000	-	170,000	
12	333	Services	-	25,000	-	-	
13	334	Meters	-	-	-	-	
14	335	Hydrants	-	-	-	-	
15	339	Plant Structures and Improvements	-	-	-	-	
16	340	Office Furniture and Fixtures	27,117	-	-	-	
17	341	Transportation Equipment	-	-	-	-	
18	343	Tools and Work Equipment	-	-	-	-	
19	344	Power Operated Equipment	-	-	-	-	
20	345	Communications Equipment	141	-	125,000	-	
21	346	Miscellaneous Equipment	-	-	-	10,000	
22	348	Other Tangible Plant	-	-	-	-	
23							
24							
25							
26							
27	Total		\$ 29,066	\$ 98,500	\$ 85,000	\$ 189,000	\$ 1,780,000
28							
29							
30							

ICR Water Users Association
Test Year Ended December 31, 2006
Assumptions Used in Rate Filing

Exhibit
Schedule F-4
Page 1
Witness: Bourassa

Line

No.

- 1 Property Taxes were computed using the method used by the Arizona Department
- 2 of Revenue
- 3
- 4 Projected construction expenditures are shown on Schedule A-4.
- 5
- 6 Expense adjustments are shown on Schedule C2, and are explained in the testimony.
- 7
- 8 Income taxes were computed using statutory state and federal income tax rates.
- 9
- 10
- 11
- 12
- 13
- 14
- 15

ICR Water Users Association
Revenue Summary
Test Year Ended December 31, 2006

Line No.	Customer Classification and/or Meter Size	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Additional Bills	Addition Gallons
1	5/8 x 3/4 Inch Residential	\$ 148,282	\$ 206,976	\$ 58,694	39.58%		
2	3/4 Inch Residential	-	-	-	0.00%		
3	1 Inch Residential	15,942	21,935	5,993	37.59%		
4	2 Inch Residential	39,929	57,841	17,912	44.86%		
5	Construction Water	417	571	154	36.82%		
6		-	-	-			
7		-	-	-			
8		-	-	-			
9		-	-	-			
10	Subtotals of Revenues	\$ 204,571	\$ 287,323	\$ 82,752	40.45%		
11							
12	Other Water Revenues	53,403	53,403	-	0.00%		
13							
14							
15	Subtotals of Revenues	\$ 257,974	\$ 340,726	\$ 82,752	32.08%		
16	Revenue Annualizations:						
17	5/8 Inch residential	1,547	2,090	543	35.08%	51	15,439
18	3/4 Inch Residential	-	-	-	0.00%	-	-
19	1 Inch Residential	1,563	2,094	531	33.97%	26	114,404
20	2 Inch Residential	6,847	9,920	3,073	44.88%	17	1,508,161
21	Construction Water	-	-	-	0.00%	-	-
22							
23	Subtotal Revenue Annualization	9,957	14,104	4,147	41.64%	94	1,638,004
24							
25	Total Revenues Per Bill Count	\$ 267,931	\$ 354,830	\$ 86,899	32.43%		
26	With Annualization						
27							
28	Subtotal of Revenues Above w/o Annualization	\$ 257,974					
29	Revenues Per C-1	\$ 258,309					
30	Difference in Dollars	\$ (335)					
31	Difference in Percentage	-0.13%					
32	Tolerance Allowed by ACC Staff	0.50%					
33							
34							

ICR Water Users Association
 Present and Proposed Rates
 Test Year Ended December 31, 2006

Exhibit
 Schedule H-3
 Page 1
 Witness: Bourassa

Line No.	Customer Classification and Meter Size (Residential, Commercial, Irrigation)	Present Rates	Proposed Rates (a)	Percent Change
1	Monthly Usage Charge for:			
2	5/8 x 3/4 Inch	\$ 20.00	\$ 25.50	27.50%
3	3/4 Inch	20.00	38.25	91.25%
4	1 Inch	50.00	63.75	27.50%
5	1 1/2 Inch	100.00	127.50	27.50%
6	2 Inch	160.00	204.00	27.50%
7	3 Inch	300.00	382.50	27.50%
8	4 Inch	500.00	637.50	27.50%
9	5 Inch	N/A	N/A	
10	6 Inch	1,000.00	1,275.00	27.50%
11				
12				
13				
14				
15	Gallons included in Minimum	1,000		
16				

Line No.	Customer Classification and Meter Size (Residential, Commercial, Irrigation)	Present Rates	Proposed Rates (a)	Percent Change
17	Tier 1: (Gallon upper limit, up to, but not exceeding)			
18	5/8 x 3/4 Inch	All gallons over min.		
19	3/4 Inch	All gallons over min.		
20	1 Inch	All gallons over min.		
21	1.5 Inch	All gallons over min.		
22	2 Inch	All gallons over min.		
23	3 Inch	All gallons over min.		
24	4 Inch	All gallons over min.		
25	6 Inch	All gallons over min.		
26	8 Inch	All gallons over min.		
27				
28	Tier 2: (Gallon upper limit, up to, but not exceeding)			
29	5/8 x 3/4 Inch	Residential, Commercial, Irrigation		
30	3/4 Inch	Residential, Commercial, Irrigation		
31	1 Inch	Residential, Commercial, Irrigation		
32	1.5 Inch	Residential, Commercial, Irrigation		
33	2 Inch	Residential, Commercial, Irrigation		
34	3 Inch	Residential, Commercial, Irrigation		
35	4 Inch	Residential, Commercial, Irrigation		
36	6 Inch	Residential, Commercial, Irrigation		
37	8 Inch	Residential, Commercial, Irrigation		
38				

Please See
 Pages 2 and 3

Please See
 Pages 2 and 3

ICR Water Users Association
 Present and Proposed Rates
 Test Year Ended December 31, 2006

Line No.	Customer Classification and Meter Size	Present Rates		Proposed Rates		Percent Change
		Present	Proposed	Present	Proposed	
1	Tier 3: (Gallon upper limit, up to, but not exceeding)					
2	Residential, Commercial, Irrigation					
3	Residential, Commercial, Irrigation					
4	Residential, Commercial, Irrigation					
5	Residential, Commercial, Irrigation					
6	Residential, Commercial, Irrigation					
7	Residential, Commercial, Irrigation					
8	Residential, Commercial, Irrigation					
9	Residential, Commercial, Irrigation					
10	Residential, Commercial, Irrigation					
11						
12						
13	Commodity Rates (per 1,000 gallons in excess of gallons in Each Tier)					
14	All customer classes except Bulk Water	\$ 2.80	\$ 3.19			14.02%
15	All customer classes except Bulk Water	2.80	3.83			36.82%
16	All customer classes except Bulk Water	2.80	4.47			59.63%

Line No.	Customer Classification	Proposed Rates		Price
		From Gallons	To Gallons	
23	5/8 and 3/4 Inch Meters			
24	Tier 1	-	up to 4,000	\$ 3.19
25	Tier 2	4,000	up to 10,000	\$ 3.83
26	Tier 3	10,000		\$ 4.47
27				
28				
29	1 Inch Meter			
30	Tier 1	-	up to 25,000	\$ 3.83
31	Tier 2			
32	Tier 3			
33				
34				

ICR Water Users Association
Present and Proposed Rates
Test Year Ended December 31, 2006

Line No.	Customer Classification and Meter Size	Present and Proposed Rates	Proposed Rates		
			From Gallons	To Gallons	Percent Change
1					
2					
3	1.5 Inch Meter				
4	Tier 1	$(100/20) * (4,000) =$	20,000	50,000	3.83
5	Tier 2	$(100/20) * (10,000) =$	50,000		4.47
6	Tier 3				
7					
8	2 Inch Meter				
9	Tier 1	Average Usage	32,000	80,000	3.83
10	Tier 2	$(160/20) * (4,000) =$	80,000		4.47
11	Tier 3	$(160/20) * (10,000) =$			
12		82,182			
13	3 Inch Meter				
14	Tier 1	$(320/20) * (4,000) =$	64,000	160,000	3.83
15	Tier 2	$(320/20) * (10,000) =$	160,000		4.47
16	Tier 3				
17					
18	4 Inch Meter				
19	Tier 1	$(500/20) * (4,000) =$	100,000	250,000	3.83
20	Tier 2	$(500/20) * (10,000) =$	250,000		4.47
21	Tier 3				
22					
23					
24	6 Inch Meter				
25	Tier 1	$(1000/20) * (4,000) =$	200,000	500,000	3.83
26	Tier 2	$(1000/20) * (10,000) =$	500,000		4.47
27	Tier 3				
28					
29	Constuction Water	Average Usage		All Gallons	3.83
		149,000			

ICR Water Users Association
Present and Proposed Rates
Test Year Ended December 31, 2006

Line No.	Meter and Service Line Charges	Present Meter Installation Charge	Present Service Line Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge
7	5/8 x 3/4 Inch	\$ 250.00	\$ 385.00	\$ 635.00	\$ 135.00	\$ 520.00	\$ 660.00
8	3/4 Inch	250.00	385.00	635.00	215.00	600.00	690.00
9	1 Inch	300.00	435.00	735.00	255.00	690.00	935.00
10	1 1/2 Inch	450.00	470.00	920.00	465.00	935.00	1,595.00
11	2 Inch Turbo	625.00	630.00	1,255.00	1,690.00	2,320.00	2,275.00
12	2 Inch Compound	825.00	805.00	1,630.00	1,470.00	3,110.00	2,265.00
13	3 Inch Turbo	825.00	845.00	1,670.00	2,350.00	3,520.00	3,110.00
14	3 Inch Compound	1,450.00	1,170.00	2,620.00	3,245.00	4,475.00	3,520.00
15	4 Inch Turbo	1,450.00	1,230.00	2,680.00	4,545.00	6,275.00	4,475.00
16	4 Inch Compound	3,100.00	1,730.00	4,830.00	6,280.00	8,050.00	4,475.00
17	6 Inch Turbo	3,100.00	1,770.00	4,870.00	AI Cost	AI Cost	AI Cost
18	6 Inch Compound	NA	AI Cost	AI Cost	AI Cost	AI Cost	AI Cost
19	8 Inch	NA	AI Cost	AI Cost	AI Cost	AI Cost	AI Cost
20	10 Inch	NA	AI Cost	AI Cost	AI Cost	AI Cost	AI Cost
21	12 Inch	NA	AI Cost	AI Cost	AI Cost	AI Cost	AI Cost

Other Charges:

Establishment	\$ 25.00
Establishment (After Hours)	\$ 50.00
Reconnection (Delinquent)	\$ 20.00
Reconnection (Delinquent) after hours	N/A
Meter Test	\$ 20.00
Deposit	PER RULE
Deposit Interest	PER RULE
Re-establishment (Within 12 months)	PER RULE
NSF Check	\$ 15.00
Deferred Payment	1.5%
Meter Re-read	\$ 10.00
Late Fee	(a)

Establishment (R14-2-403.D.1)
Establishment (After Hours) (R14-2-403.D.2)
Meter Test (R14-2-408.F)
Deposit (R14-2-403.B)
Deposit Interest (R14-2-403.B.3)
Re-establishment (R14-2-403.D.1)
NSF Check (R14-2-409.F.1)
Deferred Payment (R14-2-409.G.6)
Meter Re-read (R14-2-408.C.2)

42: (a) \$ 5.00 minimum or 1.5% of unpaid balance whichever is greater.

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 5/8 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	\$ 20.00	\$ 25.50	\$ 5.50	27.50%
2,000	20.00	28.69	8.69	43.46%
3,000	22.80	31.89	9.09	39.85%
4,000	25.60	35.08	9.48	37.02%
5,000	28.40	38.27	9.87	34.75%
6,000	31.20	42.10	10.90	34.94%
7,000	34.00	45.93	11.93	35.10%
8,000	36.80	49.76	12.96	35.23%
9,000	39.60	53.59	13.99	35.34%
10,000	42.40	57.43	15.03	35.44%
12,000	45.20	61.26	16.06	35.52%
14,000	50.80	70.20	19.40	38.18%
16,000	56.40	79.14	22.74	40.31%
18,000	62.00	88.07	26.07	42.06%
20,000	67.60	97.01	29.41	43.51%
25,000	73.20	105.95	32.75	44.74%
30,000	87.20	128.30	41.10	47.13%
35,000	101.20	150.65	49.45	48.86%
40,000	115.20	173.00	57.80	50.17%
45,000	129.20	195.34	66.14	51.20%
50,000	143.20	217.69	74.49	52.02%
60,000	157.20	240.04	82.84	52.70%
70,000	185.20	284.74	99.54	53.75%
80,000	213.20	329.43	116.23	54.52%
90,000	241.20	374.13	132.93	55.11%
100,000	269.20	418.82	149.62	55.58%
	297.20	463.52	166.32	55.96%

Present Rates:
 Monthly Minimum: \$ 20.00
 Gallons in Minimum: 1,000
 Charge Per 1,000 Gallons: \$ 2.80

Proposed Rates:
 Monthly Minimum: \$ 25.50
 Gallons in Minimum: -
 Charge Per 1,000 Gallons:
 Up to 4,000 \$ 3.19
 Up to 10,000 \$ 3.83
 Over 10,000 \$ 4.47

Average Usage
 7,085 \$ 37.04 \$ 50.09 \$ 13.05 35.24%

Median Usage
 4,500 \$ 29.80 \$ 40.19 \$ 10.39 34.85%

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 1 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 2
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase	
1,000	\$ 50.00	\$ 63.75	\$ 13.75	27.50%	
2,000	50.00	67.58	17.58	35.16%	
3,000	52.80	71.41	18.61	35.25%	
4,000	55.60	75.24	19.64	35.33%	
5,000	58.40	79.07	20.67	35.40%	
6,000	61.20	82.91	21.71	35.47%	
7,000	64.00	86.74	22.74	35.53%	
8,000	66.80	90.57	23.77	35.58%	
9,000	69.60	94.40	24.80	35.63%	
10,000	72.40	98.23	25.83	35.68%	
12,000	75.20	102.06	26.86	35.72%	
14,000	80.80	109.72	28.92	35.80%	
16,000	86.40	117.39	30.99	35.86%	
18,000	92.00	125.05	33.05	35.92%	
20,000	97.60	132.71	35.11	35.97%	
25,000	103.20	140.37	37.17	36.02%	
30,000	117.20	159.53	42.33	36.12%	
35,000	131.20	181.87	50.67	38.62%	
40,000	145.20	204.22	59.02	40.65%	
45,000	159.20	226.57	67.37	42.32%	
50,000	173.20	248.92	75.72	43.72%	
60,000	187.20	271.27	84.07	44.91%	
70,000	215.20	315.96	100.76	46.82%	
80,000	243.20	360.66	117.46	48.30%	
90,000	271.20	405.35	134.15	49.47%	
100,000	299.20	450.05	150.85	50.42%	
	327.20	494.75	167.55	51.21%	
Average Usage	9,470	\$ 73.72	\$ 100.03	\$ 26.31	35.70%
Median Usage	1,500	\$ 51.40	\$ 69.50	\$ 18.10	35.21%

Present Rates:
 Monthly Minimum: \$ 50.00
 Gallons in Minimum: 1,000
 Charge Per 1,000 Gallons: \$ 2.80
 All gallons

Proposed Rates:
 Monthly Minimum: \$ -
 Gallons in Minimum: -
 Charge Per 1,000 Gallons: 25,000 \$ 3.83
 Up to: 25,000 \$ 4.47
 Over

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 2 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Exhibit
 Schedule H-4
 Page 3
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	\$ 160.00	\$ 204.00	\$ 44.00	27.50%
2,000	160.00	207.83	47.83	29.89%
3,000	162.80	211.66	48.86	30.01%
4,000	165.60	215.49	49.89	30.13%
5,000	168.40	219.32	50.92	30.24%
6,000	171.20	223.16	51.96	30.35%
7,000	174.00	226.99	52.99	30.45%
8,000	176.80	230.82	54.02	30.55%
9,000	179.60	234.65	55.05	30.65%
10,000	182.40	238.48	56.08	30.75%
12,000	185.20	242.31	57.11	30.84%
14,000	190.80	249.97	59.17	31.01%
16,000	196.40	257.64	61.24	31.18%
18,000	202.00	265.30	63.30	31.34%
20,000	207.60	272.96	65.36	31.48%
25,000	213.20	280.62	67.42	31.62%
30,000	227.20	299.78	72.58	31.94%
35,000	241.20	322.12	80.92	33.55%
40,000	255.20	344.47	89.27	34.98%
45,000	269.20	366.82	97.62	36.26%
50,000	283.20	389.17	105.97	37.42%
60,000	297.20	411.52	114.32	38.46%
70,000	325.20	456.21	131.01	40.29%
80,000	353.20	500.91	147.71	41.82%
90,000	381.20	545.60	164.40	43.13%
100,000	409.20	590.30	181.10	44.26%
	437.20	635.00	197.80	45.24%

Present Rates:
 Monthly Minimum: \$ 160.00
 Gallons in Minimum 1,000
 Charge Per 1,000 Gallons \$ 2.80
 All Gallons

Proposed Rates:
 Monthly Minimum: \$ 204.00
 Gallons in Minimum -
 Charge Per 1,000 Gallons 25,000 \$ 3.83
 Up to 25,000 \$ 4.47
 Over

Average Usage 82,182 \$ 387.31 \$ 555.36 \$ 168.05 43.39%
 Median Usage 22,500 \$ 220.20 \$ 290.20 \$ 70.00 31.79%

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Construction Water
 Customer Classification
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
1,000	2.80	3.83	1.03	36.82%
2,000	5.60	7.66	2.06	36.82%
3,000	8.40	11.49	3.09	36.82%
4,000	11.20	15.32	4.12	36.82%
5,000	14.00	19.16	5.16	36.82%
6,000	16.80	22.99	6.19	36.82%
7,000	19.60	26.82	7.22	36.82%
8,000	22.40	30.65	8.25	36.82%
9,000	25.20	34.48	9.28	36.82%
10,000	28.00	38.31	10.31	36.82%
12,000	33.60	45.97	12.37	36.82%
14,000	39.20	53.64	14.44	36.82%
16,000	44.80	61.30	16.50	36.82%
18,000	50.40	68.96	18.56	36.82%
20,000	56.00	76.62	20.62	36.82%
25,000	70.00	95.78	25.78	36.82%
30,000	84.00	114.93	30.93	36.82%
35,000	98.00	134.09	36.09	36.82%
40,000	112.00	153.24	41.24	36.82%
45,000	126.00	172.40	46.40	36.82%
50,000	140.00	191.55	51.55	36.82%
60,000	168.00	229.86	61.86	36.82%
70,000	196.00	268.18	72.18	36.82%
80,000	224.00	306.49	82.49	36.82%
90,000	252.00	344.80	92.80	36.82%
100,000	280.00	383.11	103.11	36.82%

Present Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 2.80

Proposed Rates:
 Monthly Minimum:
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 3.83

Average Usage
 149,000 \$ 417.20 \$ 570.83 \$ 153.63 36.82%

Median Usage
 74,500 \$ 208.60 \$ 285.41 \$ 76.81 36.82%

ICR Water Users Association
Test Year Ended December 31, 2006
Customer Classification 5/8 Inch Meter

Usage From:	Usage To:	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year	Cumul- active Billing
0	0	41	40	30	27	19	22	18	17	13	16	9	10	262	262
1	1,000	52	53	63	59	58	54	65	58	74	54	60	61	711	973
1,001	2,000	15	27	30	35	20	17	28	22	27	23	29	18	291	1,264
2,001	3,000	23	26	32	26	19	21	29	22	32	26	32	17	305	1,569
3,001	4,000	26	24	32	24	24	20	19	18	35	31	36	23	312	1,881
4,001	5,000	20	28	25	29	13	16	27	17	30	28	33	32	298	2,179
5,001	6,000	19	21	29	21	16	19	16	16	17	18	32	26	250	2,429
6,001	7,000	13	16	23	23	17	9	17	22	16	20	18	18	212	2,641
7,001	8,000	22	15	12	7	10	13	16	19	17	17	19	21	189	2,830
8,001	9,000	10	8	8	9	9	10	11	15	12	15	13	20	140	2,970
9,001	10,000	13	9	7	7	9	13	11	9	8	15	8	13	122	3,092
10,001	12,000	15	19	7	24	27	23	20	27	15	23	15	18	233	3,325
12,001	14,000	12	10	6	7	14	10	14	14	14	10	8	20	139	3,464
14,001	16,000	11	5	7	5	13	19	6	12	7	10	3	12	110	3,574
16,001	18,000	5	2	1	3	9	12	4	8	7	10	10	9	80	3,654
18,001	20,000	1	2	1	4	6	7	4	10	4	5	2	4	50	3,704
20,001	25,000	7	1	2	1	14	12	16	13	3	7	4	7	87	3,791
25,001	30,000	2	2	4	6	16	11	5	7	8	8	3	2	70	3,861
30,001	35,000	2	4		2	6	11	11	6	1	1	1	1	32	3,893
35,001	40,000	1		1		2	6	3	3	1	1	1	1	19	3,912
40,001	50,000			1		1	3	2	6	1	2		1	17	3,929
50,001	60,000	1				2	3	2	1					12	3,941
60,001	70,000		1			2	1							4	3,945
70,001	80,000				1	1	1		2					5	3,950
80,001	90,000					1							1	1	3,951
90,001	100,000					2	2							1	3,953
130,950	130,950	1			1									1	3,954
107,400	107,400													1	3,955
843,900	843,900													1	3,956
142,390	142,390					1								1	3,957
Totals		312	313	317	321	332	333	334	344	343	339	335	334	3,957	3,957
														7,085	7,085
														4,500	4,500
														330	330
														22	22

Average Usage
Median Usage
Average # Customers
Change in Number of Customers

ICR Water Users Association
 Test Year Ended December 31, 2006
 Customer Classification 1 Inch Meter

Exhibit
 Schedule H-5
 Page 2
 Witness: Bourassa

Usage From:	Usage To:	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total Year	Cumulative Billing
0	1,000	3	3	4	3	2	2	2	2	2	2	1	5	26	26
1,001	2,000	3	6	3	6	7	6	7	9	7	5	7	5	67	93
2,001	3,000	1	1	1	2	1	3	1	2	2	3	2	2	18	111
3,001	4,000	1	1	1	2	1	3	1	2	1	1	2	2	15	126
4,001	5,000	2	1	1	1	2	2	2	2	2	2	2	3	12	138
5,001	6,000	1	2	2	2	1	2	1	1	1	2	2	3	7	145
6,001	7,000	1	2	2	2	1	2	1	1	1	1	1	1	8	153
7,001	8,000					1	1	1	1	1	1	2	1	6	159
8,001	9,000					1	1	1	1	1	1	1	1	3	162
9,001	10,000				1	1	1	1	1	1	1	1	1	2	164
10,001	12,000	2	2		1	2	1	2						2	166
12,001	14,000			1	1	1	1	1	1	1	2	2	1	10	176
14,001	16,000					1	1	1	1	1	2	1	3	9	185
16,001	18,000							1	1	1	2	2	1	5	186
18,001	20,000										1	1	1	1	191
20,001	25,000			1							1	1	1	1	192
25,001	30,000										1	1	1	4	196
30,001	35,000					1								1	197
35,001	40,000					1	1							1	198
40,001	50,000													2	200
50,001	60,000													2	202
60,001	70,000										2			1	203
70,001	80,000										1	1		2	205
80,001	90,000													2	207
90,001	100,000													2	209
110,470	110,470					1	1							2	211
111,920	111,920					1	1							1	212
135,200	135,200													1	213
														1	214
														0	214
Totals		13	16	11	16	18	18	19	20	24	21	18	20	214	

Average Usage 9,470
 Median Usage 1,500
 Average # Customers 18
 Change in Number of Customers 7

ICR Water Users Association
 Test Year Ended December 31, 2006
 Customer Classification 2 Inch Meter

Exhibit
 Schedule H-5
 Page 3
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year	Cumulative Billing
0	0	3	1	1	1	1	1	1	1	1	1	1	1	9	9
1	1,000												2	8	17
1,001	2,000	1		1									2	5	22
2,001	3,000	1											1	3	25
3,001	4,000												1	2	27
4,001	5,000												1	2	29
5,001	6,000												1	2	32
6,001	7,000												1	2	34
7,001	8,000	2											1	4	38
8,001	9,000												1	3	41
9,001	10,000												1	1	42
10,001	12,000												1	1	43
12,001	14,000												1	1	44
14,001	16,000	1											1	2	46
16,001	18,000												1	1	48
18,001	20,000												1	1	49
20,001	25,000												1	5	54
25,001	30,000												1	3	57
30,001	35,000												1	4	61
35,001	40,000												1	3	64
40,001	50,000												1	2	66
50,001	60,000												1	2	68
60,001	70,000	1											1	5	73
70,001	80,000												1	1	74
80,001	90,000												1	1	75
90,001	100,000												1	2	77
100,001	105,300												1	1	78
105,301	110,000												1	1	79
110,001	110,200												1	1	80
110,201	118,500												1	1	81
118,501	119,900												1	1	82
119,901	121,300												1	1	83
121,301	125,800												1	1	84
125,801	140,000												1	1	85
140,001	151,700												1	1	86
151,701	154,000												1	1	87
154,001	158,700												1	1	88
158,701	163,200												1	1	89
163,201	175,800												1	1	90
175,801	180,000												1	1	91
180,001	205,200												1	1	92
205,201	226,200												1	1	93
226,201	250,000												1	1	94
250,001	267,400												1	1	95
267,401	280,500												1	1	96
280,501	286,800												1	1	97

ICR Water Users Association
 Test Year Ended December 31, 2006
 2 Inch Meter
 Customer Classification

Exhibit
 Schedule H-5
 Page 3
 Witness: Bourassa

Usage	From:	Usage	To:	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year	Cumulative Billing
	331,800	331,800	341,200					1								1	98
	341,200	341,200	365,400						1							1	99
	365,400	365,400	511,600							1						1	100
	511,600	511,600	891,600								1					1	101
	891,600	891,600	1,023,600				1									1	102
	1,023,600	1,023,600														0	103

Totals

10	10	6	7	8	8	9	9	10	5	11	9	10	103
Average Usage													82,182
Median Usage													22,500
Average # Customers													9
Change in Number of Customers													-

ICR Water Users Association
 Test Year Ended December 31, 2006
 Construction Water

Exhibit
 Schedule H-5
 Page 4
 Witness: Bourassa

Usage From:	Usage To:	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July	Month of Aug.	Month of Sept.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year	Cumulative Billing
0	0														
1	1,000														
1,001	2,000														
2,001	3,000														
3,001	4,000														
4,001	5,000														
5,001	6,000														
6,001	7,000														
7,001	8,000														
8,001	9,000														
9,001	10,000														
10,001	12,000														
12,001	14,000														
14,001	16,000														
16,001	18,000														
18,001	20,000														
20,001	25,000														
25,001	30,000														
30,001	35,000														
35,001	40,000														
40,001	50,000														
50,001	60,000														
60,001	70,000														
70,001	80,000														
80,001	90,000														
90,001	100,000														
100,001	149,000														
149,000	149,000														

Totals	Average Usage	Median Usage	Average # Customers	Change in Number of Customers
1	149,000	74,500	0	0

EXHIBIT B

Arizona Department of Environmental Quality
Water Quality Compliance Assurance Unit
1110 W. Washington Street, 5415B-1
Phoenix, AZ 85007

Drinking Water Compliance Status Report

Public Water System Name: Inscription Canyon Ranch System

Public Water System ID #: 13-303

Public Water System Type: Community Non-transient Non-community Transient Non-community

Overall Compliance Status: No Major Deficiencies Major Deficiencies

Monitoring and Reporting Status: No Major Deficiencies Major Deficiencies

Comments:

The ADEQ data base does not show that the required initial two consecutive six month lead and copper monitoring has been completed. This system is required to provide 20 lead and copper analysis per monitoring period but has only been providing five per monitoring period.

The ADEQ data base does not show that the required monthly Maximum Residual Disinfection Levels (MRDLs) have been done for this water system.

Operation and Maintenance Status: No Major Deficiencies Major Deficiencies

Comments:

Major unresolved/ongoing operation and maintenance deficiencies:

- | | |
|---|---|
| <input type="checkbox"/> unable to maintain 20psi | <input type="checkbox"/> inadequate storage |
| <input type="checkbox"/> cross connection/backflow problems | <input type="checkbox"/> surface water treatment rule |
| <input type="checkbox"/> treatment deficiencies | <input type="checkbox"/> approval of construction |
| <input type="checkbox"/> certified operator | <input type="checkbox"/> other |

Date of last inspection / sanitary survey: 10-5-05

Administrative Orders:

Is an ADEQ administrative order in effect? Yes No

Comments:

System information:

Number of Entry Points to the Distribution System 1 Number of Sources 2

Population Served 600 Service Connections 250 Initial Monitoring Year 1999

Evaluation completed by: Jim Puckett

Phone: 602-771-4649

Date: 4-4-07

Because of the previously identified compliance monitoring deficiencies, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. This compliance status report does not guarantee the water quality for this system in the future. This compliance status report does not reflect the status of any other water system owned by this utility company.

Arizona Department of Environmental Quality
Drinking Water Monitoring and Protection Unit
1110 W. Washington Street, 5415B-1
Phoenix, AZ 85007

Drinking Water Compliance Status Report

Public Water System Name: ICR Talking Rock

Public Water System ID #: 13-263

Public Water System Type: Community Non-transient Non-community Transient Non-community

Overall Compliance Status: No Major Deficiencies Major Deficiencies

Monitoring and Reporting Status: No Major Deficiencies Major Deficiencies

Comments:

This system has provided lead and copper monitoring for samples taken on September 2005 and July 2006 but the ADEQ data base does not show that the required initial two consecutive six month lead and copper monitoring has been completed.

The ADEQ data base does not show that the required monthly Maximum Residual Disinfection Levels (MRDLs) have been done for this water system. This system has only provided one MRDL analysis in 2006.

Operation and Maintenance Status: No Major Deficiencies Major Deficiencies

Comments:

Major unresolved/ongoing operation and maintenance deficiencies:

- | | |
|---|---|
| <input type="checkbox"/> unable to maintain 20psi | <input type="checkbox"/> inadequate storage |
| <input type="checkbox"/> cross connection/backflow problems | <input type="checkbox"/> surface water treatment rule |
| <input type="checkbox"/> treatment deficiencies | <input type="checkbox"/> approval of construction |
| <input type="checkbox"/> certified operator | <input type="checkbox"/> other |

Date of last inspection / sanitary survey: N/A

Administrative Orders:

Is an ADEQ administrative order in effect? Yes No

Comments:

System information:

Number of Entry Points to the Distribution System 1 Number of Sources 3

Population Served 140 Service Connections 70 Initial Monitoring Year 2008

Evaluation completed by: Jim Puckett

Phone: 602-771-4649 **Date:** 4-4-2007

Because of the previously identified compliance monitoring deficiencies, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4. This compliance status report does not guarantee the water quality for this system in the future. This compliance status report does not reflect the status of any other water system owned by this utility company.



**ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY
MONITORING ASSISTANCE PROGRAM
ANNUAL SAMPLING FEE INVOICE**

* Pursuant to A.R.S. § 49-113, interest will be charged if full payment is not received by the specified due date. If you dispute the amount listed, please contact ADEQ as soon as possible. To reduce interest costs on an unpaid invoice, you may remit an amount that you believe is not in dispute. However, if nonpayment is due to wilful neglect, you may suffer an additional five percent penalty of up to twenty-five percent of the amount due for each month or fraction of a month the amount is past due.

If you have any questions about your invoice, contact W. Scott Steinhagen at (602) 771-4445 or toll-free within Arizona at (800) 234-5677, extension 771-4445.

Pursuant to A.R.S. § 49-360 F and A.A.C. R18-4-224 through R18-4-226, "The director shall establish fees for the monitoring assistance program to be collected from all public water systems..."

Owner Id #: 9230	Invoice Number 63600
To: INSCRIPTION CANYON RANCH SYSTEM PO BOX 5669 CHINO VALLEY, AZ 86323	Public Water System ID #: 13303
	Billing for Calendar Year: 2007
	Due Date: December 18, 2006
	Total Amount Due \$ 892.50
	Amount Paid \$

↑ Keep the top portion for your records. ↑

ADEQ Federal Tax #866004791

↓ This entire bottom portion must be returned to ADEQ. ↓

ADEQ Federal Tax #866004791

Annual Sampling Fee Invoice

Invoice # 63600

INSCRIPTION CANYON RANCH SYSTEM PO BOX 5669 CHINO VALLEY, AZ 86323 13303 - Inscription Canyon Ranch System	Owner Id #: 9230	MAP
	Billing for Calendar Year: 2007	
	Due Date: 12/18/2006	

ANNUAL SAMPLING FEE WORKSHEET

Base Fee (all MAP systems)	\$ 250.00
Fee per Connection in 2007 250 connections X \$ 2.57	\$ 642.50
Total Sampling Fee	\$ 892.50
Plus Paid Interest Charges and/or Other Adjustments	\$ 0.00
Plus Unpaid Interest Charges as of 11/01/2006	\$ 0.00
Minus Payments Received and/or Other Adjustments	\$ 0.00
Amount Due	\$ 892.50
Amount received by ADEQ (Make check payable to State of Arizona)	\$

* A \$12 fee will be charged for any check not honored by the bank.

Do not write below this line

Make your check or money order payable to State of Arizona
THIS FORM MUST ACCOMPANY YOUR REMITTANCE.

Mail to: Arizona Department of Environmental Quality
PO Box 18228
Phoenix, AZ 85005-8228

Check Number:
Received:
Postmarked:
Entered:

MW1 11/01/2006



**ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY
MONITORING ASSISTANCE PROGRAM
ANNUAL SAMPLING FEE INVOICE**



Pursuant to A.R.S. § 49-113, interest will be charged if full payment is not received by the specified due date. If you dispute the amount listed, please contact ADEQ as soon as possible. To reduce interest costs on an unpaid invoice, you may remit an amount that you believe is not in dispute. However, if nonpayment is due to willful neglect, you may suffer an additional five percent penalty of up to twenty-five percent of the amount due for each month or fraction of a month the amount is past due.

If you have any questions about your invoice, contact W. Scott Steinhagen at (602) 771-4445 or toll-free within Arizona at (800) 234-5677, extension 771-4445.

Pursuant to A.R.S. § 49-360 F and A.A.C. R18-4-224 through R18-4-226, "The director shall establish fees for the monitoring assistance program to be collected from all public water systems..."

Owner Id #: 9230	Invoice Number 63599
To: INSCRIPTION CANYON RANCH SYSTEM PO BOX 5669 CHINO VALLEY, AZ 86323	Public Water System ID #: 13263
	Billing for Calendar Year: 2007
	Due Date: December 18, 2006
	Total Amount Due\$ 429.90
	Amount Paid\$

↑ Keep the top portion for your records. ↑ ADEQ Federal Tax #866004791

↓ This entire bottom portion must be returned to ADEQ. ↓

ADEQ Federal Tax #866004791
Invoice # 63599

Annual Sampling Fee Invoice

INSCRIPTION CANYON RANCH SYSTEM PO BOX 5669 CHINO VALLEY, AZ 86323	Owner Id #: 9230	MAP
	Billing for Calendar Year: 2007	
	Due Date: 12/18/2006	
13263 - Icr Talking Rock		

ANNUAL SAMPLING FEE WORKSHEET

Base Fee (all MAP systems)	\$ 250.00
Fee per Connection in 2007..... 70 connections X \$ 2.57	\$ 179.90
Total Sampling Fee	\$ 429.90
Plus Paid Interest Charges and/or Other Adjustments	\$ 0.00
Plus Unpaid Interest Charges as of 11/01/2006	\$ 0.00
Minus Payments Received and/or Other Adjustments	\$ 0.00
Amount Due	\$ 429.90
Amount received by ADEQ (Make check payable to State of Arizona)	\$



A \$12 fee will be charged for any check not honored by the bank.

Do not write below this line

Make your check or money order payable to State of Arizona
THIS FORM MUST ACCOMPANY YOUR REMITTANCE.

Mail to: Arizona Department of Environmental Quality
PO Box 18228
Phoenix, AZ 85005-8228

Check Number:
Received:
Postmarked:
Entered:

MW1 11/01/2006
WM300Go



**ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY
MONITORING ASSISTANCE PROGRAM
ANNUAL SAMPLING FEE INVOICE**

* Pursuant to A.R.S. § 49-113, interest will be charged if full payment is not received by the specified due date. If you dispute the amount listed, please contact ADEQ as soon as possible. To reduce interest costs on an unpaid invoice, you may remit an amount that you believe is not in dispute. However, if nonpayment is due to willful neglect, you may suffer an additional five percent penalty of up to twenty-five percent of the amount due for each month or fraction of a month the amount is past due.

If you have any questions about your invoice, contact W. Scot Steinhagen at (602) 771-4445 or Mike Hill at (602) 771-4518 or toll-free within Arizona at (800) 234-5677, extension 771-4445.

Pursuant to A.R.S. § 49-360 F and A.A.C. R18-4-224 through R18-4-226, "The director shall establish fees for the monitoring assistance program to be collected from all public water systems..."

Owner Id #: 9230	Invoice Number 62744
To: ICR WATER USERS ASSOCIATION PO BOX 5669 CHINO VALLEY, AZ 86323	Public Water System ID #: 13303
	Billing for Calendar Year: 2006
	Due Date: January 30, 2006
	Total Amount Due \$ 828.25
	Amount Paid \$

↑ Keep the top portion for your records. ↑ ADEQ Federal Tax #866004791

↓ This entire bottom portion must be returned to ADEQ. ↓
ADEQ Federal Tax #866004791
Annual Sampling Fee Invoice Invoice # 62744

ICR WATER USERS ASSOCIATION PO BOX 5669 CHINO VALLEY, AZ 86323 13303 - Icr Water Users Associati	Owner Id #: 9230 MAP
	Billing for Calendar Year: 2006
	Due Date: 01/30/2006

ANNUAL SAMPLING FEE WORKSHEET

For the past several years, the MAP Annual invoice has included a credit to refund surplus dollars above the cost, at the rate of fifty cents (50¢) per connection. This process is changing. Instead, a refund check will be issued to all eligible water systems by April 1, 2006. We ask you to be patient and wait until after April 1 to call with questions on the refund.

Base Fee (all MAP systems)	\$ 250.00
Fee per Connection in 2006 225 connections X \$ 2.57	\$ 578.25
Total Sampling Fee	\$ 828.25
Plus Paid Interest Charges and/or Other Adjustments	\$ 0.00
Plus Unpaid Interest Charges as of 12/15/2005	\$ 0.00
Minus Payments Received and/or Other Adjustments	\$ 0.00
Amount Due	\$ 828.25
Amount received by ADEQ (Make check payable to State of Arizona)	\$

* A \$12 fee will be charged for any check not honored by the bank.

Do not write below this line

Make your check or money order payable to State of Arizona
THIS FORM MUST ACCOMPANY YOUR REMITTANCE.

Mail to: Arizona Department of Environmental Quality
PO Box 18228
Phoenix, AZ 85005-8228

Check Number:
Received:
Postmarked:
Entered:

MW1 12/15/2005
WM300G6

EXHIBIT D

WATER USE DATA SHEET

NAME OF COMPANY	ICR Water Users Association
ADEQ Public Water System Number:	13-300 & 13-263

Golf Course & Construction Water(000)

MONTH/YEAR (12 Months of Test Year)	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)
1. JANUARY	337	2019	6776
2. FEBRUARY	338	2020	6917
3. MARCH	336	1537	4139
4. APRIL	345	3029	5203
5. MAY	359	5149	11550
6. JUNE	360	5588	14072
7. JULY	364	3992	10095
8. AUGUST	375	4189	8491
9. SEPTEMBER	373	2566	7218
10. OCTOBER	367	2973	9282
11. NOVEMBER	364	2316	4624
12. DECEMBER	364	2498	5123
TOTAL	N/A	37786 0*	93490 0**

4757
4897
2602
2174
6401
8484
6103
4302
4652
6309
2312
2625
55618

Is the water utility located in an ADWR Active Management Area ("AMA")?

YES NO

Does the Company have an ADWR gallons per capita day ("GPCD") requirement?

YES NO

If Yes, please provide the GPCD amount: _____

Note: If you are filling for more than one system, please provide separate data sheets for each system. For explanation of any of the above, please contact the Engineering Supervisor at 602-542-7277.

* This number must be equal to the number entered on Page 6, "sold gallons."
** Gallons pumped cannot equal or be less than the gallons sold.

NOTE: Golf Course & Const. Water furnished per Well Agreement

EXHIBIT E

Company Name:
ICR Water Users Association

Test Year Ended:
December 31, 2006

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (inches)	Meter Size (inches)	Year Drilled
55-547062	50	225	260	10	3	1994
55-589660	50	430	250	8	4	2002
55-592550	75	580	220	10	4	2002

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
Aqua Meadows LLC		32,265

BOOSTER PUMPS

Horsepower	Quantity
15/20	6
25	3
30	2
50	2

FIRE HYDRANTS

Quantity Standard	Quantity Other
125	

STORAGE TANKS

Capacity	Quantity
210,000	1
300,000	2

PRESSURE TANKS

Capacity	Quantity
3200	2

Company Name:
ICR Water Users Association

Test Year Ended:
December 31, 2006

WATER COMPANY PLANT DESCRIPTION CONTINUED

MAINS

Size (in inches)	Material	Length (in feet)
2		
3		
4	PVC	180
5		
6	PVC	24937
8	PVC	95507
10	PVC	10731
12	PVC	11832

CUSTOMER METERS

Size (in inches)	Quantity
5/8 x 3/4	337
3/4	
1	21
1 1/2	
2	6
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	

For the following three items, please list the utility owned assets in each category.

TREATMENT EQUIPMENT:

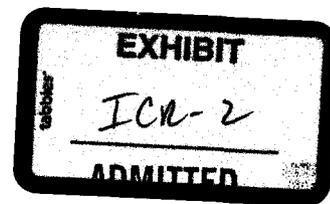
3 - Chlorination pumps

STRUCTURES:

4 Pump Houses

3 Well Houses

OTHER:



BEFORE THE ARIZONA CORPORATION COMMISSION

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.

DOCKET NO. W-02824A-07-0388

REBUTTAL TESTIMONY OF
THOMAS J. BOURASSA
ON BEHALF OF ICR WATER USERS ASSOCIATION
DECEMBER 14, 2007

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE**
6 **INSTANT CASE?**

7 A. Yes, my direct testimony was submitted in support of the initial application in this
8 docket by ICR Water Users Association ("ICR" or "Company").

9 **Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?**

10 A. I will provide rebuttal testimony in response to the direct filing by Arizona
11 Corporation Commission Utilities Division Staff ("Staff") with respect to the rate
12 base, the income statement, and the revenue requirement and rate design.

13 **Q. WHAT IS THE REVENUE INCREASE THAT THE COMPANY IS**
14 **PROPOSING IN THIS REBUTTAL TESTIMONY?**

15 A. The Company is proposing a total revenue requirement of \$356,594 which
16 constitutes an increase in revenues of \$88,547, or 33.03% over test year revenues.

17 **Q. HOW DOES THIS COMPARE WITH THE COMPANY'S DIRECT**
18 **FILING?**

19 A. In the direct filing, the Company requested a total revenue requirement of
20 \$355,174, an increase in revenues of \$86,908, or 32.40%.

21 **Q. WHY IS THE REQUESTED REVENUE INCREASE HIGHER IN ICR'S**
22 **REBUTTAL FILING?**

23 A. In its rebuttal filing, ICR has adopted all of the revenue and expense adjustments
24 recommended by Staff. The net result of these adjustments is a \$1,207 increase in
25 the proposed level of operating expenses compared to the adjusted test year

1 expense. While not impacting the revenue requirement, the Company's rebuttal
2 filing reflects a net decrease in Original Cost Rate Base ("OCRB") and Fair Value
3 Rate Base ("FVRB") of \$22,734 from the direct filing. The Company continues to
4 propose that its OCRB be used as its FVRB.

5 **Q. TO WHAT DO YOU ATTRIBUTE THE REDUCTION IN RATE BASE**
6 **FROM THE DIRECT FILING TO THIS REBUTTAL FILING?**

7 A. Notably, the Company has accepted Staff's adjustment to remove working capital
8 of \$22,734.

9 **Q. PLEASE SUMMARIZE THE PROPOSED REVENUE REQUIREMENTS**
10 **AND RATE INCREASES FOR THE COMPANY AND STAFF AT THIS**
11 **STAGE OF THE PROCEEDING.**

12 A. The proposed revenue requirements and proposed rate increases are as follows:

	<u>Revenue Requirement</u>	<u>Revenue Incr.</u>	<u>% Increase</u>
13 Company-Direct	\$355,174	\$86,908	32.40%
14 Staff	\$356,646	\$88,547	33.03%
15 Company Rebuttal	\$356,594	\$88,547	33.03%

16
17 **Q. IT APPEARS THAT STAFF AND THE COMPANY ARE IN AGREEMENT**
18 **ON THE REVENUE INCREASE, CORRECT?**

19 A. Yes. There is about a \$50 difference in the revenue requirement and is due to a
20 small difference in the revenue annualization adjustment discussed later in my
21 testimony. Putting this aside, this difference is inconsequential. For all intent and
22 purposes, the Company and Staff are in agreement.

23 **Q. DO THE COMPANY AND STAFF PROPOSE THE APPROXIMATELY**
24 **THE SAME OPERATING MARGIN?**

25

1 A. Yes. The Company proposes an operating margin of 15 percent, while Staff
2 proposes an operating margin of 15.01 percent. These are materially the same
3 operating margins.

4 **II. RATE BASE.**

5 **Q. WOULD YOU PLEASE IDENTIFY THE PARTIES' RESPECTIVE RATE**
6 **BASE RECOMMENDATIONS?**

7 A. The rate bases proposed by all parties in the case are as follows:

	<u>OCRB</u>	<u>FVRB</u>
8 Company-Direct	\$(552,252)	\$(554,252)
9 Staff	\$(576,986)	\$(576,986)
10 Company Rebuttal	\$(576,986)	\$(576,986)

11
12 **Q. PLEASE SUMMARIZE YOUR ADJUSTMENT(S) TO RATE BASE.**

13 A. There is only one adjustment to the Company's proposed rate base and this
14 adjustment is to working capital.

15 **Q. HAS THE COMPANY ACCEPTED STAFF'S RECOMMENDATION FOR**
16 **ZERO WORKING CAPITAL?**

17 A. Yes. While the Company does not agree with Staff's rationale that Class A, B,
18 and C utilities should not be allowed to use the formula method and instead must
19 prepare lead-lag studies to request working capital, it has accepted Staff's
20 adjustment to eliminate issues between the parties. See Direct testimony of
21 Charles H. Myhlhousen ("Myhlhousen DT") at 7. Rebuttal Schedule B-2
22 adjustment number 1 reduces working capital to zero.

23 **Q. WHY DO YOU DISAGREE WITH STAFF'S RATIONALE?**

24 A. No method of computing working capital, including lead-lag, is precisely correct.
25 The purpose of any working capital computation is to produce an amount of

1 working capital allowance that is reasonable. The cost of the calculation should
2 not exceed the benefits. This is true regardless of the size of the utility. Lead-lag
3 studies are costly to prepare and disagreement between the parties is common.
4 Thus, the costs generally exceed the benefits. The formula method is simple and
5 can readily be adjusted for the effects of pro forma adjustments and has been
6 recognized by numerous regulatory bodies including this Commission.

7 **III. INCOME STATEMENT.**

8 **Q. WOULD YOU PLEASE DISCUSS THE COMPANY'S PROPOSED**
9 **ADJUSTMENTS TO REVENUES AND EXPENSES AND IDENTIFY ANY**
10 **ADJUSTMENTS YOU HAVE ACCEPTED FROM STAFF?**

11 **A.** The Company rebuttal adjustments are detailed on Rebuttal Schedule C-2, pages
12 1-6. The rebuttal income statement with adjustments is shown on Rebuttal
13 Schedule C-1, page 1-2.

14 Rebuttal adjustment 1 decreases metered water revenues by \$219. This
15 adjustment addresses a correction to a revenue annualization computation error for
16 the 1 inch metered customer class contained in Company's direct filing. Staff's
17 has made a similar revenue annualization adjustment adjusting revenues down by
18 \$167 (*See Myhlhousen DT at 5*).

19 Rebuttal adjustment 2 decreases repairs and maintenance expense by \$153.
20 This adjustment adopts Staff's adjustment number 2 (*See Myhlhousen DT at 6 and*
21 *Staff schedule CRM-9*).

22 Rebuttal adjustment 3 increases contractual services expense by \$2,264.
23 This adjustment adopts Staff's adjustment number 3 (*See Myhlhousen DT at 6 and*
24 *Staff schedule CRM-10*).

25

1 Rebuttal adjustment 4 decreases water testing expense by \$917. This
2 adjustment adopts Staff's adjustment number 4 (*See Myhlhousen DT at 6 and*
3 *Staff schedule CRM-11*).

4 Rebuttal adjustment 5 increases property tax expense by \$12. The
5 adjustment reflects an increase in the rebuttal proposed revenues over the
6 Company's direct filing proposed revenues. Staff made a similar adjustment to
7 increase property taxes by \$14 (*See Myhlhousen DT at 6 and Staff schedule*
8 *CRM-12*). The Company and Staff are in agreement on the method of computing
9 property taxes. This method utilized the Arizona Department of Revenue
10 ("ADOR") formula and inputs two years of adjusted revenues plus one year of
11 proposed revenues. I computed the property taxes based on the Company's
12 proposed revenues, and then used the property tax rate that was used in the direct
13 filing.

14 **Q. ARE STAFF AND THE COMPANY IN AGREEMENT TO USE ACCOUNT**
15 **SPECIFIC RATES FOR DEPRECIATION AND ARE THOSE RATES THE**
16 **SAME AS THE COMPANY PROPOSED IN ITS DIRECT FILING?**

17 **A.** Yes, there is no disagreement between Staff and the Company on the level of
18 depreciation expense computed using account specific depreciation rates. The
19 Company utilized Staff's typical and customary rates to compute depreciation
20 expense. *See Direct testimony of Thomas J. Bourassa ("Bourassa DT") at 8.*
21 Staff has recommended that the Company use Staff's typical and customary rates
22 on a going forward basis. *See Direct Testimony of Jian W. Liu ("Liu DT") at 7.*

23 **IV. RATE DESIGN (H SCHEDULES).**

24 **Q. WHAT ARE THE COMPANY'S REBUTTAL PROPOSED RATES?**

25 **A.** The Company's rebuttal proposed rates for customers with a water meter size of:

	<u>Meter Size</u>	<u>Monthly Minimum</u>	<u>Gallons included in Monthly Minimum</u>
1			
2			
3	5/8	\$ 26.20	0
4	3/4	\$ 39.30	0
5	1	\$ 65.50	0
6	1 1/2	\$ 131.00	0
7	2	\$ 209.60	0
8	3	\$ 419.20	0
9	4	\$ 655.00	0
10	6	\$1,310.00	0

The commodity charges and tiers by meter size are:

	<u>Meter Size</u>	<u>Tier (gallons)</u>	<u>Charge per 1,000 gallons</u>
12			
13			
14	5/8 and 3/4	1 to 4,000	\$ 2.984
15		4,001 to 10,000	\$ 3.834
16		Over 10,000	\$ 4.454
17	1	1 to 25,000	\$ 3.834
18		Over 25,000	\$ 4.454
19	1 1/2	1 to 50,000	\$ 3.834
20		Over 50,000	\$ 4.454
21	2	1 to 80,000	\$ 3.834
22		Over 80,000	\$ 4.454
23	3	1 to 160,000	\$ 3.834
24		Over 80,000	\$ 4.454
25	4	1 to 250,000	\$ 3.834

1		Over 250,000	\$ 4.454
2	6	1 to 500,000	\$ 3.834
3		Over 500,000	\$ 4.454

4 The proposed standpipe rate and bulk water rate is \$4.454 per 1,000 gallons with
5 no minimum monthly charge.

6 **Q. PLEASE EXPLAIN THE DIFFERENCES BETWEEN STAFF AND THE**
7 **COMPANY'S RATE DESIGNS.**

8 **A.** Both Staff and the Company's monthly minimums for each meter size are the
9 same. Monthly minimums are scaled on the rated flows of a 5/8 inch meter.

10 Staff is proposing a 3 tier rate design which provides the same break over
11 points for the 5/8 inch and 3/4 inch metered customers. The Company also
12 proposes that the same break over points for the 5/8 inch and 3/4 inch metered
13 customers. Staff proposes break over points of 4,000 gallons and 9,000 gallons,
14 respectively. The Company now proposes 4,000 gallons and 9,000 gallons,
15 respectively, in order to help eliminate issues between the parties.

16 For 1 inch and larger meters, Staff is proposing a 2 tier design with distinct
17 break over points for each size meter. The Company similarly proposes a three
18 tier design with distinct break over points for each size meter. The Company's
19 break over points are scaled on the rated flows on a 5/8 inch meter using the 9,000
20 gallon second tier break over point of the 5/8 inch and 3/4 inch meters as the base.
21 The Company's break over points for the 1 1/2 inch and larger meters are different
22 than Staff's. This is because the 1 1/2 inch and larger meter break over points for
23 Staff's rates do not use a 9,000 gallon base - rather a 10,000 gallon base is used.
24 To be consistent, the Company recommends that the larger meter break over
25 points be scaled using a 9,000 gallon base.

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Q. ARE THERE DIFFERENCES BETWEEN STAFF AND THE COMPANY ON THE COMMODITY CHARGES?

A. Yes. While the monthly minimums are the same for both Staff and the Company, there are differences in the commodity rates between the parties. Staff proposes commodity charge of \$2.645 for the first tier of the 5/8 inch and 3/4 inch meters while the Company proposes a commodity charge of \$2.984. For the second tier, Staff proposes a commodity charge of \$3.960 while the Company proposes a commodity charge of \$3.834. For the third tier, Staff proposes a commodity charge of \$4.740 while the Company proposes a commodity charge of \$4.454.

Q. PLEASE COMMENT ON THE STAFF COMMODITY CHARGES.

A. The primary problem with Staff's commodity charges is that the first tier commodity rate of \$2.645 is lower than the current commodity charge of \$2.80. By lowering the commodity charge below what is currently charged sends the wrong price signal to water users – basically, that water costs less. This is not a sound rate design approach in light the Commission's policy of promoting conservation.

Q. WHAT IS THE IMPACT ON A 5/8 INCH METERED CUSTOMER UNDER STAFF AND THE COMPANY'S RATE DESIGNS?

A. The impact on 5/8 inch metered customers under the Company's proposed rates is as follows:

Meter Size	Present Rates	Proposed Rates	Dollar Increase	Percent
5/8 Inch				
Average (7,085 gals)	\$37.04	\$49.96	\$12.93	34.90%
Median (4500 gals)	\$29.80	\$40.05	\$10.25	34.41%

1 The impact on 5/8 inch metered customers under Staff's proposed rates is as
2 follows:

3

Meter Size	Present Rates	Proposed Rates	Dollar Increase	Percent
5/8 Inch				
Average (7,085 gals)	\$37.04	\$48.99	\$11.96	32.29%
6 Median (4500 gals)	\$29.80	\$38.76	\$ 8.96	30.07%

7

8 **Q. ARE THE COMPANY AND STAFF IN AGREEMENT ON THE**
9 **PROPOSED METER AND SERVICE LINE INSTALLATION CHARGES?**

10 A. Yes. See Staff Schedule CRM-13, page 2.

11 **Q. ARE THE COMPANY AND STAFF IN AGREEMENT ON THE**
12 **PROPOSED MISCELLANEOUS SERVICE CHARGES?**

13 A. Yes. The Company agrees with Staff's proposal for the late fee charge of 1.5%
14 per month. See Myhlhousen DT at 9.

15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A. Yes.

17

18

19

20

21

22 2084081.1

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ICR Water Users Association
 Test Year Ended December 31, 2006
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Exhibit
 Rebuttal Schedule A-1
 Page 1
 Witness: Bourassa

Line
 No.

1	Fair Value Rate Base				\$ (576,986)
2					(35,058)
3	Adjusted Operating Income				N/A
4					N/A
5	Current Rate of Return				N/A
6					N/A
7	Required Operating Income	Operating Margin =	15.00%		\$ 53,489
8					N/A
9	Required Rate of Return on Fair Value Rate Base				N/A
10					N/A
11	Operating Income Deficiency				\$ 88,547
12					1.0000
13	Gross Revenue Conversion Factor				1.0000
14					1.0000
15	Increase in Gross Revenue				\$ 88,547
16	Requirement				\$ 88,547
17					33.03%
18	% Increase				33.03%
19					
20	Customer	Present	Proposed	Dollar	Percent
21	Classification	Rates	Rates	Increase	Increase
22	<u>(Residential Commercial, Irrigation)</u>				
23					
24	5/8 x 3/4 Inch Residential	\$ 148,282	\$ 207,922	\$ 59,640	40.22%
25	3/4 Inch Residential	-	-	-	0.00%
26	1 Inch Residential	15,942	22,328	6,386	40.06%
27	2 Inch Residential	39,929	58,391	18,462	46.24%
28	Construction Water	417	664	246	59.07%
29	Subtotal	<u>\$ 204,571</u>	<u>\$ 289,305</u>	<u>\$ 84,734</u>	<u>41.42%</u>
30					
31	Revenue Annualization	9,738	13,964	4,226	43.40%
32					
33	Other Water Revenues	53,403	53,403	-	0.00%
34					
35	Revenue Reconciliation to GL		(335)	(335)	0.00%
36					
37	Total of Water Revenues	<u><u>\$ 267,712</u></u>	<u><u>\$ 356,672</u></u>	<u><u>\$ 88,625</u></u>	<u><u>33.10%</u></u>
38					
39					
40					
41					
42					
43					
44	<u>SUPPORTING SCHEDULES:</u>				
45	Rebuttal B-1				
46	Rebuttal C-1				
47	Rebuttal C-3				
48	Rebuttal H-1				
49					

ICR Water Users Association
 Test Year Ended December 31, 2006
 Summary of Rate Base

Exhibit
 Rebuttal Schedule B-1
 Page 1
 Witness: Bourassa

Line No.		<u>Original Cost</u> <u>Rate base</u>	<u>Fair Value</u> <u>Rate Base</u>
1			
2	Gross Utility Plant in Service	\$ 5,331,978	\$ 5,331,978
3	Less: Accumulated Depreciation	<u>625,682</u>	<u>625,682</u>
4			
5	Net Utility Plant in Service	\$ 4,706,296	\$ 4,706,296
6			
7	<u>Less:</u>		
8	Advances in Aid of		
9	Construction	3,932,263	3,932,263
10	Contributions in Aid of		
11	Construction	1,419,166	1,419,166
12	Accumulated Amortization of CIAC	(88,697)	(88,697)
13			
14	Customer Meter Deposits	20,550	20,550
15	Deferred Income Taxes & Credits	-	-
16	Deferred Assets	-	-
17			
18			
19	<u>Plus:</u>		
20	Unamortized Finance Charges	-	-
21	Material and Supplies Inventories	-	-
22	Prepayments	-	-
23	Allowance for Working Capital	-	-
24			
25			
26			
27	Total Rate Base	<u>\$ (576,986)</u>	<u>\$ (576,986)</u>
28			
29			
30			
31	<u>SUPPORTING SCHEDULES:</u>		
32	Rebuttal B-2		
33	Rebuttal B-5		
34			
35			
36			

ICR Water Users Association
 Test Year Ended December 31, 2006
 Original Cost Rate Base Proforma Adjustments

Exhibit
 Rebuttal Schedule B-2
 Page 1
 Witness: Bourassa

Line No.		Adjusted at End of <u>Test Year</u>	<u>Adjustments</u>	Rebuttal Adjusted at end of <u>Test Year</u>
1	Gross Utility			
2	Plant in Service	\$ 5,331,978	-	\$ 5,331,978
3				
4	Less:			
5	Accumulated			
6	Depreciation	625,682	-	625,682
7				
8				
9	Net Utility Plant			
10	in Service	\$ 4,706,296	\$ -	\$ 4,706,296
11				
12	Less:			
13	Advances in Aid of			
14	Construction	3,932,263	-	3,932,263
15				
16	Contributions in Aid of			
17	Construction (CIAC)	1,419,166	-	1,419,166
18				
19				
20	Accum. Amortization of CIAC	(88,697)	-	(88,697)
21				
22				
23	Customer Meter Deposits	20,550	0	20,550
24	Deferred Income Taxes	-	-	-
25	Investment Tax Credits	-	-	-
26				
27				
28	Plus:			
29	Unamortized Finance Charges	-	-	-
30	Material and Supplies Inventories	-	-	-
31	Prepayments	-	-	-
32	Allowance for Working Capital	22,734	(22,734)	-
33				
34				
35	Total	<u>\$ (554,252)</u>	<u>\$ (22,734)</u>	<u>\$ (576,986)</u>

41 SUPPORTING SCHEDULES:
 42 Rebuttal B-2, pages 2
 43
 44
 45
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ICR Water Users Association
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments

Line No.	ADJUSTMENT LABEL-->	1	2	3	4	6	Rebuttal Adjusted at end of Test Year
		Working Capital	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	Intentionally Left Blank	
1	Gross Utility Plant in Service	\$ 5,331,978					\$ 5,331,978
2							
3							
4	Less:						
5	Accumulated Depreciation	625,682					625,682
6							
7							
8							
9	Net Utility Plant in Service	\$ 4,706,296	\$ -	\$ -	\$ -	\$ -	\$ 4,706,296
10							
11	Less:						
12	Advances in Aid of Construction	3,932,263					3,932,263
13							
14							
15							
16	Contributions in Aid of Construction (CIAC)	1,419,166					1,419,166
17							
18							
19	Accum. Amortization of CIAC	(88,697)					(88,697)
20							
21	Customer Meter Deposits	20,550					20,550
22	Deferred Income Taxes	-					-
23	Investment Tax Credits	-					-
24							
25	Plus:						
26	Unamortized Finance Charges	-					-
27							
28	Material and Supplies Inventories	-					-
29	Prepayments	-					-
30							
31	Allowance for Working Capital	22,734	(22,734)				
32							
33	Total	\$ (654,252)	\$ (22,734)	\$ -	\$ -	\$ -	\$ (576,986)

SUPPORTING SCHEDULES:
Rebuttal B-2, pages 3-7

ICR Water Users Association
Test Year Ended December 31, 2006
Original Cost Rate Base Proforma Adjustments
Adjustment 1

Exhibit
Rebuttal Schedule B-2
Page 4
Witness: Bourassa

Line			
<u>No.</u>			
1	<u>Working Capital</u>		
2			
3			
4	Working Capital per Direct Filing	\$	22,734
5	Working Capital Per Rebuttal Filing		<u>-</u>
6			
7	Difference	\$	22,734
8			
9			
10	Increase (Decrease) to Working Capital	\$	<u>(22,734)</u>
11			
12			
13	<u>SUPPORTING SCHEDULES</u>		
14			
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ICR Water Users Association
Test Year Ended December 31, 2006
Computation of Working Capital

Exhibit
Rebuttal Schedule B-5
Page 1
Witness: Bourassa

Line
No.

1	Cash Working Capital (1/8 of Allowance		
2	Operation and Maintenance Expense)	\$	22,745
3	Pumping Power (1/24 of Pumping Power)		-
4	Purchased Water Treatment (1/24 of Purchased Water)		677
5			
6			
7			
8			
9	Total Working Capital Allowance Rebuttal	\$	23,421
10			
11	Total Working Capital Allowance Requested	\$	-
12			
13	Working Capital per Direct Filing	\$	22,734
14			
15	Increase (Decrease) in Working Capital	\$	(22,734)
16			

17
18
19
20

SUPPORTING SCHEDULES:

RECAP SCHEDULES:
Rebuttal B-1

ICR Water Users Association
 Test Year Ended December 31, 2006
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 1
 Witness: Bourassa

Line No.		Adjusted Book Results	Adjustments	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues					
2	Metered Water Revenues	\$ 214,863	\$ (219)	\$ 214,643	\$ 88,547	\$ 303,190
3	Unmetered Water Revenues	-	-	-		-
4	Other Water Revenues	53,403	-	53,403		53,403
5		<u>\$ 268,266</u>	<u>\$ (219)</u>	<u>\$ 268,047</u>	<u>\$ 88,547</u>	<u>\$ 356,594</u>
6	Operating Expenses					
7	Salaries and Wages	\$ -	-	\$ -		\$ -
8	Employee Pensions and Benefits	6,388	-	6,388		6,388
9	Purchased Water	16,239	-	16,239		16,239
10	Purchased Power	-	-	-		-
11	Chemicals	2,516	-	2,516		2,516
12	Water Testing	4,946	(917)	4,029		4,029
13	Repairs and Maintenance	14,542	(153)	14,389		14,389
14	Contractual Services - Engineering	1,720	-	1,720		1,720
15	Contractual Services - Accounting	32,549	-	32,549		32,549
16	Contractual Services - Legal	513	-	513		513
17	Contractual Services - Other	83,963	2,264	86,227		86,227
18	Water Testing	-	-	-		-
19	Rental of Building/Real Property	3,600	-	3,600		3,600
20	Rental of Equipment	-	-	-		-
21	Transportation Expenses	-	-	-		-
22	Telephone	751	-	751		751
23	Insurance	8,995	-	8,995		8,995
24	Regulatory Commission Expense - R	20,000	-	20,000		20,000
25	Bad Debt Expense	-	-	-		-
26	Miscellaneous Expense	235	-	235		235
27	Depreciation Expense	93,748	-	93,748		93,748
28	Property Taxes	11,148	12	11,160		11,160
29	Payroll Taxes	-	-	-		-
30	Sales Tax Expense	-	-	-		-
31	Income Tax	45	-	45		45
32						
33	Total Operating Expenses	<u>\$ 301,898</u>	<u>\$ 1,207</u>	<u>\$ 303,105</u>	<u>\$ -</u>	<u>\$ 303,105</u>
34	Operating Income	<u>\$ (33,632)</u>	<u>\$ (1,426)</u>	<u>\$ (35,058)</u>	<u>\$ 88,547</u>	<u>\$ 53,489</u>
35	Other Income (Expense)					
36	Interest Income	180	-	180		180
37	Other income	779	-	779		779
38	Interest Expense	-	-	-		-
39	Other Expense	-	-	-		-
40						
41	Total Other Income (Expense)	<u>\$ 959</u>	<u>\$ -</u>	<u>\$ 959</u>	<u>\$ -</u>	<u>\$ 959</u>
42	Net Profit (Loss)	<u>\$ (32,673)</u>	<u>\$ (1,426)</u>	<u>\$ (34,099)</u>	<u>\$ 88,547</u>	<u>\$ 54,448</u>

46 SUPPORTING SCHEDULES:
 47 Rebuttal C-1, Page 2
 48 Rebuttal C-2

RECAP SCHEDULES:
 Rebuttal A-1

ICR Water Users Association
 Test Year Ended December 31, 2006
 Income Statement

Exhibit
 Rebuttal Schedule C-1
 Page 2
 Witness: Bourassa

Line No.	ADJUSTMENT LABEL-->	1	2	3	4	5	Rebuttal Adjusted Results	Proposed Rate Increase	Adjusted with Rate Increase
1	Revenues	\$ 214,863	\$ (219)				\$ 214,643	\$ 88,547	\$ 303,190
2	Metered Water Revenues						53,403		53,403
3	Unmetered Water Revenues						268,047	\$ 88,547	\$ 356,594
4	Other Water Revenues								
5	Operating Expenses								
6	Salaries and Wages	6,388					6,388		6,388
7	Employee Pensions and Benefits	16,239					16,239		16,239
8	Purchased Water								
9	Purchased Power	2,516					2,516		2,516
10	Chemicals	4,946					4,029		4,029
11	Water Testing	14,542			(917)		14,389		14,389
12	Repairs and Maintenance	1,720	(153)				1,720		1,720
13	Contractual Services - Engineering	32,549					32,549		32,549
14	Contractual Services - Accounting	513					513		513
15	Contractual Services - Legal	83,963					86,227		86,227
16	Contractual Services - Other		2,264						
17	Water Testing								
18	Rental of Building/Real Property	3,600					3,600		3,600
19	Rental of Equipment								
20	Transportation Expenses								
21	Telephone	751					751		751
22	Insurance	8,995					8,995		8,995
23	Regulatory Commission Expense - Rate Case	20,000					20,000		20,000
24	Bad Debt Expense								
25	Miscellaneous Expense	235					235		235
26	Depreciation Expense	93,748					93,748		93,748
27	Property Taxes	11,148				12	11,160		11,160
28	Payroll Taxes								
29	Sales Tax Expense								
30	Income Tax								
31		45					45		45
32	Total Operating Expenses	\$ 307,898	\$ (219)	\$ (153)	\$ (917)	\$ 12	\$ 303,105	\$ -	\$ 303,105
33	Operating Income								
34	Other Income (Expense)	(33,632)		153	917	(12)	(35,058)	\$ 88,547	\$ 53,489
35	Interest Income	180					180		180
36	Other Income	779					779		779
37	Interest Expense								
38	Other Expense								
39									
40	Total Other Income (Expense)	\$ 959	\$ -	\$ -	\$ -	\$ -	\$ 959	\$ -	\$ 959
41	Net Profit (Loss)	\$ (32,673)	\$ (219)	\$ 153	\$ 917	\$ (12)	\$ (34,058)	\$ 88,547	\$ 54,448

RECAP SCHEDULES:
 Rebuttal A-1

SUPPORTING SCHEDULES:
 Rebuttal C-2

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 1

Exhibit
Rebuttal Schedule C-2
Page 2
Witness: Bourassa

<u>Line</u> <u>No.</u>			
1	<u>Revenue Annualization</u>		
2			
3			
4	Revenue Annualization per Rebuttal Filing	\$	9,738
5	Revenue Annualization per Direct Filing		9,957
6			
7			
8	Difference	\$	<u>(219)</u>
9			
10			
11			
12	Adjustment to Revenues/Expenses	\$	<u>(219)</u>
13			
14			
15	<u>SUPPORTING SCHEDULE</u>		
16	C-2, pages 2a-2		
17	Staff Adjustment #1 CRM-8		
18			
19			
20			

ICR Water Users Association
 Revenue Annualization to Year End Customers: 5/8 Inch Meter
 Test Year Ended December 31, 2006

Line No.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July
1	334	334	334	334	334	334	334
2	312	313	317	321	332	333	334
3	22	21	17	13	2	1	-
4	\$ 34.62	\$ 31.39	\$ 29.02	\$ 33.02	\$ 51.82	\$ 45.08	\$ 37.66
5	\$ 762	\$ 659	\$ 493	\$ 429	\$ 104	\$ 45	\$ -
6							
7	22	21	17	13	2	1	-
8	\$ 46.65	\$ 42.23	\$ 38.98	\$ 44.47	\$ 72.29	\$ 61.57	\$ 50.81
9	\$ 1,026	\$ 887	\$ 663	\$ 578	\$ 145	\$ 62	\$ -
10	6,864	6,573	5,389	4,173	664	333	-

Line No.	Month of Aug.	Month of Sept.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year
11	334	334	334	334	334	
12	344	334	344	343	339	
13	(10)	(9)	(5)	(1)	-	51
14	\$ 42.40	\$ 33.79	\$ 36.12	\$ 36.42	\$ 36.42	
15	\$ (424)	\$ (304)	\$ (181)	\$ (36)	\$ -	\$ 1,547
16						
17	(10)	(9)	(5)	(1)	-	
18	\$ 57.30	\$ 45.52	\$ 48.71	\$ 49.12	\$ 49.12	\$ 2,085
19	\$ (424)	\$ (304)	\$ (181)	\$ (36)	\$ -	\$ 15,439
20	(3,440)	(3,087)	(1,695)	(335)	-	
21						
22						
23						
24						

ICR Water Users Association
 Revenue Annualization to Year End Customers:
 Test Year Ended December 31, 2006
 1 Inch Meter

Line No.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July
1	20	20	20	20	20	20	20
2	13	16	11	16	18	18	19
3	7	4	9	4	2	2	1
4	\$ 56.25	\$ 58.31	\$ 51.66	\$ 54.38	\$ 75.98	\$ 92.07	\$ 73.36
5	\$ 394	\$ 233	\$ 465	\$ 218	\$ 152	\$ 184	\$ 73
6							
7	7	4	9	4	2	2	1
8	\$ 77.89	\$ 80.72	\$ 71.60	\$ 75.33	\$ 104.91	\$ 126.95	\$ 101.32
9	\$ 545	\$ 323	\$ 644	\$ 301	\$ 210	\$ 254	\$ 101
10	\$ 11,139	\$ 10,252	\$ 92,504	\$ 72	\$ 38	\$ 40	\$ 24

Line No.	Month of Aug.	Month of Sept.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year
11						
12						
13						
14						
15	20	20	20	20	20	
16	20	19	20	24	21	26
17	-	(4)	(1)	2	-	
18	\$ 77.15	\$ 109.76	\$ 72.53	\$ 68.12	\$ 66.38	
19	\$ -	\$ (439)	\$ (73)	\$ 136	\$ -	\$ 1,344
20						
21	-	(4)	(1)	2	-	
22	\$ 106.51	\$ 151.16	\$ 100.19	\$ 94.15	\$ 91.76	\$ 1,862
23	\$ -	\$ (439)	\$ (73)	\$ 136	\$ -	\$ 113,976
24	-	(72)	(20)	-	-	

ICR Water Users Association
 Revenue Annualization / 1 inch Residential Customers to Year End Number of Customers
 Test Year Ended December 31, 2006

Line No.	Month of Jan.	Month of Feb.	Month of March	Month of April	Month of May	Month of June	Month of July
1	10	10	10	10	10	10	10
2	10	10	6	7	8	8	9
3	-	-	4	3	2	2	1
4	\$ 224.12	\$ 279.81	\$ 229.53	\$ 626.84	\$ 458.55	\$ 856.57	\$ 581.24
5	\$ -	\$ -	\$ 918	\$ 1,881	\$ 917	\$ 1,713	\$ 581
6	-	-	-	-	-	-	-
7	\$ 302.10	\$ 390.69	\$ 310.71	\$ 942.71	\$ 675.01	\$ 1,308.15	\$ 870.18
8	\$ -	\$ -	\$ 1,243	\$ 2,828	\$ 1,350	\$ 2,616	\$ 870
9	-	-	103,335	503,187	215,250	499,550	151,445
10	-	-	-	-	-	-	-

Line No.	Month of Aug.	Month of Sept.	Month of Oct.	Month of Nov.	Month of Dec.	Total Year
11	10	10	10	10	10	
12	10	9	10	5	11	
13	-	-	5	(1)	1	17
14	\$ 408.28	\$ 175.12	\$ 289.26	\$ 250.72	\$ 250.72	
15	\$ -	\$ 876	\$ (289)	\$ 251	\$ -	\$ 6,847
16	-	-	-	-	-	
17	\$ 595.04	\$ 234.14	\$ 405.72	\$ 344.42	\$ 344.42	\$ 10,017
18	\$ -	\$ 876	\$ (289)	\$ 251	\$ -	\$ 1,508,161
19	-	-	32,002	(47,164)	50,556	
20	-	-	-	-	-	
21	-	-	-	-	-	
22	-	-	-	-	-	
23	-	-	-	-	-	
24	-	-	-	-	-	

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit
Rebuttal Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	<u>Repairs and Maintenance</u>		
2			
3			
4	Staff Adjusted Repairs and Maintenance (CRM-9)	\$	14,389
5	Repairs and Maintenance per Direct Filing		14,542
6			
7			
8	Difference	\$	<u>(153)</u>
9			
10			
11			
12	Adjustment to Revenues/Expenses	\$	<u>(153)</u>
13			
14			
15	<u>SUPPORTING SCHEDULE</u>		
16	Staff Adjustment #2 CRM-9		
17			
18			
19			
20			

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit
Rebuttal Schedule C-2
Page 4
Witness: Bourassa

<u>Line</u> <u>No.</u>			
1	<u>Contractual Services - Other</u>		
2			
3			
4	Staff Adjusted Contractual Services (CRM-10)	\$	86,227
5	Contractual Services - Other per Direct Filing		83,963
6			
7			
8	Difference	\$	<u>2,264</u>
9			
10			
11			
12	Adjustment to Revenues/Expenses	\$	<u>2,264</u>
13			
14			
15	<u>SUPPORTING SCHEDULE</u>		
16	Staff Adjustment #3 CRM-10		
17			
18			
19			
20			

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 4

Exhibit
Rebuttal Schedule C-2
Page 5
Witness: Bourassa

Line No.			
1	<u>Water Testing</u>		
2			
3			
4	Staff Adjusted Water testing Expense (CRM-11)	\$	4,029
5	Water testing Expense per Direct Filing		4,946
6			
7			
8	Difference	\$	<u>(917)</u>
9			
10			
11			
12	Adjustment to Revenues/Expenses	\$	<u>(917)</u>
13			
14			
15	<u>SUPPORTING SCHEDULE</u>		
16	Staff Adjustment #4 CRM-11		
17			
18			
19			
20			

ICR Water Users Association
 Test Year Ended December 31, 2006
 Adjustment to Revenues and Expenses
 Adjustment Number 5

Exhibit
 Rebuttal Schedule C-2
 Page 6
 Witness: Bourassa

Line No.			
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>		
2			
3	Adjusted Revenues in year ended 12/31/2006	\$	268,047
4	Adjusted Revenues in year ended 12/31/2006		268,047
5	Proposed Revenues		356,594
6			
7	Average of three year's of revenue	\$	297,562
8	Average of three year's of revenue, times 2	\$	595,124
9	Add:		
10	Construction Work in Progress at 10%	\$	-
11	Deduct:		
12	Book Value of Transportation Equipment		-
13			
14	Full Cash Value	\$	595,124
15	Assessment Ratio		23.50%
16	Assessed Value		139,854
17	Property Tax Rate		7.9800%
18			
19	Property Tax		11,160
20	Tax on Parcels		0
21			
22	Total Property Tax at Proposed Rates Rebuttal	\$	11,160
23	Property Taxes per Direct Filing		11,148
24	Change in Property Taxes	\$	12
25			
26			
27	Adjustment to Revenues and/or Expenses	\$	12
28			
29			

ICR Water Users Association
 Revenue Summary
 Test Year Ended December 31, 2006

Line No.	Customer Classification and/or Meter Size	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Additional Bills	Addition Gallons
1	5/8 x 3/4 Inch Residential	\$ 148,282	\$ 207,922	\$ 59,640	40.22%		
2	3/4 Inch Residential	15,942	22,328	6,386	0.00%		
3	1 Inch Residential	39,929	58,391	18,462	40.06%		
4	2 Inch Residential	417	664	246	46.24%		
5	Construction Water	-	-	-	59.07%		
6		-	-	-			
7		-	-	-			
8		-	-	-			
9		-	-	-			
10	Subtotals of Revenues	\$ 204,571	\$ 289,305	\$ 84,734	41.42%		
11		53,403	53,403	-	0.00%		
12	Other Water Revenues						
13							
14							
15	Subtotals of Revenues	\$ 257,974	\$ 342,708	\$ 84,734	32.85%		
16	Revenue Annualizations:						
17	5/8 Inch residential	1,547	2,085	538	34.76%	51	15,439
18	3/4 Inch Residential	1,344	1,862	519	0.00%	-	-
19	1 Inch Residential	6,847	10,017	3,170	38.61%	26	113,976
20	2 Inch Residential	-	-	-	46.29%	17	1,508,161
21	Construction Water	-	-	-	0.00%		
22		9,738	13,964	4,226	43.40%	94	1,637,576
23	Subtotal Revenue Annualization						
24			(335)	(335)	0.00%		
25	Revenue Reconciliation						
26							
27	Total Revenues Per Bill Count	\$ 267,712	\$ 356,337	\$ 88,625	33.10%		
28	With Annualization						
29							
30	Subtotal of Revenues Above w/o Annualization	\$ 257,974					
31	Unadjusted Revenues Per C-1 Direct Filing	\$ 258,309					
32	Difference in Dollars	\$ (335)					
33	Difference in Percentage	-0.13%					
34	Tolerance Allowed by ACC Staff	0.50%					
35							
36							

ICR Water Users Association
 Present and Proposed Rates
 Test Year Ended December 31, 2006

Line No.	Customer Classification and Meter Size	Proposed Rates		
		From Gallons	To Gallons	Percent Change
1				
2				
3	1.5 Inch Meter			
4	Tier 1	20,000	45,000	3.834
5	Tier 2	45,000		4.454
6	Tier 3			
7				
8	2 Inch Meter			
9	Tier 1	32,000	72,000	3.834
10	Tier 2	72,000		4.454
11	Tier 3			
12				
13	3 Inch Meter			
14	Tier 1	64,000	144,000	3.834
15	Tier 2	144,000		4.454
16	Tier 3			
17				
18	4 Inch Meter			
19	Tier 1	100,000	225,000	3.834
20	Tier 2	225,000		4.454
21	Tier 3			
22				
23				
24	6 Inch Meter			
25	Tier 1	200,000	450,000	3.834
26	Tier 2	450,000		4.454
27	Tier 3			
28				
29	Constuction Water		All Gallons	
	Average Usage	149,000		\$ 4.454

$(100/20) * (4,000) =$
 $(100/20) * (9,000) =$
 Average Usage
 $(160/20) * (4,000) =$
 $(160/20) * (9,000) =$
 $(320/20) * (4,000) =$
 $(320/20) * (9,000) =$
 $(500/20) * (4,000) =$
 $(500/20) * (9,000) =$
 $(1000/20) * (4,000) =$
 $(1000/20) * (9,000) =$

ICR Water Users Association
Present and Proposed Rates
Test Year Ended December 31, 2006

Line No.	Meter and Service Line Charges	Present Service Line Charge	Present Meter Installation Charge	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge
1				\$ 250.00	\$ 385.00	\$ 135.00	\$ 520.00
2				250.00	385.00	215.00	600.00
3				300.00	435.00	255.00	690.00
4				450.00	470.00	465.00	935.00
5				625.00	630.00	965.00	1,595.00
6	5/8 x 3/4 Inch			825.00	805.00	1,470.00	2,275.00
7	3/4 Inch			825.00	845.00	2,265.00	3,110.00
8	1 Inch			1,450.00	1,170.00	2,350.00	3,520.00
9	1 1/2 Inch			1,450.00	1,230.00	3,245.00	4,475.00
10	2 Inch Turbo			3,100.00	1,730.00	4,545.00	6,275.00
11	2 Inch Compound			3,100.00	1,770.00	6,280.00	8,050.00
12	3 Inch Turbo			NA	At Cost	At Cost	At Cost
13	3 Inch Compound			NA	At Cost	At Cost	At Cost
14	4 Inch Turbo			NA	At Cost	At Cost	At Cost
15	4 Inch Compound			NA	At Cost	At Cost	At Cost
16	6 Inch Turbo			NA	At Cost	At Cost	At Cost
17	6 Inch Compound			NA	At Cost	At Cost	At Cost
18	8 Inch			NA	At Cost	At Cost	At Cost
19	10 Inch			NA	At Cost	At Cost	At Cost
20	12 Inch			NA	At Cost	At Cost	At Cost
21							
22							
23							
24	Other Charges:						
25							
26	Establishment			\$ 25.00	\$ 25.00		\$ 25.00
27	Establishment (After Hours)			\$ 50.00	\$ 50.00		\$ 50.00
28	Reconnection (Delinquent)			\$ 20.00	\$ 20.00		\$ 20.00
29	Reconnection (Delinquent) after hours			N/A	N/A		\$ 40.00
30	Meter Test						\$ 20.00
31	Deposit				PER RULE		PER RULE
32	Deposit Interest				PER RULE		6.00%
33	Re-establishment (Within 12 months)				PER RULE		PER RULE
34	NSF Check				\$ 15.00		\$ 15.00
35	Deferred Payment				1.5%		1.5%
36	Meter Re-read				\$ 10.00		\$ 10.00
37	Late Fee				(a)		(a)
38							
39							
40							

Establishment (R14-2-403.D.1)	
Establishment (After Hours) (R14-2-403.D.2)	
Meter Test	
Deposit (R14-2-408.F)	
Deposit (R14-2-403.B)	
Deposit Interest (R14-2-403.B.3)	
Re-establishment (R14-2-403.D.1)	
NSF Check	
Deferred Payment (R14-2-409.F.1)	
Meter Re-read (R14-2-409.G.6)	
Meter Re-read (R14-2-408.C.2)	

	\$ 25.00
	\$ 50.00
	\$ 20.00
	\$ 40.00
	\$ 20.00
	PER RULE
	6.00%
	PER RULE
	\$ 15.00
	1.5%
	\$ 10.00
	(a)

	\$ 25.00
	\$ 50.00
	\$ 20.00
	N/A
	PER RULE
	PER RULE
	PER RULE
	\$ 15.00
	1.5%
	\$ 10.00
	(a)

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 5/8 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Exhibit
 Rebuttal Schedule H-4
 Page 1
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 20.00	\$ 26.20	\$ 6.20	31.00%
1,000	20.00	29.18	\$ 9.18	45.92%
2,000	22.80	32.17	\$ 9.37	41.09%
3,000	25.60	35.15	\$ 9.55	37.31%
4,000	28.40	38.14	\$ 9.74	34.28%
5,000	31.20	41.97	\$ 10.77	34.52%
6,000	34.00	45.80	\$ 11.80	34.72%
7,000	36.80	49.64	\$ 12.84	34.89%
8,000	39.60	53.47	\$ 13.87	35.03%
9,000	42.40	57.31	\$ 14.91	35.16%
10,000	45.20	61.76	\$ 16.56	36.64%
12,000	50.80	70.67	\$ 19.87	39.11%
14,000	56.40	79.58	\$ 23.18	41.09%
16,000	62.00	88.48	\$ 26.48	42.72%
18,000	67.60	97.39	\$ 29.79	44.07%
20,000	73.20	106.30	\$ 33.10	45.22%
25,000	87.20	128.57	\$ 41.37	47.44%
30,000	101.20	150.84	\$ 49.64	49.05%
35,000	115.20	173.11	\$ 57.91	50.27%
40,000	129.20	195.38	\$ 66.18	51.22%
45,000	143.20	217.65	\$ 74.45	51.99%
50,000	157.20	239.92	\$ 82.72	52.62%
60,000	185.20	284.46	\$ 99.26	53.60%
70,000	213.20	329.00	\$ 115.80	54.32%
80,000	241.20	373.54	\$ 132.34	54.87%
90,000	269.20	418.08	\$ 148.88	55.30%
100,000	297.20	462.62	\$ 165.42	55.66%

Present Rates:
 Monthly Minimum: \$ 20.00
 Gallons in Minimum 1,000
 Charge Per 1,000 Gallons \$ 2.80

Proposed Rates:
 Monthly Minimum: \$ 26.20
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 4,000 \$ 2.984
 Up to 9,000 \$ 3.834
 Over 9,000 \$ 4.454

Average Usage	7,085	\$ 37.04	\$ 49.96	\$ 12.93	34.90%
Median Usage	4,500	\$ 29.80	\$ 40.05	\$ 10.25	34.41%

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 1 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Exhibit
 Rebuttal Schedule H-4
 Page 2
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ 50.00	\$ 65.50	\$ 15.50	31.00%
1,000	50.00	69.33	\$ 19.33	38.67%
2,000	52.80	73.17	\$ 20.37	38.58%
3,000	55.60	77.00	\$ 21.40	38.49%
4,000	58.40	80.84	\$ 22.44	38.42%
5,000	61.20	84.67	\$ 23.47	38.35%
6,000	64.00	88.50	\$ 24.50	38.29%
7,000	66.80	92.34	\$ 25.54	38.23%
8,000	69.60	96.17	\$ 26.57	38.18%
9,000	72.40	100.01	\$ 27.61	38.13%
10,000	75.20	103.84	\$ 28.64	38.09%
12,000	80.80	111.51	\$ 30.71	38.00%
14,000	86.40	119.18	\$ 32.78	37.94%
16,000	92.00	126.84	\$ 34.84	37.87%
18,000	97.60	134.51	\$ 36.91	37.82%
20,000	103.20	142.18	\$ 38.98	37.77%
25,000	117.20	162.90	\$ 45.70	38.99%
30,000	131.20	185.17	\$ 53.97	41.14%
35,000	145.20	207.44	\$ 62.24	42.87%
40,000	159.20	229.71	\$ 70.51	44.29%
45,000	173.20	251.98	\$ 78.78	45.48%
50,000	187.20	274.25	\$ 87.05	46.50%
60,000	215.20	318.79	\$ 103.59	48.14%
70,000	243.20	363.33	\$ 120.13	49.40%
80,000	271.20	407.87	\$ 136.67	50.39%
90,000	299.20	452.41	\$ 153.21	51.21%
100,000	327.20	496.95	\$ 169.75	51.88%

Present Rates:
 Monthly Minimum: \$ 50.00
 Gallons in Minimum 1,000
 Charge Per 1,000 Gallons
 All gallons \$ 2.80

Proposed Rates:
 Monthly Minimum: \$ 65.50
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 22,500 \$ 3.834
 Over 22,500 \$ 4.454

Average Usage				
9,470	\$ 73.72	\$ 101.81	\$ 28.09	38.11%
Median Usage				
1,500	\$ 51.40	\$ 71.25	\$ 19.85	38.62%

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 2 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Exhibit
 Rebuttal Schedule H-4
 Page 3
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 160.00	\$ 209.60	\$ 49.60	31.00%
1,000	160.00	213.43	\$ 53.43	33.40%
2,000	162.80	217.27	\$ 54.47	33.46%
3,000	165.60	221.10	\$ 55.50	33.52%
4,000	168.40	224.94	\$ 56.54	33.57%
5,000	171.20	228.77	\$ 57.57	33.63%
6,000	174.00	232.60	\$ 58.60	33.68%
7,000	176.80	236.44	\$ 59.64	33.73%
8,000	179.60	240.27	\$ 60.67	33.78%
9,000	182.40	244.11	\$ 61.71	33.83%
10,000	185.20	247.94	\$ 62.74	33.88%
12,000	190.80	255.61	\$ 64.81	33.97%
14,000	196.40	263.28	\$ 66.88	34.05%
16,000	202.00	270.94	\$ 68.94	34.13%
18,000	207.60	278.61	\$ 71.01	34.21%
20,000	213.20	286.28	\$ 73.08	34.28%
25,000	227.20	307.00	\$ 79.80	35.12%
30,000	241.20	329.27	\$ 88.07	36.51%
35,000	255.20	351.54	\$ 96.34	37.75%
40,000	269.20	373.81	\$ 104.61	38.86%
45,000	283.20	396.08	\$ 112.88	39.86%
50,000	297.20	418.35	\$ 121.15	40.76%
60,000	325.20	462.89	\$ 137.69	42.34%
70,000	353.20	507.43	\$ 154.23	43.67%
80,000	381.20	551.97	\$ 170.77	44.80%
90,000	409.20	596.51	\$ 187.31	45.77%
100,000	437.20	641.05	\$ 203.85	46.63%
150,000	577.20	863.75	\$ 286.55	49.64%
200,000	717.20	1,086.45	\$ 369.25	51.48%
250,000	857.20	1,309.15	\$ 451.95	52.72%
300,000	997.20	1,531.85	\$ 534.65	53.62%
350,000	1,137.20	1,754.55	\$ 617.35	54.29%
400,000	1,277.20	1,977.25	\$ 700.05	54.81%
450,000	1,417.20	2,199.95	\$ 782.75	55.23%
500,000	1,557.20	2,422.65	\$ 865.45	55.58%
Average Usage				
82,182	\$ 387.31	\$ 561.69	\$ 174.38	45.02%
Median Usage				
22,500	\$ 220.20	\$ 295.87	\$ 75.67	34.36%

Present Rates:
 Monthly Minimum: \$ 160.00
 Gallons in Minimum 1,000
 Charge Per 1,000 Gallons
 All Gallons \$ 2.80

Proposed Rates:
 Monthly Minimum: \$ 209.60
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 22,500 \$ 3.834
 Over 22,500 \$ 4.454

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification Construction Water
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Exhibit
 Rebuttal Schedule H-4
 Page 4
 Witness: Bourassa

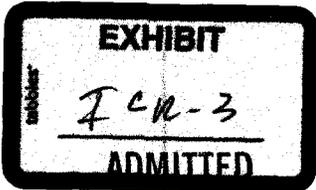
<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ -	\$ -	\$ -	0.00%
1,000	2.80	4.45	1.65	59.07%
2,000	5.60	8.91	3.31	59.07%
3,000	8.40	13.36	4.96	59.07%
4,000	11.20	17.82	6.62	59.07%
5,000	14.00	22.27	8.27	59.07%
6,000	16.80	26.72	9.92	59.07%
7,000	19.60	31.18	11.58	59.07%
8,000	22.40	35.63	13.23	59.07%
9,000	25.20	40.09	14.89	59.07%
10,000	28.00	44.54	16.54	59.07%
12,000	33.60	53.45	19.85	59.07%
14,000	39.20	62.36	23.16	59.07%
16,000	44.80	71.26	26.46	59.07%
18,000	50.40	80.17	29.77	59.07%
20,000	56.00	89.08	33.08	59.07%
25,000	70.00	111.35	41.35	59.07%
30,000	84.00	133.62	49.62	59.07%
35,000	98.00	155.89	57.89	59.07%
40,000	112.00	178.16	66.16	59.07%
45,000	126.00	200.43	74.43	59.07%
50,000	140.00	222.70	82.70	59.07%
60,000	168.00	267.24	99.24	59.07%
70,000	196.00	311.78	115.78	59.07%
80,000	224.00	356.32	132.32	59.07%
90,000	252.00	400.86	148.86	59.07%
100,000	280.00	445.40	165.40	59.07%

Present Rates:
 Monthly Minimum: \$ -
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 2.80

Proposed Rates:
 Monthly Minimum: \$ -
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 4.454

Average Usage				
149,000	\$ 417.20	\$ 663.65	\$ 246.45	59.07%
Median Usage				
74,500	\$ 208.60	\$ 331.82	\$ 123.22	59.07%

EXHIBIT B



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION
OF ICR WATER USERS ASSOCIATION,
INC. FOR DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICES

DOCKET NO. W-02824A-07-0388

REBUTTAL TESTIMONY OF
ROBERT M. BUSCH
ON BEHALF OF ICR WATER USERS ASSOCIATION
DECEMBER 14, 2007

Sne Wilmer
LP
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-7202
(602) 382-6000

1 I. INTRODUCTION.

2 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3 A. My name is Robert M. Busch. My business address is P.O. Box 5669, Chino
4 Valley, AZ 86323.

5 Q. WHERE ARE YOU EMPLOYED AND WHAT ARE YOUR
6 RESPONSIBILITIES?

7 A. I work for MDI Financial Services as the Water Company Manager. MDI
8 Financial Services is the management company of ICR Water Users Association
9 ("ICR" or "Company"). I have been working for ICR since May of 2005. My
10 responsibilities include the following: approving invoices for payment, preparing
11 water use summaries and analysis for the Company's Board of Directors,
12 authorizing expenditures for repairs and maintenance up to \$2,000, handling
13 customer inquiries and complaints, reviewing financial reports, attending regular
14 Board meetings and reporting monthly water company activities, preparing
15 annual operating budget and annual reconciliation of expenses due from the
16 developers, and consulting with the certified operator on maintenance and
17 operational issues.

18 Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL
19 BACKGROUND?

20 A. I obtained an undergraduate degree in Mathematics at the University of Denver,
21 and subsequently graduated from a one-year specialized engineering program at
22 the University of Colorado.

23 In addition to providing management services to ICR, I also provide
24 management services to Granite Oaks Water Users Association. For three years,
25 from 2000 to 2003, I served as the President of the Board of Directors of Granite
26 Oaks Water Users Association. Prior to this, I was employed by US West (now
27 Qwest) for over 25 years, with my last position being the Director of Real Estate
28 and Support Services.

1 Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

2 A. I am testifying on behalf of ICR, in support of the proposed rate increase.

3 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE COMMISSION?

4 A. No, this is my first time.

5 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS
6 PROCEEDING?

7 A. The purpose of my rebuttal testimony is to provide an update of the Company's
8 compliance status with the Arizona Department of Environmental Quality
9 ("ADEQ"). I also will briefly address the contractual relationship between the
10 golf course and the Company. I will also respond to some of the
11 recommendations made by the Arizona Corporation Commission
12 ("Commission") Staff in their direct testimony.

13
14 **II. SUMMARY.**

15 Q. PLEASE PROVIDE A SUMMARY OF YOUR REBUTTAL TESTIMONY.

16 A. My rebuttal testimony addresses the following:

17 (1) In response to the discussion in Staff's engineering report about ICR's non-
18 compliance with ADEQ reporting requirements, ICR is currently in
19 compliance with ADEQ MRDL reporting requirements and expects to be in
20 compliance with ADEQ lead and copper requirements early next year.

21 (2) In response to Staff's recommendation relating to ADEQ compliance, ICR
22 agrees that ADEQ compliance should be a condition of the Commission's
23 decision, but should not be a condition that needs to be met before the new
24 rates can go into effect. As detailed below, ICR has no control over when
25 ADEQ's compliance database will be appropriately updated despite providing
26 the required information.

27 (3) In response to Staff's testimony relating to the water delivered to the golf
28 course, ICR does not sell water to the golf course. ICR, however, does deliver

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water to the golf course per the Well Agreement. Under the Well Agreement, the golf course pays wheeling charges and a pro rata share of the operation, maintenance and repair expenses of the water system to ICR.

(4) In response to the recommendation made in Staff's engineering report about separating water use data in future annual reports, ICR seeks clarification of this recommendation.

III. ADEQ COMPLIANCE.

Q. WOULD YOU SUMMARIZE THE COMPANY'S COMPLIANCE STATUS WITH ADEQ AS OF JUNE 26, 2007, THE DATE OF THE RATE APPLICATION?

A. Yes. As a matter of background, the Company operates two water systems—Inscription Canyon Ranch system (PWS #13-303) and the Talking Rock Ranch system (PWS # 13-263). My company has managed both systems since the second quarter of 2005. Although not interconnected, both systems originally operated under one ADEQ public water system number until ADEQ requested that the systems be assigned two different numbers. As such, the Talking Rock Ranch system was assigned a separate public water system number in the first quarter of 2006.

For the Inscription Canyon Ranch system, ADEQ indicated that the quarterly Maximum Residual Disinfection Level ("MRDL") reports and the two consecutive six-month lead and copper monitoring reports were not completed and submitted. Also, the Company was only providing five lead and copper samples per monitoring period, instead of twenty.

For the Talking Rock Ranch system, ADEQ indicated that the quarterly MRDL reports and the two consecutive six-month lead and copper monitoring reports were not completed and submitted.

- 1 Q. SO IS IT YOUR UNDERSTANDING THAT COMPANY'S COMPLIANCE
2 DEFICIENCIES ACCORDING TO ADEQ ONLY RELATE TO MRDL
3 AND LEAD AND COPPER REPORTING?
4
5 A. Yes, those are the only two ADEQ compliance issues that the Company is aware
6 of.
7
8 Q. CAN YOU PROVIDE AN UPDATE REGARDING THE COMPANY'S
9 COMPLIANCE WITH MRDL REPORTING?
10
11 A. Yes, the Company has provided ADEQ with the required quarterly MRDL reports
12 for both of its systems on two separate occasions. The Company first filed each
13 of the MRDL reports when they were originally due (after each quarter in 2005,
14 2006, and 2007). When the Company requested and received an ADEQ
15 compliance status report, dated April 4, 2007, to submit as an exhibit to the rate
16 application, ICR learned that ADEQ's database showed that the Company did not
17 submit the majority of its MRDL reports. Within thirty days of learning this (by
18 May 2007), the Company resubmitted all MRDL reports for the Inscription
19 Canyon Ranch system and Talking Rock Ranch system via certified mail to
20 ADEQ.
21
22 Staff Witness Jian Liu's direct testimony, filed November 30, 2007, stated
23 that ADEQ's compliance database still showed that the Company was not in
24 compliance with ADEQ MRDL reporting requirements. Concerned by the fact
25 that ADEQ's database was still not updated after six months of resubmitting all of
26 its MRDL reports (and in some instances, years after the reports were originally
27 submitted), the Company contacted the Drinking Water Monitoring and
28 Protection Unit of ADEQ to determine its compliance status. According to
ADEQ, the Company is now in complete compliance with all MRDL reporting
requirements. ADEQ only recently updated ICR's MRDL compliance status on
December 6, 2007. The Company will obtain a copy of this compliance update
and file it with the Commission upon receipt.

- 1 Q. CAN YOU PROVIDE AN UPDATE REGARDING THE COMPANY'S
2 COMPLIANCE WITH LEAD AND COPPER TESTING?
- 3 A. Yes, as stated in the Company's rate application in this matter, the Company
4 initiated a plan to complete two consecutive lead and copper testing, six-months
5 apart, for both systems by January 2008. The testing consists of collecting 30
6 water samples taken at the same time of day from 30 different customers. This
7 plan was developed with input from ADEQ and pursuant to ADEQ requirements.
8 The Company completed the first round of testing in June 2007. The second
9 round of testing will be completed this month, December 2007. The results of the
10 second round of tests will be available to the Company in January 2008, which
11 will be provided to ADEQ. The Company expects that the lead and copper test
12 results will meet ADEQ standards.
- 13 Q. DOES THE COMPANY AGREE WITH STAFF'S RECOMMENDATION
14 TO STAY THE RATE INCREASE UNTIL THE COMPANY IS IN
15 COMPLIANCE WITH ADEQ?
- 16 A. The Company is not objecting to be in compliance with ADEQ requirements, but
17 proposes a modification to Staff's recommendation.
- 18 Q. WHAT DOES THE COMPANY PROPOSE INSTEAD?
- 19 A. The Company proposes that it should file, as a compliance item, within one year
20 of the decision date in this matter, documentation from ADEQ demonstrating that
21 the Company is in compliance with ADEQ. This alternative is appropriate in this
22 case and is consistent with prior Commission decisions.
- 23 Q. WHY IS THE COMPANY'S REVISED RECOMMENDATION MORE
24 SUITABLE IN THIS CASE?
- 25 A. The Company believes that it is currently delivering safe and reliable water to its
26 customers, and is working with ADEQ to make sure that all reporting
27 requirements are met. The Company has already satisfied ADEQ's MRDL
28 reporting requirements, but as stated above, the lead and copper testing reports

1 will not be available to send to ADEQ until January 2008. Once sent to ADEQ
2 early next year, the Company has no control over how long it will take ADEQ to
3 update its compliance database. As indicated above, it took ADEQ six months
4 (an in some instances, years) to update the Company's MRDL compliance status
5 even though the Company submitted its MRDL reports on two different
6 occasions. As a result, ICR fears that its new rates will be delayed for an
7 inordinate amount of time because the ADEQ compliance database will not be
8 timely or accurately updated with ICR's lead and copper testing.

9 **IV. GOLF COURSE WATER.**

10 **Q. DO YOU AGREE WITH THE STATEMENT IN THE DIRECT**
11 **TESTIMONY OF STAFF WITNESS CHARLES MYHLHOUSEN THAT**
12 **THE "GOLF COURSE DOES NOT RECEIVE OR PURCHASE ANY**
13 **WATER FROM ICR"?**

14 **A.** In part. The Company wants to make sure that Mr. Myhlhousen's statement is
15 not interpreted incorrectly. It is true that ICR does not sell water to the golf
16 course. Pursuant to the Well Agreement between ICR, the golf course and
17 developer of Talking Rock Ranch, there are three wells within the Talking Rock
18 Ranch subdivision that supply water to ICR's customers and the golf course. The
19 golf course owns two of these wells and ICR owns the third. ICR, as the water
20 company, pumps and delivers the water from the wells to the golf course.

21 **Q. DOES THE GOLF COURSE PAY FOR THE DELIVERY OF THIS**
22 **WATER?**

23 **A.** Yes. Pursuant to the Well Agreement, the golf course pays ICR a wheeling
24 charge for the delivery of water to the golf course. The golf also pays for a pro
25 rata share of the operation, maintenance and repair expenses for the water system
26 each month, which is subject to a true-up at the end of the year.

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V. WATER USE DATA.

Q. DO YOU AGREE WITH STAFF'S RECOMMENDATION REQUIRING ICR TO SEPARATE OUT THE WATER USE DATA IN FUTURE ANNUAL REPORTS?

A. ICR does not necessarily object to Staff's recommendation but requests clarification from Staff. The Company wants to make sure that it is able to provide the data requested. Currently, the Company can provide the following information on a monthly basis:

- (1) amount of water pumped from each system;
- (2) amount of water pumped to the golf course;
- (3) amount of water used by the developer of the Talking Rock Ranch subdivision for construction;
- (4) amount of water used by customers (excluding the golf course)
- (5) amount of water unaccounted for; and
- (6) total number of customers.

ICR can also provide a plant summary for both systems on an annual basis. If Staff agrees that the information above satisfies their requirements, then ICR has no objection to Staff's recommendation.

VI. CONCLUSION.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes.



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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IN THE MATTER OF THE APPLICATION
OF ICR WATER USERS ASSOCIATION,
INC. FOR DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICES

DOCKET NO. W-02824A-07-0388

SUPPLEMENTAL REBUTTAL TESTIMONY OF
ROBERT M. BUSCH
ON BEHALF OF ICR WATER USERS ASSOCIATION, INC.
IN RESPONSE TO INTERVENOR DAYNE TAYLOR'S
DIRECT TESTIMONY

MARCH 14, 2008

Snell & Wilmer

LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

- 1 **I. INTRODUCTION.**
- 2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**
- 3 A. My name is Robert M. Busch. I have been contracted by ICR Water Users
4 Association, Inc. (“ICR” or “Association”) to be the Association’s manager. My
5 business address is P.O. Box 5669, Chino Valley, AZ 86323.
- 6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
7 **PROCEEDING?**
- 8 A. Yes, I submitted Rebuttal Testimony on December 14, 2007. My Rebuttal
9 Testimony addressed issues raised by Arizona Corporation Commission
10 (“Commission”) Staff’s direct testimony in this matter.
- 11 **Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL REBUTTAL**
12 **TESTIMONY?**
- 13 A. At the January 8, 2008 hearing, Administrative Law Judge Marc E. Stern granted
14 Mr. Dayne Taylor’s intervention, reset the hearing, and issued a new procedural
15 schedule, which ordered Mr. Taylor to file direct testimony and ICR and
16 Commission Staff to file rebuttal testimony. My Supplemental Rebuttal Testimony
17 responds to Mr. Taylor’s direct testimony as it relates to (1) the Association’s
18 compliance with Decision No. 64360, (2) the Talking Rock Ranch (“TRR”) water
19 system infrastructure, (3) the need for a rate increase, (4) water priority, and (5) the
20 contractual relationship between ICR, the TRR developer, and the TRR golf
21 course.
- 22 **Q. PLEASE PROVIDE AN OUTLINE OF YOUR TESTIMONY.**
- 23 A. I first provide background information regarding Decision No. 64360. I discuss
24 why the member-owned Association believed it was in compliance with Decision
25 64360 based upon its compliance filings. I then discuss the Well Agreement,
26 which was executed in 2003 by the Association, the TRR developer—Harvard
27 Investments (“Harvard”), and the TRR golf course. Specifically, I discuss how the
28 Well Agreement establishes the identity and timeframe of the wells to be

1 transferred to ICR and the charges to be paid by the TRR golf course for the water
2 delivered to the golf course by ICR. Given that Harvard and the TRR golf course
3 are not customers of ICR, I explain that the Well Agreement, not the Association's
4 tariff, governs the relationship between ICR, Harvard, and the TRR golf course. I
5 explain why even though Mr. Taylor asserts that the TRR water system is
6 oversized, that fact has no bearing on the Association's need for a rate increase.
7 Finally I explain how ICR's residential water customers have priority over the golf
8 course and construction water demand.

9 **II. COMPLIANCE WITH DECISION NO. 64360.**

10 **A. SUMMARY OF COMPLIANCE.**

11 **Q. PLEASE SUMMARIZE DOCKET NO. W-02824A-01-0450 AND ITS
12 RESULTING DECISION, DECISION NO. 64360.**

13 **A.** In 2001, ICR filed for approval to extend its certificate of convenience and
14 necessity ("CC&N") to serve the subdivision known as Talking Rock Ranch or
15 TRR. The Commission approved the extension in Decision 64360 with certain
16 conditions. Decision 64360 required Harvard to convey two wells to ICR to ensure
17 that the Association had adequate water for its customers and control over its own
18 water supply. ICR was required to file a copy of the relevant documents
19 transferring the ownership of the wells within 365 days of the Decision date. The
20 Commission also required ICR to file copies of Harvard's Arizona Department of
21 Water Resources Water Adequacy Report for Phase I of TRR, Harvard's
22 Certificate of Approval to Construct with the appropriate Main Extension
23 Agreement, and ICR's Yavapai County franchise within 365 days of the Decision
24 date. The Decision also contained the standard language that required the
25 Association to charge its existing rates and charges to its customers in the
26 extension area.

27
28

1 Q. DID ICR COMPLY WITH DECISION 64360?

2 A. ICR believed that it was in compliance with Decision 64360. The required copies
3 of the Water Adequacy Report, Approval to Construct, and franchise were filed
4 within 365 days of the Decision date. The Association requested—and the
5 Commission granted—a short extension of the deadline to file the relevant
6 documents relating to the transfer of the wells to ICR and an amendment to the
7 Main Extension Agreement. Before the extension deadline, the Association
8 docketed with the Commission the Well Agreement and First Amendment to the
9 Main Extension Agreement, both dated February 25, 2003. See Docket No. W-
10 02824A-01-0450. Both agreements set forth which wells were to be transferred to
11 ICR and the timeframe for such transfer. The Well Agreement also set forth the
12 relationship between ICR, Harvard, and the TRR golf course. In particular, the
13 Well Agreement specified that the TRR golf course would be charged a wheeling
14 charge for the water delivered to the golf course from all three wells in the TRR
15 well field as well as its share of the operating and maintenance (“O&M”) expenses
16 associated with the TRR water system. The Commission Staff approved ICR’s
17 Main Extension Agreement and First Amendment to the Main Extension
18 Agreement on September 26, 2003. See Supplemental Rebuttal Exhibit 1 attached.
19 The Commission did not file any comments or objections to the Well Agreement.
20 Given that (1) the Association docketed the Well Agreement and First Amendment
21 to the Main Extension Agreement with the Commission and (2) Commission Staff
22 approved the Main Extension Agreement and First Amendment to the Main
23 Extension Agreement, ICR reasonably believed that it had fully complied with
24 Decision 64360.

25 B. SUMMARY OF THE WELL AGREEMENT PROVISIONS WHICH
26 ARE RELEVANT TO THIS PROCEEDING.

27 Q. PLEASE DESCRIBE THE WELL AGREEMENT.

28

1 A. As stated above, the Commission required Harvard to convey two of its wells to
2 ICR in Decision 64360. To meet that condition, ICR, Harvard, and the TRR golf
3 course entered into negotiations to mutually determine which wells were to be
4 transferred to the Association and the timeframe for such transfer. The parties'
5 negotiations resulted in the Well Agreement, which was executed on February 25,
6 2003 and docketed with the Commission, as a compliance item to Decision 64360,
7 on March 7, 2003. See Well Agreement, attached to T. Bourassa Supplemental
8 Rebuttal Testimony, dated March 14, 2008 ("Bourassa Suppl. Rebuttal T."), at
9 Supplemental Rebuttal Exhibit 1.

10 **Q. PER THE WELL AGREEMENT, WHICH WELLS WERE TO BE**
11 **TRANSFERRED TO THE ASSOCIATION AND WHEN?**

12 A. There are three wells in the TRR well field identified as Production Wells Nos. 1,
13 2, and 3. Under the Well Agreement, Harvard agreed to transfer Production Well
14 No. 3 to ICR upon the Commission's approval of the Main Extension Agreement
15 and First Amendment to the Main Extension Agreement. Commission Staff
16 approved the Main Extension and First Amendment to the Main Extension
17 Agreement on September 26, 2003. Harvard executed a bill of sale transferring the
18 ownership of Production Well No. 3 to ICR and recorded it with Yavapai County
19 on October 28, 2003.

20 Under the Well Agreement, Harvard transferred Production Wells No. 1 and
21 2 immediately to the TRR golf course. These two wells are also referred to as the
22 golf course wells. Based upon the Association's need for domestic water, the Well
23 Agreement and the First Amendment to the Main Extension Agreement set forth
24 that the TRR golf course would transfer Production Well No. 2 to ICR upon ICR
25 serving its 800th connection. The Well Agreement allows ICR to withdraw up to
26 554 acre-feet of water from its well(s) annually. As a practical matter, the water
27 may come from any of the three wells. The Commission approved the First
28 Amendment to the Main Extension Agreement and did not object to the Well

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Agreement. Given these facts, the member-owned Association was under the belief that it was in compliance with Decision 64360.

Q. DOES PRODUCTION WELL NO. 3 PROVIDE AN ADEQUATE WATER SUPPLY TO ICR'S CUSTOMERS RESIDING IN TRR TODAY?

A. Yes. ICR's well produces enough water to serve the domestic demand in the TRR subdivision today and for some time in the future. In 2006, only 16 percent of the water pumped from ICR's well was delivered to its customers. In addition, there is a 300,000 gallon storage tank in the TRR water system, which stores water to be delivered either the Association's customers or the golf course.

Q. HAS THERE BEEN ANY WATER SHORTAGES IN TRR TO DATE?

A. No.

Q. PLEASE EXPLAIN THE WHEELING CHARGE AND THE O&M EXPENSES THAT HARVARD AND THE TRR GOLF COURSE ARE RESPONSIBLE TO PAY FOR UNDER THE WELL AGREEMENT.

A. Under the Well Agreement, the wheeling charge is a fee for every acre-foot of water that is delivered from all three wells in the TRR well field, regardless of ownership, to the golf course. Based upon the percentage of water pumped from the ICR well (Production Well No. 3) that is delivered to the golf course, the golf course pays that same percentage of O&M expenses attributable to the TRR water system. For example, in 2006 the golf course received approximately 84 percent of the water pumped from the ICR well. The golf course, in turn, owed 84 percent of the O&M expenses of the TRR water system. In paying its share of expenses, the golf course sends monthly payments to ICR and also makes one final true-up payment after the end of the year. In 2006, the golf course also paid 100 percent of the electric power costs from all three wells and two pump stations, which are separate from the O&M expenses it pays. Although the golf course paid for all power costs in 2006, this might not continue since some of these costs are attributable to ICR residential customers.

- 1 Q. SHOULD HARVARD AND THE TRR GOLF COURSE BE CHARGED
2 THE TARIFF RATES INSTEAD OF THE CHARGES SPECIFIED IN THE
3 WELL AGREEMENT?
- 4 A. No. Harvard and the TRR golf course are not customers of ICR, so ICR's tariff
5 rates do not apply. The Well Agreement, instead, governs the relationship between
6 ICR, Harvard, and the golf course. Pursuant to the Well Agreement, in exchange
7 for the transfer of the wells and other infrastructure built and financed by Harvard,
8 ICR agreed to deliver water from the wells currently owned by the golf course
9 (Production Wells Nos. 1 and 2) and the unused production capacity of the ICR
10 well (Production Well No. 3) to the golf course. This arrangement is no different
11 than a typical well sharing agreement, which in my general understanding, the
12 Commission does not need to approve.
- 13 Q. WAS IT REASONABLE FOR ICR TO ENTER INTO THE WELL
14 AGREEMENT WITH HARVARD AND TRR GOLF?
- 15 A. Yes. Under the terms of the Well Agreement, Harvard agreed to transfer
16 Production Well No. 3 to ICR at no upfront cost to ICR. The TRR golf course also
17 will be transferring Production Well No. 2 to ICR at no upfront cost to ICR. In
18 exchange for these wells, the parties agreed that ICR would deliver the water from
19 the wells currently owned by the golf course (Production Well Nos. 1 and 2) and
20 the unused production capacity from the ICR well (Production Well No. 3) to the
21 golf course. The golf course would then be charged a wheeling charge and its pro
22 rata share of the O&M expenses attributable to the TRR water system. Harvard
23 and the TRR golf course also agreed to have a secondary right to the Association's
24 domestic customers during emergencies. The golf course also agreed to pay for the
25 pumping power costs for the three wells in the TRR well field, despite some of
26 these costs being attributable to ICR's residential customers. In light of these
27 promises and exchanges, it was reasonable for ICR to enter into this valid Well
28 Agreement.

1 Q. DOES ICR TREAT THE GOLF COURSE AS A CUSTOMER?

2 A. No. There are a variety of differences between the TRR golf course and ICR's
3 customers. ICR and the TRR golf course have entered into the Well Agreement.
4 ICR does not have any well sharing agreements with its residential customers. The
5 Well Agreement sets forth the relationship between the golf course and ICR,
6 including charges and reimbursements.

7 In addition, ICR sends out different invoices to the TRR golf course, namely
8 invoices relating to O&M expenses. Although ICR bills the golf course monthly
9 for wheeling charges, which the golf course pays on a monthly basis, the golf
10 course also sends an additional monthly payment to ICR for its monthly pro rata
11 share of the O&M expenses. At the end of the year, ICR sends an invoice to the
12 golf course to true-up the O&M expenses owed for the year.

13 Another difference is that the golf course pays for the pumping power costs
14 for the three wells in the TRR well field, the TRR pumping station, and the Double
15 Adobe pumping station. ICR's residential customers do not pay for power costs.

16 Q. WOULD ICR HAVE CONCERNS IF THE COMMISSION DECIDES TO
17 TREAT THE TRR GOLF COURSE AS A CUSTOMER, REQUIRING THE
18 PAYMENT OF TARIFF RATES FOR WATER?

19 A. Yes. ICR would have several concerns with such an outcome. If the Commission
20 treats the golf course as a customer of ICR, then it would require the golf course to
21 pay the tariff rates and impute fictitious revenue from the golf course to the Test
22 Year. This would be disastrous for the Association and its members, including Mr.
23 Taylor. It is my understanding that there is no legal obligation on the part of the
24 golf course to pay such rates. So even if such revenue is imputed, ICR will not be
25 receiving this revenue. Given the Association's need for a rate increase, these
26 actions could result in the Association going bankrupt. In addition, this action
27 could lead to a breach of the Well Agreement and legal action against ICR by
28 Harvard and the TRR golf course for attempting to charge tariff rates.

1 If Commission Staff proposes to impute fictitious revenue from the golf
2 course in the Test Year, an assumption has been made that Harvard and the TRR
3 golf course would be willing to pay tariff rates going forward. ICR is sure that
4 would not be the case. ICR believes Harvard and the TRR golf course would
5 exercise other options, some of which are discussed below. Imputing revenue also
6 results in other customer rates being reduced. With a decrease in revenue, the
7 Association would not remain viable.

8 By attempting to void the Well Agreement, the following could result:

9 (1) The golf course may decrease or eliminate its use of water from the ICR
10 well and look for another water source. Under the Well Agreement, this would
11 result in a depletion of the golf course's reimbursement to ICR for O&M expenses
12 and payment for wheeled water. Any diminished reimbursement means that these
13 expenses would be passed on to customers, but customer rates going forward
14 would recover little, if any, of those additional costs. The loss of reimbursement
15 also would further deteriorate ICR's financial position. Under the tariff rates, ICR
16 would not receive any revenue from the golf course and customer rates would be
17 grossly understated. For example, ICR accounting witness Thomas Bourassa
18 testifies that if ICR receives no revenue from the golf course, then customer rates
19 would be increased approximately 70 percent. *See* Bourassa Suppl. Rebuttal T. at
20 29-30, Proforma Schedule A-1.

21 (2) If ICR were to charge the golf course residential tariff rates in addition to
22 expenses the golf course is responsible for under the Well Agreement, the
23 Association may be subjected to a protracted legal battle with Harvard and the golf
24 course over the validity of the Well Agreement and/or the golf course's
25 unwillingness to pay the ICR tariff rates. ICR would incur significant legal costs in
26 this scenario, which it cannot afford.

1 **IV. TRR WATER SYSTEM INFRASTRUCTURE.**

2 **Q. WOULD YOU LIKE TO RESPOND TO INTERVENOR TAYLOR'S**
3 **ASSERTION THAT THE ASSOCIATION'S INFRASTRUCTURE TO**
4 **SERVE TRR IS OVERSIZED?**

5 **A.** Yes. His assertion is misleading and has no bearing on the present rate case. Mr.
6 Taylor cannot just look at the water system infrastructure as being designed solely
7 for domestic use. It was not. The system was designed to deliver water to
8 residential customers, the golf course, and for fire protection. Throughout the TRR
9 water system, several 10 inch lines were installed to accommodate the amount of
10 water required for fire hydrants in the event of a fire emergency. There is one 12
11 inch transmission line from the TRR well field to the TRR pump station.
12 Assuming that a 12 inch line, instead of a 10 inch line, was required because of the
13 golf course, Mr. Bourassa has testified that the affect of any over sizing of this line
14 on rates is negligible. See Bourassa Suppl. Rebuttal T. at 20. Furthermore, the
15 Commission approved the construction of the current water system when it
16 approved the Main Extension Agreement and First Amendment of the Main
17 Extension Agreement and extended the Association's CC&N to serve customers
18 living in TRR.

19 **V. RATE INCREASE.**

20 **Q. IS A RATE INCREASE NECESSARY AT THIS TIME?**

21 **A.** Yes. The Commission has not increased rates for ICR since the rates were first set
22 in 1995. As the manager of the member-owned Association, I know first hand that
23 the current rates no longer provide a sufficient operating margin to keep the
24 Association viable for the long term. Mr. Bourassa previously provided detailed
25 testimony regarding the necessary operating margin and revenue requirement the
26 Association requires to remain viable, and I defer to him for the specifics. I note
27 also that the current rate structure is not tiered to promote water conservation,
28 which I know is important to the Commission.

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VI. WATER PRIORITY.

Q. PLEASE RESPOND TO INTERVENOR TAYLOR'S ASSERTION THAT THE ASSOCIATION'S RESIDENTIAL CUSTOMERS DO NOT HAVE PRIORITY OF THE WATER FROM THE TRR WELLS.

A. Mr. Taylor is incorrect. Paragraphs 14(j) and 15(f) of the Well Agreement specify that the Association's residential customers have priority over the golf course and construction water demand in times of emergency. Because of this priority, the Association's residential customers have the security of having an available water supply during emergencies.

Last summer, the golf course also installed a sensor at the golf course meter. The sensor closes off the delivery line to the golf course if there is a loss of pressure in the TRR water system. This ensures that the ICR would have enough water for fire and customer needs.

Q. IS THE DOMESTIC WATER PRIORITY ONLY FOR WATER PUMPED FROM THE ASSOCIATION'S WELL OR ALL THREE PRODUCTION WELLS IN THE TRR WELL FIELD?

A. The water priority applies to all three production wells in the TRR well field.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

8626956.4

SUPPLEMENTAL REBUTTAL

EXHIBIT 1

COMMISSIONERS
MARC SPITZER - Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON



Brian C. McNeal
Executive Secretary

ARIZONA CORPORATION COMMISSION

SEP 26 2003

September 24, 2003

Mr. Michael T. Hallam
Lewis and Roca LLP
40 North Central Avenue
Phoenix, Arizona 85004-4429

Dear Mr. Hallam:

The enclosed Main Extension Agreement between ICR Water Company and Harvard Simon I, LLC, has met the provisions of A.A.C. R14-2-406, or company approved tariffs, and is approved, excepting those provisions, if any, not within the jurisdiction of the Arizona Corporation Commission.

A copy of this agreement will remain on file in the Utilities Division's Central Files.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Fisher", written over a large, faint, circular stamp or watermark.

Jim Fisher
Executive Consultant
Utilities Division

JEF:hml

Enclosures

cc: Brian Bozzo

FIRST AMENDMENT TO MAIN EXTENSION AGREEMENT

25th THIS FIRST AMENDMENT TO MAIN EXTENSION AGREEMENT is made this day of February, 2003, by and between ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Company"), and HARVARD SIMON I, L.L.C., an Arizona corporation ("Developer"), for the purposes and consideration hereinafter set forth.

RECITALS

A. Company and Developer previously entered into that certain Main Extension Agreement, dated March 5, 2001 ("the Agreement"), pertaining to the extension of water utility service to 3470 acres of real property generally situated in Yavapai County, Arizona ("the Property").

B. Subsequent to execution of the Agreement, on January 15, 2002 the Arizona Corporation Commission ("Commission") issued Decision No. 64360 extending Company's CC&N conditioned upon Developer transferring ownership of certain wells and related water production facilities to the Company.

C. Based on the Commission's Order, the parties desire to amend and modify certain provisions of the Agreement, as set forth below.

NOW, THEREFORE, in consideration of the following covenants and agreements, and other good and valuable consideration, Company and Developer hereby agree to amend the Agreement, as follows:

1. Amendment to Agreement.

(a) Off-Site Facilities. Paragraph 1(a) of the Agreement is amended to provide that the "Facilities" include two production wells that have been installed and constructed by Developer and are described as Production Well 3 and Production Well 2 in that Well Agreement to be executed by Company, Developer and Talking Rock Golf, L.L.C. concurrently with the execution of this Agreement (the "Well Agreement"). A Revised Exhibit "C" reflecting the actual costs of the two production wells is attached hereto and incorporated herein by this reference.

(b) Utility's Use of the Facilities. Paragraph 1(b) of the Agreement is amended to provide that Company covenants and agrees that Company shall use and operate the production wells installed and constructed by Developer and transferred to Company pursuant to the Well Agreement only in accordance with the use restrictions contained in the Well Agreement and the conditions and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona, pursuant to which Developer's affiliate acquired the location of the production wells.

(c) Transfer of Ownership. Paragraph 5(a) of the Agreement is amended to provide that, pursuant to the Well Agreement, (i) immediately after the approval of this First

Amendment by the Commission or its staff, Developer will transfer and convey Production Well 3 to the Company, via Bill of Sale in form attached to the Well Agreement; and (ii) on or before the date that the Company provides water service to the 800th single-family residence at the Property, Developer's affiliate, Talking Rock Golf, will transfer and convey Production Well 2 to the Company, via Bill of Sale in form attached to the Well Agreement. All other Facilities shall be conveyed in accordance with the terms of the Agreement.

(d) Determination of Amount of Developer Advances. Paragraph 8 of the Agreement is amended to provide that the actual costs of Production Well 3 and Production Well 2, including all equipment, pumps, motors, valves, pipes, electrical system and other appurtenances installed and constructed by Developer and transferred and conveyed by Developer or by Talking Rock Golf to Company, shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9 of the Agreement.

(e) Agreement Submission. Paragraph 13(a) of the Agreement is amended to provide that the Company shall be responsible for promptly seeking Commission approval of this First Amendment.

2. Inconsistencies: Governing Agreement. With regard to Production Well 3 and Production Well 2, in the event of any inconsistencies between the terms and provisions of the Well Agreement and the terms and provisions of the Agreement, the terms and provisions of the Well Agreement shall govern and prevail.

3. Effect on the Agreement. Except as otherwise expressly provided herein, all terms, covenants and conditions of the Agreement shall remain in full force and effect and be binding upon the parties.

IN WITNESS WHEREOF, ICR WATER USERS ASSOCIATION and HARVARD SIMON I, L.L.C., have caused this First Amendment to Main Extension Agreement to be executed on their behalf by their duly authorized representatives as of the day and year first above written.

ICR WATER USERS ASSOCIATION

Date Approved: September 11, 2003

Decision No.: _____

Director of Utilities
Arizona Corporation Commission

By: _____

By: [Signature]
Wayze McCraine, President

HARVARD SIMON I, L.L.C., an Arizona limited liability company,

By: Harvard Talking Rock, L.L.C.
Its Operating Member

By: Harvard Investments, Inc., an
Nevada corporation
Its Manager

By: 
Its: President

PHX/MGALLOGL/1257894.3/47094.005

UPPLEMENT TO EXHIBIT "C"

TALKING ROCK RANCH, Wells and Well Site				
Yavapai County, Arizona				
ENGINEER'S OPINION OF PROBABLE CONSTRUCTION COST				
Prepared by: Shephard-Wesnitzer, Inc.		For: Harvard Investments		
Item Description	Quantity	Unit	Unit Price	Total
Wells and Well Site				
Well Drilling (3 Wells)	1	ls.	\$200,000.00	\$200,000
Electrical and Controls	1	ls.	\$75,000.00	\$75,000
Well Manifold	3	ea.	\$12,000.00	\$36,000
Site Work and Site Piping	1	ls.	\$60,000.00	\$60,000
Chlorination Equipment	1	ls.	\$18,000.00	\$18,000
Chlorination Conduit	1	ls.	\$3,000.00	\$3,000
Buildings	1	ls.	\$25,000.00	\$25,000
MISCELLANEOUS				
Testing	1	ls.	\$5,000.00	\$5,000
Commission	1	ea.	\$5,700.00	\$5,700
TOTALS				\$427,700



MAIN EXTENSION AGREEMENT

(WATER SERVICE)

THIS AGREEMENT is made this 5 day of MARCH 2001 by and between ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Utility") and HARVARD SIMON I, L.L.C., an Arizona limited liability company ("Developer"), for the purposes and considerations hereinafter set forth.

RECITALS

A. Developer is the Second Beneficiary under the First American Title Insurance Agency of Yavapai, Inc. Trust No. 4750, which trust owns approximately 3470 acres of real property generally situated in Yavapai County, Arizona, more particularly described in Exhibit "A" attached hereto and incorporated herein by this reference (the "Property"). Developer is authorized to obtain water and wastewater utility services for the Property. A portion of the Property, approximately 400 acres, is currently located within the Utility's Certificate of Convenience and Necessity ("CC&N") as shown in the map attached hereto as Exhibit "B" and incorporated herein by this reference. The remainder of the Property, approximately 3070 acres (the "Extension Area"), is adjacent to utility's CC&N as shown in Exhibit "B," but is not located in the certificated service area of the Utility or of any other certificated water utility provider or in the service area of any municipal water utility service provider. The majority of the Property, approximately 2,500 acres, is located in an area eligible for membership in the Utility pursuant to the Utility's By-Laws.

B. Utility is a public service corporation as defined in Article XV, Section 2 of the Arizona Constitution and, as such, is regulated by the Arizona Corporation Commission ("Commission"). Utility has been granted a CC&N by the Commission authorizing Utility to

provide water utility services. Utility is willing to promptly seek approval of the Commission to extend its CC&N to include the Extension Area and to take all other action and obtain other government approvals as necessary in connection with the extension of Utility's CC&N to include the Extension Area. Thereafter, Utility is willing to extend water utility service to the Property in accordance with the terms and conditions set forth in this Agreement and in accordance with relevant law, including the rules and regulations of the Commission.

C. Developer has requested that water utility service be extended and provided to the Property by Utility in furtherance of Developer's planned development of the Property. Developer intends to develop on the property a residential subdivision to be known as Talking Rock Ranch that will contain approximately 1500 residential dwellings, certain common areas and a ranch compound with a clubhouse, swimming pool, tennis courts and a health and fitness center. Developer is willing to construct and install distribution mains, valves, fittings, storage facilities and other water utility facilities both on-site and off-site (the "Facilities") necessary for Utility to furnish water service to each lot, building or other customer within the Property and, following construction, to convey title to the Facilities to Utility. All amounts paid by Developer hereunder will be treated as an advance in aid of construction according to the terms and conditions set forth hereinafter.

D. Developer also intends to construct an 18-hole golf course at the Property, with a driving range, other practice facilities, storage lakes and related amenities and facilities (the "Golf Course"). Developer will supply water to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes.

NOW, THEREFORE, in consideration of the following covenants and agreements, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

AGREEMENTS

1. Construction of Water Utility Facilities by Developer.

(a) Construction of Facilities. At its sole expense, Developer shall construct and install, or shall cause to be constructed and installed water utility facilities consisting of water distribution mains and pipelines, valves, hydrants, fittings, service lines and all other related items of utility plant, both on-site and off-site, to be used to extend water service to each lot, building or other customer within the Property (the "Facilities") as more particularly described in Exhibit "C" attached hereto and incorporated herein by this reference. Exhibit "C" also contains an estimated cost of construction for the Facilities. Utility hereby acknowledges and agrees that the Property may be developed in separate phases and that Developer may construct and install the Facilities in phases in a manner that will allow for the provision of water utility services to each phase as necessary and in a timely manner. The size, design, type and quality of materials used to construct the Facilities, as well as the location of the Facilities upon and under the ground, shall be approved by Utility, which approval shall be promptly provided and which shall not be unreasonably withheld.

(b) Utility's Use of the Facilities. Utility covenants and agrees that it shall use its best efforts to ensure that the Facilities are not used to serve customers outside the Property in a manner that adversely impacts the provision of water utility service to the Property. Utility further represents to Developer that, in Utility's judgment, the cost of constructing the

Facilities is disproportionate to anticipated revenues to be derived from future customers within the Property.

2. Engineering Plans. Developer has retained Shephard-Wesnitzer, Inc. to prepare engineering plans and specifications for the Facilities to be constructed hereunder. Developer may retain additional engineers or other consultants as determined in Developer's sole discretion to be necessary in connection with the design and installation of the Facilities. All plans and specifications shall be submitted to Utility and its engineers for review and approval, together with a copy of the subdivision plat for the Property and drawings depicting the infrastructure improvements for the subdivision.

3. Design and Construction Standards; Regulatory Approvals. All Facilities designed and constructed by Developer hereunder shall be in strict conformance with the plans and specifications therefor, and the applicable regulations of the Yavapai County Environmental Services Department ("Environmental Services"), Arizona Department of Environmental Quality ("ADEQ"), the Commission and/or any other governmental agency exercising jurisdiction over the design and construction of potable water systems. Prior to construction of any Facilities, Developer shall obtain approval to construct from either Environmental Services or ADEQ. Upon completion of the Facilities, Developer shall obtain approval of construction from either Environmental Services or ADEQ. Developer shall also be responsible for obtaining any additional permits, licenses, and/or approvals required for the construction of the Facilities. Utility shall cooperate with and assist Developer promptly, as may be reasonably required, in obtaining such certificates and approvals. All contractors and subcontractors employed by Developer in connection with the construction of the Facilities shall be licensed by the Arizona Registrar of Contractors and shall be qualified in the construction of public water systems.

4. Right of Inspection; Corrective Action. Utility shall have the right to have its engineers, the selection of which shall be subject to Developer's approval, inspect and test the Facilities at reasonable times during the course of construction as necessary to ensure conformance with plans and specifications. If at any time before the final acceptance by Utility of the Facilities any construction, materials or workmanship are found to be defective or deficient in any way, or the Facilities fail to conform to this Agreement, then Utility may reject such defective or deficient construction, materials and/or workmanship and require Developer to fully pay for all necessary corrective construction efforts ("Corrective Action"). Utility reserves the right to withhold approval and to forbid connection of any defective portion of the Facilities to Utility's system unless and until the Facilities have been constructed in accordance with plans and specifications and all applicable regulatory requirements. Further, Developer shall promptly undertake any Corrective Action required to remedy such defects and deficiencies in construction, materials and workmanship upon receipt of notice by Utility. The foregoing notwithstanding, Utility shall not unreasonably withhold or delay acceptance of the Facilities.

5. Transfer of Ownership; As-Built Plans; Warranty.

(a) Transfer of Ownership. Upon proper completion, testing and final inspection of the Facilities by Utility, Utility shall issue a written notice of acceptance to Developer. Immediately thereafter, Developer shall convey to Utility, via a bill of sale in a form satisfactory to Utility, the Facilities together with any permanent easements and/or rights-of-way required pursuant to paragraph 7 below. All Facilities so transferred shall thereafter become and remain the sole property and responsibility of Utility. Developer covenants and agrees that, at the time of transfer, the Facilities shall be free and clear of all liens and encumbrances, and Developer shall provide evidence in the form of lien waivers or other appropriate documents that

all claims of contractors, subcontractors, mechanics and materialmen have been paid and are fully satisfied.

(b) As-Built Plans. At the time of transfer, Developer shall provide to Utility three (3) sets of "as-built" drawings and specifications for the Facilities, certified and sealed by Developer's engineers to be true and correct.

(c) Warranty. Developer warrants that, upon their completion, the Facilities will be free from all defects and deficiencies in construction, materials and workmanship for a period of time commensurate with the warranty period provided to Developer by contractors retained by Developer to construct the Facilities, but in no event, for a period of less than one (1) year from the date of Utility's acceptance. During the warranty period, Developer agrees to promptly undertake any Corrective Action required to remedy such defects and deficiencies upon notice by Utility. Upon Utility's acceptance of the Facilities, as provided in this paragraph, Utility shall be deemed to have accepted the Facilities in "as is" and "as-constructed" condition, subject only to the warranty period concerning defects and deficiencies in construction, materials and workmanship provided for herein.

6. Reimbursement for Inspection Costs, Overhead and Other Expenses of Utility. Developer shall reimburse Utility for Utility's reasonable fees, costs and expenses incurred in connection with its review of the engineering plans and specifications for the Facilities, the preparation of this Agreement and other necessary legal services, inspection and testing of the Facilities during their construction, and other fees, costs and expenses reasonably and necessarily incurred by Utility with respect to this project during the course of construction and in connection with obtaining approval of the Commission to extend Utility's CC&N to include the Extension Area (collectively, "Administrative Costs"). Utility covenants to use

reasonable efforts to incur Administrative Costs only as necessary and prudent. On a monthly basis, Utility shall provide Developer with a written statement describing with specificity all Administrative Costs incurred by Utility during the preceding month, together with complete copies of all bills, statements and invoices supporting such Administrative Costs. Developer shall make payment on or before the fifteenth (15th) day of the calendar month following the month in which Utility's statement is received. Utility hereby acknowledges its receipt of \$5,000.00 as a deposit, which deposit shall be applied as a credit against Administrative Costs incurred by Utility hereunder.

7. Public Streets and Rights-of-Way; Easements; Spacing of Lines. At the time of transfer of ownership of any Facilities, as provided in paragraph 5 above, Developer shall provide Utility with evidence satisfactory to Utility that all distribution mains and service lines within the Property are located within dedicated streets and/or public rights-of-way. In the event that any distribution mains or service lines are not located within dedicated streets and/or public rights-of-way, then at the time of transfer of ownership of such Facilities, Developer shall grant to Utility, or shall cause to be granted to Utility, easements and/or rights-of-way, free from all liens and security interests thereon, and in a form that is satisfactory to Utility, over, under, and across all pipeline routes and all portions of the Property necessary to operate, maintain and repair such Facilities. Unless otherwise mutually agreed upon in writing, such easements and/or rights-of-way within the Property shall be free of physical encroachments, encumbrances or obstacles, and shall have a minimum width of ten (10) feet. The distribution mains and service lines constructed and installed by Developer within the Property shall be separated by a reasonable distance from other utility lines and facilities to prevent damage or conflicts in the event of repairs or maintenance.

8. Determination of Amount of Developer Advances. The actual cost of constructing and installing the Facilities described in paragraph 1 above and all amounts paid by Developer pursuant to paragraph 6 above shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9, below. Developer shall provide Utility with a written statement setting forth in detail Developer's actual costs of construction within ten (10) business days following receipt of Utility's notice of acceptance of the Facilities, together with copies of all invoices, bills, statements and other documentation evidencing the cost of construction. The costs of any Corrective Action, as defined in paragraph 4 above, the costs of curing any defects arising during the warranty period, as provided herein, and the costs of any unreasonable overtime incurred in the construction of the Facilities shall not be included in the actual cost of constructing and installing the Facilities, and shall not be subject to refund by Utility hereunder.

9. Refunds of Advances to Developer. Following the District's acquisition of the Facilities pursuant to paragraph 5(a) hereinabove, Utility shall refund annually to Developer an amount equal to fifteen percent (15%) of the gross annual operating revenues from water sales to bona fide customers of Utility within the Property. Such refunds shall be paid by Utility on or before August 31 of each calendar year for the preceding July 1 to June 30 period, commencing in the fifth calendar year immediately following the initiation of water utility service to the first customer within the Property by Company, continuing thereafter in each succeeding calendar year for a total of twenty (25) years. No interest shall accrue or be payable on the amounts to be refunded for the Facilities hereunder, and any unpaid balance remaining at the end of such twenty-five year period shall become a non-refundable contribution in aid of construction to Utility and be recorded as such in the Utility's books and records of account. In

no event shall the total amount of the refunds paid by Utility pursuant to this Agreement exceed the total amount of all refundable advances paid by Developer in connection with the construction of the Facilities.

10. Notice. All notices and other written communications required hereunder shall be sent to the parties as follows:

Swayze McCraine
ICR Water Users Association
P. O. Box 4413
Prescott, Arizona 86302

Doug Zuber
Harvard Simon I, L.L.C.
c/o Harvard Investment, Inc.
7600 E. Doubletree Ranch Rd., Suite 220
Scottsdale, AZ 85258

Each party shall advise the other party in writing of any change in the manner in which notice is to be provided hereunder.

11. Risk of Loss: Indemnification. Until Utility has issued its written notice of acceptance of the Facilities constructed hereunder, all risk of loss with respect to the Facilities shall remain with Developer. Developer shall indemnify and hold Utility and its officers, directors, employees and agents harmless for, from and against all claims or other liability, whether actually asserted or threatened, arising out of or related to Developer's construction of the Facilities hereunder. Developer's obligations under this paragraph shall not extend to any claims or liability arising out of Utility's ownership and operation of the Facilities following their acceptance.

12. Utility's Obligation to Serve.

(a) Developer's Failure to Perform. Utility shall have no obligation to accept and operate the Facilities to be constructed hereunder in the event Developer fails to make

any payment provided in this Agreement, fails to complete the construction and installation of the Facilities in accordance with their plans and specifications or otherwise fails to comply with any of the terms and conditions of this Agreement in any material respect.

(b) Fire Protection Services. Utility agrees to provide water for fire protection to the Property in accordance with the requirements of Yavapai County and any private fire and emergency service providers. It is understood and agreed that the Facilities have been designed to allow the delivery of water for fire protection purposes to the Property. The foregoing notwithstanding, the Utility will supply only such water at such pressures as may be available as a result of the normal operation of its system, and the Utility shall not be liable for injuries or damage resulting from causes beyond the Utility's control.

(c) Water Supply to Golf Course. Utility acknowledges that Developer intends to construct the Golf Course. Utility further acknowledges that Developer intends to supply water to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes and hereby provides its unconditional consent for Developer to supply water to the Golf Course for such purposes. Utility further agrees to provide water utility service to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes at a future date but only upon receipt of Developer's written request at which time such service would be provided consistent with the rules and regulations of the Commission and Utility's Commission approved tariffs. Developer may also request, in writing, that such provision of water utility service by Utility for landscape irrigation, the filling of lakes and other non-potable services be on a temporary basis and Utility provides its unconditional consent for Developer to suspend or terminate such service within its sole discretion.

13. Contingencies.

(a) Commission Approval. Because a substantial portion of the Property (i.e., the Extension Area) lies outside Utility's CC&N, this Agreement is contingent upon approval by the Commission to extend the CC&N to include the Extension Area. Utility shall be responsible for promptly seeking Commission approval to extend its CC&N to include the Extension Area as well as for seeking approval of this Agreement. The parties shall cooperate with and assist each other in connection with obtaining such approval. If the Commission refuses to approve the extension of Utility's CC&N to include the Extension Agreement, then this Agreement shall be cancelable by any of the parties hereto upon written notice to the other parties, and no party hereto shall thereafter assert any right or be subject to any obligation imposed hereunder, except for payment by Developer of Administrative Costs reasonably incurred by Utility.

(b) Franchise Agreement. Utility further agrees to promptly seek approval from Yavapai County to extend Utility's Franchise Agreement with the County to include the Extension Area and/or any other portion of the Property not presently located within the Utility's Franchise area.

14. Right of Assignment. Developer may assign this Agreement, or any of its rights and obligations hereunder, to another party provided that written notice of such assignment is given to Utility prior to the effective date of assignment and that the assignee agrees in writing to fully perform Developer's obligations hereunder and to be bound by this Agreement.

15. Condemnation or Sale of Utility. In the event of the condemnation or sale of the Facilities, Utility shall promptly pay to Developer any unrefunded portion of Developer's

advances in aid of construction. Payment by Utility shall be made on or before thirty (30) days from the date on which Utility receives payment.

16. Alternative Dispute Resolution. The parties hereto agree that each will use good faith efforts to resolve, through negotiation, disputes arising hereunder without resorting to mediation, arbitration or litigation. However, to the extent that a dispute arises which cannot be resolved through negotiation, and the dispute does not fall within the jurisdiction of the Commission, the parties agree to the following dispute resolution mechanism:

(a) Mediation. The parties shall first attempt, in good faith, to resolve the dispute through mediation administered by the American Arbitration Association under its Commercial Mediation Rules.

(b) Arbitration. If the dispute cannot be resolved through mediation, the matter shall be submitted to binding arbitration in accordance with the rules of commercial arbitration ("Rules") then followed by the American Arbitration Association ("AAA"), Phoenix, Arizona. If the claim in dispute does not exceed \$20,000, then there shall be a single arbitrator selected by mutual agreement of the parties, and in the absence of agreement, appointed according to the Rules. If the claim in dispute exceeds \$20,000, the arbitration panel shall consist of three (3) members, one of whom shall be selected by Developer, one of whom shall be selected by Utility, and the third, who shall serve as chairman, whom shall be selected by the AAA. The arbitrator or arbitrators must be knowledgeable in the subject matter of the dispute. The costs and fees of the arbitrator(s) shall be divided equally between the parties. Any decision of the arbitrator(s) shall be supported by written findings of fact and conclusions of law, and shall be based upon sound engineering practice. The decision of the arbitrator(s) shall be final, subject to the exceptions outlined in the Arizona Uniform Arbitration Act, A.R.S. Section 12-

1502, et seq., and judgment may be entered upon the same; provided, however, that any decision of the arbitrator(s) may be appealed to the Superior Court of Maricopa County if it is based on an erroneous interpretation, application or disregard of the law applicable to the dispute. The arbitrator(s) shall control discovery in the proceedings and shall award the prevailing party its reasonable attorneys' fees and costs.

17. Commission Rules and Regulations. This Agreement, and all rights and obligations hereunder, shall be subject to the Commission's rules and regulations regarding the operation of water utility companies and all applicable rates, fees, charges, and tariffs of Utility as approved by the Commission or as may be modified in the future.

18. Attorneys' Fees. The prevailing party in any litigation or other proceeding concerning or related to this Agreement, or the enforcement of thereof, shall be entitled to recover its costs and reasonable attorneys' fees.

19. Time of the Essence. Time is of the essence of every provision hereof.

20. Miscellaneous. This Agreement shall be governed by the laws of the State of Arizona. This Agreement, and each and every term and condition contained herein, shall be binding upon and inure to the benefit of the successors and assigns of Utility and Developer. This Agreement sets forth the entire agreement between the parties and supersedes all prior negotiations, understandings and agreements between them, except as otherwise expressly provided herein. No change in, addition to, or waiver of any provisions of this Agreement shall be binding upon either party unless in writing and signed by both parties. This Agreement may be executed in two or more original or facsimile counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument. In case any provision of this Agreement shall be determined to be invalid, illegal or unenforceable, it shall,

to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as most nearly to retain the intent of the parties. If such modification is not possible, such provision shall be severed from this Agreement. In either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby. The headings in this Agreement are inserted for convenience only, and shall not constitute a part of this Agreement or be used to construe or interpret any of its provisions. The parties have participated jointly in the negotiation and drafting of this Agreement. If a question of interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, an
Arizona public service corporation

By: *ANN CUBINE*
Its *PRESIDENT*

"Utility"

Date Approved: *September 19, 2003*

Decision No.: _____
Director of Utilities
Arizona Corporation Commission

HARVARD SIMON I, L.L.C., an Arizona
limited liability company

By: *[Signature]*

By: *[Signature]*
Harvard Investments, Inc., an
Arizona corporation
Its Operating Member

"Developer"

EXHIBIT "B"

PARCEL I:

All of Sections 15 and 16, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, Yavapai County, Arizona.

PARCEL II:

The Northeast quarter of Section 17, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, lying Northeasterly of Prescott-Simmons Road as it existed on June 10, 1920.

EXCEPT all that portion of Section 17, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

COMMENCING at the point of intersection of the Easterly right of way of the Simmons Road and the North line of said Section 17, being the TRUE POINT OF BEGINNING;

Thence South 89 degrees, 54 minutes East, along the North line of said Section 17, a distance of 514.55 feet;

Thence South 34 degrees, 33 minutes East, parallel with the said Simmons Road, 514.55 feet;

Thence North 89 degrees, 54 minutes West, 514.55 feet to a point on the said Easterly right of way of the Simmons Road;

Thence North 34 degrees, 33 minutes West, 514.55 feet along the said Easterly right of way of the Simmons Road to the TRUE POINT OF BEGINNING as conveyed in Warranty Deed recorded November 13, 1996 in Book 3310 of Official Records, Page 854.

PARCEL III:

All of Sections 21 and 22, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian.

EXCEPT THEREFROM all coal, oil, gas and other mineral deposits as reserved in the Patent recorded in Book 25 of Official Records, Page 106.

(Affects Section 22, Township 16 North, Range 3 West)

Continued

EXHIBIT B

EXCEPT for that portion lying within the following described parcels:

PARCEL A:

Section 21 and Section 22 of Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, County of Yavapai, State of Arizona, described as follows:

BEGINNING at the intersection of the South line of said Section 22 and the Westerly sideline of Williamson Valley Road, 100 feet wide (also known as Prescott-Simmons Highway);

Thence along said Westerly line, North 30 degrees, 31 minutes, 54 seconds West, 945.97 feet;

Thence parallel with the Southerly line of said Section 22, North 88 degrees, 54 minutes, 05 seconds West, 2,215.12 feet to the East line of said Section 21;

Thence parallel with the Southerly line of said Section 21, South 86 degrees, 23 minutes, 15 seconds West, 2,826.98 feet;

Thence continuing along said parallel line, South 88 degrees, 48 minutes, 30 seconds West, 1,170.00 feet;

Thence South 03 degrees, 42 minutes, 29 seconds East, 805.67 feet to the South line of said Section 21;

Thence along said Section line, North 88 degrees, 48 minutes, 30 seconds East, 1,111.53 feet to the Southerly quarter corner of said Section, said corner is monumented with a 3 inch diameter brass disk set in concrete, stamped "WJ CHEEK 1961 PE 2398";

Thence continuing along said South line, North 86 degrees, 23 minutes, 15 seconds East, 2,804.18 feet to the Southeast corner of said Section 21; said corner is monumented with a 3 inch diameter brass disk set in concrete, stamped "WJ CHEEK 1961 PE 2398";

Thence along the Southerly line of said Section 22, South 88 degrees, 54 minutes, 05 seconds East, 2,684.88 feet to the POINT OF BEGINNING.

PARCEL B:

Any portion lying South of the Northerly right of way line of Nancy Drive as recorded in Book 16 of Maps, Page 63, and East of the Easterly right of way of Williamson Valley Road.

Continued

EXHIBIT "B"

PARCEL IV:

The North half of Section 28, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian

EXCEPT for the following described parcel:

That portion of Section 28, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the Northeast corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete, stamped "WJ Cheek PE 2398"

Thence along the North line of said Section 28, South 86 degrees, 23 minutes, 15 seconds West, 2,804.18 feet to the North quarter corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete, stamped "WJ Cheek PE 2398";

Thence continuing along said North line of Section 28, South 88 degrees, 48 minutes, 30 seconds West, 1,151.53 feet to a line parallel with the East line of said Section 28;

Thence along said parallel line, South 03 degrees, 42 minutes, 29 seconds East, 2,614.40 feet to the mid-section line of said Section 28;

Thence along said mid-section line, North 88 degrees, 26 minutes, 14 seconds East, 3,957.37 feet to the East quarter corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete stamped "WJ Cheek PE 2398";

Thence along the East line of said Section 28, North 03 degrees, 42 minutes, 29 seconds West, 2,707.30 feet to the POINT OF BEGINNING

PARCEL V:

Section 33 of Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, County of Yavapai, State of Arizona, lying Northerly and Northwesterly of the following described line:

BEGINNING on the West line of said Section, North 0 degrees, 12 minutes, 47 seconds West, 1,992.80 feet from the Southwest corner of said Section, said corner is monumented with a General Land Office survey monument;

Thence North 89 degrees, 47 minutes, 13 seconds East, 1,051.14 feet to an existing 4 strand barbed wire fence.

Continued

EXHIBIT B

Thence generally along said fence 15 1/2 North 55 degrees 09 minutes 36 seconds East 5326.57 feet to the East line of said section.

EXCEPT from all parcels I, II, and III any portion lying within Prescott-Simmons Highway right of way.

PARCEL VI

A portion of Section 11, Township 16 North, Range 3 West of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the Southwest corner of said Section 11 as depicted on the Survey plat recorded in Book 53 of Land Surveys, Page 30, records of said Yavapai County;

Thence South 88 degrees 11 minutes 06 seconds East along the South line of said Section 11 a distance of 2711.26 feet to the South quarter corner of said Section 11 as depicted on said plat;

Thence South 88 degrees 10 minutes 26 seconds East (of record South 88 degrees 13 minutes East) along said South line a distance of 164.88 feet (of record 165.00 feet) to the Southwest corner of that certain parcel described in Book 2196 of Official Records, Page 746 and Book 3603 of Official Records, Page 873 records of said Yavapai County, said corner being monumented with a one-half inch iron bar;

Thence North 00 degrees 08 minutes 09 seconds West (of record North 00 degrees 06 minutes 45 seconds West) along the West line thereof, a distance of 1826.06 feet (of record 1826.19 feet) to the Northwest corner of said parcel, being also the Southwest corner of that certain parcel described in Book 2635 of Official Records, Page 474, records of said Yavapai County, said corner being monumented with a one-half inch iron bar;

Thence North 00 degrees 05 minutes 23 seconds West (of record North 00 degrees 06 minutes 45 seconds West) along the West line of said parcel described in Book 2633 of Official Records, Page 474, a distance of 1829.86 feet (of record 1827.24 feet) to the Northwest corner thereof, being also the Southwest corner of that certain parcel described in Book 2439 of Official Records, Page 517, records of said Yavapai County, said corner being monumented with a one-half inch iron bar;

Continued

EXHIBIT "B"

Thence North 00 degrees, 07 minutes, 51 seconds West (of record North 00 degrees, 07 minutes, 00 seconds West) along the west line of said parcel described in Book 2439 of Official Records, Page 517, a distance of 1832.47 feet (of record 1832.43 feet) to the Northwest corner of said parcel, said corner being a point on the North line of said Section 11 and being monumented with a one-half inch iron bar;

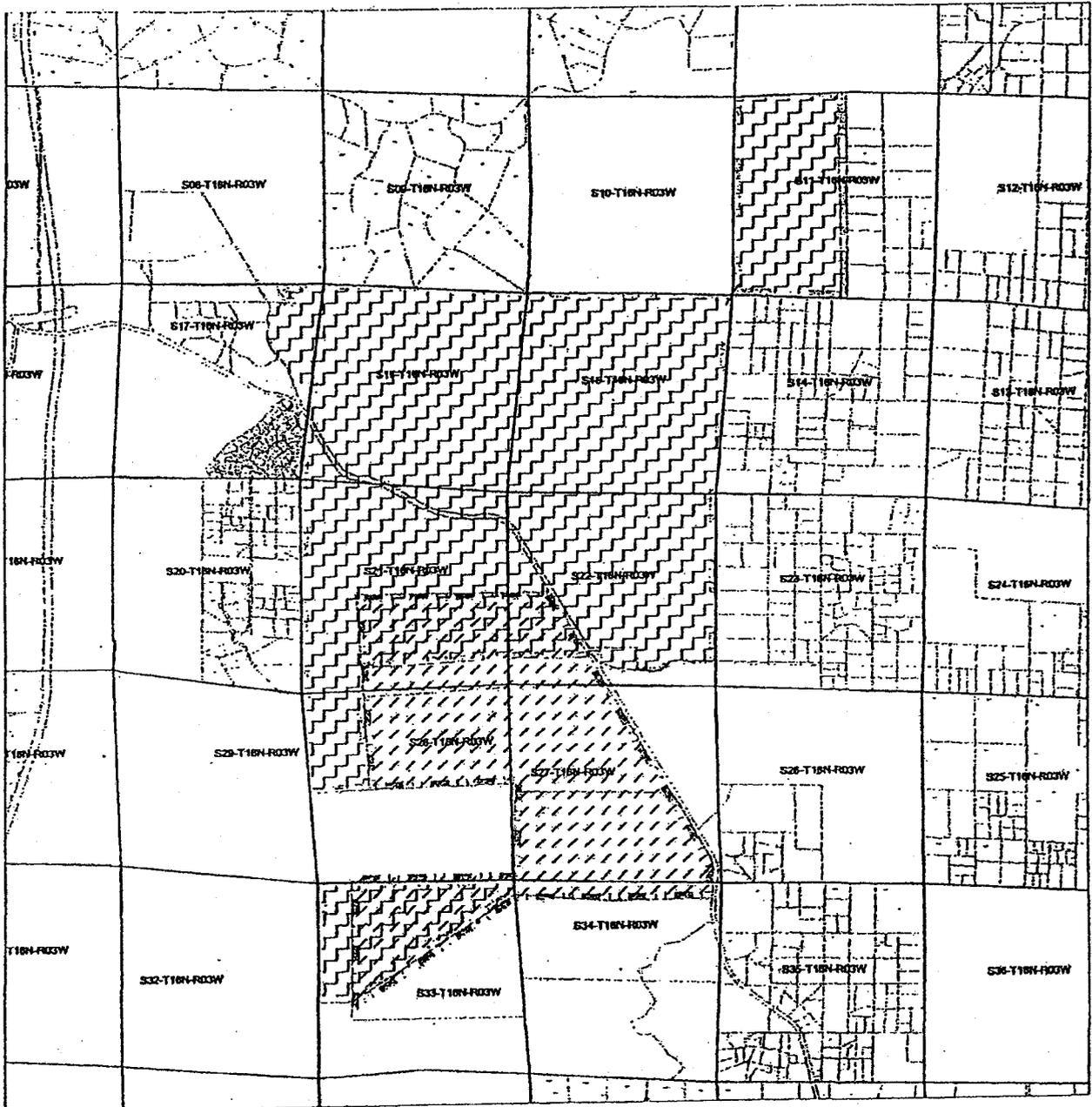
Thence North 88 degrees, 56 minutes, 36 seconds West (of record North 88 degrees, 56 minutes, 06 seconds West) along said North line, a distance of 165.03 feet (of record 165.00 feet) to the North quarter corner of said Section 11, as depicted on said Plat;

Thence North 88 degrees, 56 minutes, 16 seconds West along said North line, a distance of 2778.19 feet to the Northwest corner of said Section 11, as depicted on said Plat;

Thence South 00 degrees, 50 minutes, 19 seconds East along the West line of said Section 11, a distance of 2726.26 feet to the West quarter corner of said Section 11, as depicted on said Plat;

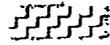
Thence South 00 degrees, 49 minutes, 50 seconds East along said West line, a distance of 2726.10 feet to the POINT OF BEGINNING.

ICR WATER USERS ASSOCIATION, EXISTING CC&N AND REQUESTED EXPANSION

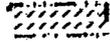


LEGEND

ICR WATER USERS
REQUESTED CC&N EXPANSION



ICR WATER USERS
CC&N AREA



STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of HARVARD INVESTMENTS, INC., a Nevada corporation, the Manager of HARVARD TALKING ROCK, L.L.C., an Arizona limited liability company, the Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

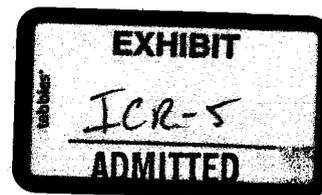
The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

EXHIBIT B

BEFORE THE ARIZONA CORPORATION COMMISSION



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.

DOCKET NO.

SUPPLEMENTAL REBUTTAL TESTIMONY OF

THOMAS J. BOURASSA

TO DIRECT TESTIMONY

DAYNE TAYLOR

ON BEHALF OF

ICR WATER USERS ASSOCIATION

MARCH 14, 2008

1 I. INTRODUCTION AND PURPOSE OF TESTIMONY

2 Q. PLEASE STATE YOUR NAME AND ADDRESS.

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 Q. HAVE YOU PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THE
6 INSTANT CASE?

7 A. Yes, my direct and rebuttal testimony was submitted in support of the initial
8 application in this docket by ICR Water Users Association ("ICR" or
9 "Association").

10 Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL REBUTTAL
11 TESTIMONY?

12 A. I will to respond to the direct testimony of Intervenor Dayne Taylor with respect
13 to: 1) whether the rates charges to customers and the revenues provided to ICR
14 during the test year through the Well Agreement are equitable, 2) whether Mr.
15 Taylor's recommendation to restructure the Association into two stand-alone
16 systems - one to serve the ICR customers and one to serve the golf course - would
17 lessen the impact on rates to the ICR residential customers, and 3) whether a rate
18 increase would be required if the Well Agreement were not in effect and the golf
19 course paid tariff rates for water supplied by the ICR owned well.

20 Q. HOW WILL YOUR TESTIMONY BE ORGANIZED?

21 A. My testimony will be organized as follows: (1) I will provide a summary of my
22 testimony and conclusions; (2) as background, I will discuss the Well Agreement
23 between the Association, Talking Rock Golf Club ("TR Golf") and Harvard
24 Investments and how the Association is compensated for water use; (3) I will
25 provide a cost of service study and discuss its implications as to whether or not the

1 customers of ICR and TR Golf are treated equitably under present and proposed
2 rates; (4) I will provide an analysis of the revenue requirement and rate increase
3 necessary if TR Golf was served by a separate water system; (5) I will provide an
4 analysis of the revenue requirement and rate increase necessary if TR Golf paid
5 tariff rates; and (6) I will respond to issues raised in Mr. Taylor's direct testimony.

6 **II. SUMMARY OF TESTIMONY AND CONCLUSIONS**

7 **Q PLEASE PROVIDE A BRIEF SUMMARY OF YOUR TESTIMONY AND**
8 **CONCLUSIONS.**

9 **A.** From my analysis of the revenue requirement and required rate increase for a
10 system with and without TR Golf and my cost of service study, I conclude the
11 following:

- 12 1. From a cost of service standpoint, the revenue received by the Association
13 from TR Golf and Harvard Investments for golf course and construction
14 water under both the present and proposed rates is significantly higher than
15 if TR Golf was required to pay rates based upon its cost of service. The
16 revenue provided by the 5/8 inch meter customer class provides
17 significantly less revenue that their cost of service would dictate.
- 18 2. The revenue provided to ICR during the test year by TR Golf and Harvard
19 Investments was more than equitable to the ICR customers.
- 20 3. From a cost of service standpoint, during the test year ICR customers
21 benefit from the relationship with TR Golf. The 5/8 inch meter customer
22 class, consisting almost exclusively of residential customers, is being
23 subsidized by the larger meters and the golf course.
- 24 3. Restructuring the water system into two stand-alone operations (one for the
25 ICR customers and one for TR Golf) would not reduce the O&M and

1 depreciation obligations to the ICR customers, but would in fact increase
2 such obligations.

- 3 4. An analysis of the revenue requirement for ICR, assuming a restructuring
4 the water system into two stand-alone operations, would result in much
5 higher rates for the ICR customers. Instead of a 33 percent rate increase, as
6 the Association proposed in the instant case, a 70 percent rate increase
7 would be required to meet the Association's minimum operating margins.
- 8 5. From a cost of service standpoint, assuming that TR Golf and Harvard
9 Investments were customers of ICR, which ICR disputes, it would not be
10 equitable to the TR Golf and Harvard Investments to pay the same rates as
11 the ICR residential customers.

12 **III. THE WELL AGREEMENT**

13 **Q. PLEASE EXPLAIN WHY THERE IS A WELL AGREEMENT AND WHO**
14 **ARE THE PARTIES TO THE WELL AGREEMENT.**

15 A. As described in the testimony of ICR Witness Robert Busch, the member-owned
16 Association entered into a Main Extension agreement with Harvard Investments,
17 or Harvard Simon I, LLC, ("Harvard"), the developer of the Talking Rock Ranch
18 subdivision in 2003.¹ Harvard drilled three wells in the area in order to provide
19 water to homeowners and to the golf course within Talking Rock Ranch.
20 Subsequently, ICR, Harvard, and TR Golf entered into the Well Agreement.
21 Pursuant to the Well Agreement, there are three wells connected to ICR's water
22 system, but not all of the wells are owned by ICR. ICR currently owns one of the
23 wells (Production Well No. 3). TR Golf currently owns the two other wells
24

25 ¹ Harvard has assigned its interests to the Well Agreement to Talking Rock Land, LLC. ICR is not related to Harvard, Talking Rock Golf Club, or Talking Rock Land, LLC.

1 (Production Well Nos. 1 and 2). Under the Well Agreement, TR Golf is required
2 to convey Production Well No. 2 to ICR when ICR serves 800 customers in the
3 Talking Rock Ranch system.

4 The water from all three wells is used to provide water to ICR's Talking
5 Rock Ranch customers and to deliver water to the golf course. Under the terms of
6 the Well Agreement, TR Golf pays a wheeling charge for all water delivered by
7 ICR to the golf course and Harvard pays a wheeling charge for construction water.
8 The wheeling charge was originally \$10.00 per acre foot and is adjusted annually.
9 It is now \$11.59 per acre foot. The Well Agreement contains further provisions
10 for the handling and delivery of water from the three wells via ICR's water
11 system, and sets forth the duties and responsibilities of each party, including
12 provisions for TR Golf to pay for maintenance and repair of a portion of ICR's
13 water system as compensation for the use of the system for delivery of water to the
14 golf course. A copy of the Well Agreement is attached as Supplemental Rebuttal
15 Exhibit 1.

16 **Q. PLEASE EXPLAIN THE AMOUNT OF COMPENSATION PROVIDED**
17 **UNDER THE WELL AGREEMENT TO ICR DURING THE TEST YEAR.**

18 **A.** The total compensation provided to ICR in the Test Year was \$62,488. This
19 amount is made up of \$46,944 of recorded reimbursement revenues, \$4,129 of
20 wheeling charges for golf course water and construction water, and \$11,415 of
21 purchased power costs paid for by the TR Golf and Harvard but attributed to ICR
22 customers.

23 **Q. PLEASE EXPLAIN THE \$11,415 OF PURCHASED POWER**
24 **ATTRIBUTED TO ICR CUSTOMERS?**

25

1 A. During the Test Year, TR Golf and Harvard incurred and paid \$79,491 of
2 purchased power for the three wells in the well field (Production Wells Nos. 1, 2,
3 and 3), the Talking Rock Ranch pump station, and the Double Adobe pump
4 station. ICR was not billed by the golf course for its share of the power costs
5 totaling \$11,415. More importantly, it was not included in operating expenses for
6 computing the requirement in the instant case. For my analysis and cost of service
7 study purposes, however, purchased power costs attributed to ICR customers
8 should be reflected.

9 **Q. HOW DID YOU COMPUTE THE POWER COSTS ATTRIBUTED TO ICR**
10 **CUSTOMERS?**

11 A. First, I computed the power cost per 1,000 gallons by taking the total power costs
12 for the well field and the Talking Rock Ranch pump station and divided it by the
13 total number of gallons pumped from the well field. Since the Double Adobe
14 pump station is only used to pump water for delivery to ICR's residential
15 customers and not the golf course, the power costs of the Double Adobe pump
16 station are initially excluded from this calculation. Next, having computed power
17 cost per 1,000 gallons, I computed the power costs attributed to ICR customers by
18 multiplying the cost rate computed in the first step to the gallons delivered to ICR
19 customers. I then take this amount and add the entire power costs of the Double
20 Adobe pump station in order to get the total amount of power costs attributable to
21 ICR customers.

22 I have computed ICR's share of the power costs on proforma schedule C-2,
23 page 3, attached at Supplemental Rebuttal Exhibit 2, following the description
24 provided above. The ICR share of the power costs for the well field and the
25 Talking Rock Ranch pump station totals \$4,644. The power costs for the Double

1 Adobe pump station total \$6,771. Together, the total power costs attributed to
2 ICR customers is \$11,415.

3 **Q. HAVE YOU CONSIDERED THE ANNUALIZED GALLONS FROM ICR**
4 **CUSTOMERS ON THE TALKING ROCK RANCH SYSTEM AS YOU DID**
5 **IN COMPUTING THE ANNUALIZED POWER COSTS IN THE INSTANT**
6 **CASE?**

7 A. No. Technically, the ICR share of the power costs would be higher than the
8 amount I computed, but, I do not have data to be able to compute the annualized
9 gallons for the Talking Rock Ranch system separately. To some extent, the ICR
10 share of the power costs is understated. However, I believe the impact would be
11 small and would not materially affect my revenue requirement analysis and cost of
12 service study. The total additional quantity of water from the revenue
13 annualization in the instant case is approximately 1.6 million gallons. The
14 Talking Rock Ranch system has approximately one-third of the customers on the
15 entire system. If you assume that one-third of the annualized gallons, or 528,000
16 gallons (1.6 million gallons times 33 percent), is attributed to the Talking Rock
17 Ranch system and using the computed power cost rate per 1,000 gallons, or
18 \$0.4885, as shown on proforma schedule C-2, page 2, the estimated additional cost
19 would be approximately \$257 (528,000 gallons divided by 1,000 times \$0.4885
20 power cost rate).

21 **Q. HOW DID YOU COMPUTE THE WHEELING CHARGE REVENUES?**

22 A. The wheeling charge is equal to the total acre feet of water delivered to the golf
23 course (383.89 acre feet), plus the total amount of construction water (44 acre feet)
24 on the Talking Rock Ranch system times the \$11.35 per acre foot wheeling
25 charged during the Test Year.

1 Q. DO YOU HAVE A SCHEDULE SHOWING THE GALLONS PUMPED
2 AND DELIVERED FROM THE WELL FIELD (THE THREE TALKING
3 ROCK RANCH WELLS) DURING THE TEST YEAR?

4 A. Attached as Supplemental Rebuttal Exhibit 3 is a summary of the water pumped
5 and delivered during the Test Year. As you will find, approximately 125 million
6 gallons of water was delivered to the golf course during the Test Year. Of that
7 amount, approximately 51 million gallons was supplied by the ICR owned well
8 (Production Well No. 3). There was approximately 9.5 million gallons delivered
9 to ICR customers and unaccounted water was approximately 14.3 million gallons.
10 Construction water has not been metered in the past, including the Test Year. So,
11 the Association has assumed that all unaccounted water is construction water.

12 Q. HOW WAS THE QUANTITY OF WATER DELIVERED TO THE GOLF
13 COURSE DETERMINED?

14 A. The water is delivered to the golf course through a 6 inch meter which provides
15 for the measurement of the quantity of water.

16 Q. HOW IS THE QUANTITY OF WATER ATTRIBUTED TO THE
17 TALKING ROCK RANCH ICR CUSTOMERS COMPUTED?

18 A. By subtracting both the quantity of water delivered to the golf course and the
19 unaccounted quantity of water from the total quantity of water pumped from the
20 well field. For the test year and based on Supplemental Rebuttal Exhibit 3 (the
21 summary of water pumped and delivered), the computation is as follows:

22	Total Gallons Pumped	148,687,000 gallons
23	Less:	
24	Gallons Delivered to Golf Course	125,026,000 gallons
25	Unaccounted Water	<u>14,334,700 gallons</u>

1 Water Attributed to ICR Customers 9,506,300 gallons

2 Q. DO YOU HAVE AN OPINION REGARDING THE TREATMENT OF
3 UNACCOUNTED WATER AS CONSTRUCTION WATER?

4 A. Yes. In my opinion, the unaccounted water is not all construction water. I
5 believe that construction water is a fraction of the unaccounted water. The
6 customer growth on the system was less than 25 customers during the Test Year,
7 so it is unrealistic that 14,334,700 gallons of construction water was used during
8 the Test Year. Water loss is present on all water systems and can stem from water
9 leaks, periodic flushing of the water system, and theft, which unfortunately has
10 occurred on this water system. In my experience, water loss generally ranges from
11 5 to 10 percent. In fact, the Arizona Corporation Commission ("Commission")
12 Engineering Staff accepts water loss of 10 percent or less. Based on the Test
13 Year, and assuming all of the unaccounted water was water loss rather than
14 construction water, the water loss would have been approximately 9.6 percent
15 (14,334,700 gallons divided by 148,867,000 gallons pumped) well within
16 acceptable ranges.

17 The point of my comments is that construction water quantities are likely
18 overstated, yet for the Test Year and for purposes of the cost of service study all
19 unaccounted water is treated as construction water.

20 Q. WHAT HAS THE ASSOCIATION DONE TO HELP DISTINGUISH
21 BETWEEN CONSTRUCTION WATER AND WATER LOSS?

22 A. In the past year, the member-owned Association has purchased hydrant meters for
23 measuring delivery of construction water. I should note the Association has
24 informed me that since the downturn in the real estate market there has been very
25 little new construction activity.

1 **IV. COST OF SERVICE STUDY**

2 **Q. WHAT IS A COST OF SERVICE STUDY?**

3 A. A cost of service study is an analysis of the adequacy of water revenues and
4 revenue requirements to be met by the various classes of customers under both
5 existing and proposed rates. The study begins with an allocation of utility plant
6 and expenses into cost and asset functions which are then allocated to customer
7 classifications. The study attempts to trace the costs resulting from meeting the
8 customers' service requirements. Ideally, the revenues received from each
9 customer class should equal the cost of providing service to that customer class.
10 The cost to provide service includes the operating and maintenance expenses and
11 the capital costs. Operating and maintenance expenses include the costs of
12 operating the system and the costs of maintaining system facilities and equipment.
13 Capital costs include investment-related cash requirements such as debt service,
14 contributions to debt service reserves, and capital requirements not financed by
15 debt. Capital costs also include depreciation expense and either a return on rate
16 base (for-profit utilities) or an operating margin (non-profit utilities) as well as
17 incomes taxes and other taxes, if applicable.

18 **Q. WHAT IS THE PURPOSE OF A COST OF SERVICE STUDY?**

19 A. Typically, the purpose of preparing a cost of service study is to offer guidance in
20 setting rates to be charged for utility service. The basic premise in establishing
21 rates for the various classes of customers that are both adequate and equitable is
22 that rates should reflect the cost of providing utility service. Generally, regulators
23 should set rates based on the cost of service. Put simply, this assures that the cost
24 of providing service is allocated equitably among customers and customer classes.
25 Cost-based rates also send an appropriate price signal to customers because the

1 amount paid for service approximates the cost to provide the service. In other
2 words, subsidies between customers are minimized.

3 There are many factors at play when rates are set which may result in rates
4 which are not adequate and/or equitable between the various classes of customers.
5 Non-economic factors may be at play when rates are set. For example, the
6 regulatory body may favor subsidizing one class of customer by shifting costs to
7 other classes of customers, or shifting revenues within one class of customer to
8 subsidize members within that class. Lifeline or discounted rates, which are
9 sometimes used to assist low-income customers in areas with high utility costs, are
10 prime examples of subsidization of a class of customers by other customers. If
11 possible, Lifeline or discounted rates should not apply to a whole customer class.
12 If Lifeline or discounted rates are needed, they should be offered only to
13 customers meeting some income test.

14 Another example is rate designs intended to encourage conservation.
15 Conservation-based rates deviate from cost-of-service principles because larger
16 water users pay more than their cost of service. Inverted-tier rates shift revenue
17 recovery into the upper rate blocks in order to send a price signal to customers,
18 regardless of the cost to serve those customers. This may be a desirable social
19 policy, but these rates may also be regarded as unfair and discriminatory by larger
20 water users on economic grounds.

21 Thus, public policy may have a significant impact on rate design. The
22 Commission should consider the impact that these sorts of alternative rate designs
23 have on other customers, and the degree that such approaches deviate from cost-
24 based rates, which may result in inequities and, in extreme cases, cause customers
25 to develop alternatives to service from the utility provider.

1 Q. **DID YOU PREVIOUSLY PREPARE A COST OF SERVICE STUDY AND**
2 **SUBMIT IT WITH THE ASSOCIATION'S ORIGINAL APPLICATION?**

3 A. No. Cost of service studies are costly to prepare and as a result they are not
4 typically prepared for non-profit, small water utilities like ICR. For larger
5 utilities, cost of service studies may or may not be prepared depending on whether
6 there is a compelling need to do so, such as a significant change in the rate design.
7 In the absence of a cost of service study, rates are set using general rate design
8 principles in conjunction with the general rate design objectives and policies of
9 regulators. Under these conditions the rate design may or may not reflect the cost
10 of service for the various classes of customers. Based upon the assertions of
11 Intervenor Taylor, however, the Association felt compelled to prepare a cost of
12 service study in order to refute his contention that the residential customers were
13 subsidizing the golf course and to demonstrate that from a cost of service
14 standpoint, rate payers are not disadvantaged by the Well Agreement. The cost of
15 service study is attached hereto as Supplemental Rebuttal Exhibit 4.

16 I should also note that despite the additional costs incurred by ICR in
17 responding to Mr. Taylor's assertions, ICR has not yet requested additional rate
18 case expense.

19 Q. **HOW IS YOUR COST OF SERVICE STUDY ORGANIZED?**

20 A. The standard filing requirements call for Schedules G-1 through G-7. I have also
21 included Schedules G-8, G-9, and G-10. These schedules show cost based rate
22 designs which I will explain later in my testimony.

23 G Schedules with higher numbers, i.e. 5, 6 and 7 contain the allocation
24 factors and actual allocations to functions. These functions are then carried
25

1 forward to the summary G schedules 1, 2, 3 and 4, which allocate expenses and
2 plant (by function) to classes of customers (by meter size).

3 I will start my analysis using Schedule G-7 and end with Schedules G-2
4 and G-1. I will then describe Schedules G-8 and G-9.

5 **Q. WHAT IS A FUNCTION?**

6 A. Functions refer to the plant and the expenses needed to get the water (the
7 commodity) from the source (well or surface water) to the customer. The
8 functions are commodity, demand, customer, meter, and service.

9 Commodity refers to the actual volume of water delivered. The commodity
10 function is used to derive the commodity rate or the rate charged per unit of
11 measurement, i.e., 1,000 gallons of water. Demand refers to how the water system
12 is sized to deliver the water, which is normally determined by total customers and
13 fire flow requirements. Hence, the system is built to be able to deliver water (the
14 commodity) to customers, as well as the demand placed on the water system when
15 water is used to contain or fight a fire.

16 Customer, service, and meter functions are also used to develop the
17 monthly minimum charged to each class of customer. The full cost of the demand
18 function should also be included in the monthly minimum charge. However, the
19 practice of Commission Staff has been to allocate a portion of the demand
20 function to both the commodity rate and to the monthly minimum charge.

21 Demand, customer, service and meter functions refer to the delivery of the
22 water from the Association's wells, surface sources or reservoirs through the
23 transmission and distribution mains to the individual customer's premises. The
24 costs associated with demand, customer, service and meter functions are incurred
25

1 whether the customer uses 1,000 gallons or 1,000,000 gallons of water each
2 month.

3 Fire protection assets (e.g., hydrants) and expenses associated with fire
4 protection, including depreciation, should be allocated to the customer function
5 because fire protection generally benefits all customers on the system. This has
6 been the Commission's policy with regard to fire protection costs.

7 **Q. WHAT TYPE OF COST OF SERVICE STUDY DID YOU PREPARE TO**
8 **SUPPORT THE PROPOSED RATES AND WOULD YOU PROVIDE A**
9 **MORE DETAILED EXPLANATION OF FUNCTIONS?**

10 **A.** I used the Commodity / Demand Method for the cost of service study. This
11 method normally separates expenses and assets into three primary functions or
12 components: commodity; demand; customer (with further breakdown of customer
13 costs and plant into meter and service line).

14
15 Commodity costs are costs that tend to vary (change) with the production or
16 output of water. These costs would consist primarily of power costs, chemicals,
17 water treatment, purchased water, and other variable expenses. Please note that I
18 included a portion of the demand function into the commodity function to adhere
19 to Commission Staff's past practices.

20 Demand costs are capital and maintenance costs of facilities related to
21 meeting the peak demand or peak usage requirements. The plant assets which
22 cause the bulk of the demand cost are transmission and distribution mains.

23 Customer costs are those costs related to serving and/or having customers,
24 without regard to the amount of water used. These costs would include meter
25 reading, billing, customer accounting and collection, and the capital costs and

1 maintenance costs related to the meters, services, and customer equipment such as
2 meters, service lines, computers, office furniture, transportation equipment, etc.

3 **Q. AFTER COSTS ARE ALLOCATED TO FUNCTIONS, HOW ARE**
4 **EXPENSES AND ASSETS THEN ALLOCATED TO THE INDIVIDUAL**
5 **CLASSES OF CUSTOMERS?**

6 A. After the expenses and assets are allocated to the commodity, demand, customer,
7 service, and meter functions, the values for the functions were then allocated to
8 various customer classes. Customer classes are based on meter sizes on the
9 system.

10 **Q. DOES A COST OF SERVICE STUDY PROVIDE DATA TO DETERMINE**
11 **HOW THE TIERED RATE DESIGN SHOULD BE SET?**

12 A. No. The cost of service study will provide the cost of the commodity, but it will
13 not provide data on where rate tiers should be set. The tiers rates can be based on
14 studying the usage by the customers.

15 **Q. WOULD YOU PLEASE DESCRIBE AND EXPLAIN THE SCHEDULES**
16 **WHICH COMPRISE YOUR COST OF SERVICE STUDY, AND WOULD**
17 **YOU DESCRIBE HOW THE VARIOUS FUNCTIONS WERE**
18 **DEVELOPED?**

19 A. The allocations for the development of the class allocation factors are shown on
20 Schedule G-7, pages 1 through 3.

21 The commodity allocation is based on the number of gallons of water used
22 by customers on various sizes of meters, plus the gallons from the revenue
23 annualization to year end number of customers, divided by the total gallons of
24 water sold (including gallons from the revenue annualization) during the Test
25 Year. Thus, if 80,000,000 gallons of water were sold through the 5/8 inch meters,

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out of a total of 100,000,000 gallons of water sold by the water utility, this meter size would be allocated 80% of the commodity cost.

The demand allocation factor consists of the number of meters for each size of meter on the system, multiplied by the equivalent weight of each size of meter. The equivalent weight is determined by the flow capacity of each meter. A 5/8 inch meter can flow 20 gallons per minute, while a 6 inch meter can flow 1,000 gallons per minute. Thus, one 6 inch meter is equivalent to approximately fifty 5/8 inch meters. The larger meters are restated into equivalent 5/8 meters to derive a monthly meter charge for the 5/8 inch meter. Then based on flow capacity, monthly minimums are developed for larger meters.

The customer allocation factor is the number of customers on each size meter. The allocation is based on total meters, not equivalent meters. It costs no more to read a 6 inch meter than a 5/8 inch meter, nor does it cost more to issue a bill.

I computed the meter allocation factor by multiplying the number of meters times the most recent cost of installing a meter. (Costs were used from the Commission Staff Engineering memorandum originated by Marlin Scott, Jr., dated June 30, 2004.) The dollar weighted value of meters is then divided by the total computed meter cost to derive the meter allocation factor to each class of customer.

The service line allocations were computed in the same manner as the meters. That is, I used the values listed on the Commission Staff memorandum to derive a total value of the service lines. The allocation to each service line size was the result of dividing the dollar value of the service lines for each customer class by the total dollar value of the service lines.

1 Schedule G-7, page 2.1 lists the allocation of expenses for repairs and
2 maintenance and for contract services from A Quality Water, the outside contract
3 operator of the water system. A Quality Water provides services for meter
4 reading, water system operations, routine repairs and maintenance, and regulatory
5 compliance work. Allocation factors for repairs and maintenance were determined
6 by examining the repairs and maintenance expenses recorded during the test year
7 and use of professional judgment.

8 The depreciation expense allocations shown on Schedule G-6, page 2,
9 apply the allocation factors shown on Schedule G-7, page 2, times the depreciation
10 expense for each plant asset. For the demand function for Wells, Mains, Water
11 Treatment Equipment, and Pumping Equipment, I assumed an allocation factor of
12 90 percent. Ten percent of plant values and related depreciation expense for
13 Wells, Mains, Water Treatment Equipment, and Pumping Equipment was
14 allocated to the commodity function.

15 The depreciation expense was computed with the Association's proposed
16 depreciation rates. The proposed depreciation rates are the same rates as proposed
17 in the current case and are based on Commission Staff's recommendations in other
18 rate cases.

19 The operation and maintenance expense allocation to functions
20 (commodity, demand, customer, service, and meter) are shown on Schedule G-6,
21 page 1.

22 On Schedule G-5, page 2, I allocated net plant rather than gross plant, via
23 deducting the accumulated depreciation from each plant asset.

24 I deducted the advances in aid of construction ("AIAC") and contributions
25 in aid of construction ("CIAC") from the plant balances normally financed with

1 AIAC and CIAC, which would be primarily transmission and distribution mains. I
2 allocated the AIAC and CIAC to both the demand and commodity functions to be
3 consistent with my allocation of the transmission and distribution mains. The
4 allocations are shown on Schedule G-5, page 2.

5 Then I computed rate bases for each function (commodity, demand,
6 customer, service and meter). The rate bases by function are shown on Schedule
7 G-5, page 1. Rate base is not a factor in determining the revenue requirement for
8 non-profit utilities like ICR.

9 Schedule G-4 allocates the commodity, demand, customer, service and
10 meter expenses to meter sizes using the allocation factors developed on Schedule
11 G-7, page 3.

12 Schedule G-3 allocates the rate bases for commodity, demand, customer,
13 service, and meter to customer classes, which are meter sizes. Again, rate base is
14 not a factor in determining the revenue requirement for non-profit utilities like
15 ICR.

16 Schedules G-1 and G-2 derive the operating margins by customer classes
17 (meter sizes) at present and proposed rates respectively. The operating margins
18 are computed by dividing the operating income for each meter size by the
19 revenues provided through rates for that meter size.

20 Property taxes are allocated based on revenue, as this revenue is the main
21 factor in the method used by the Arizona Department of Revenue to determine the
22 full cash value of the utility.

23 Income Taxes are allocated based on taxable income on Schedules G-1 and
24 G-2. I should note that for non-profit utilities, the only income tax is the required
25 filing fee. Income taxes have little impact on the cost of service as a result.

1 Q. **WHAT CONSIDERATIONS HAVE YOU MADE IN THE STUDY?**

2 A. There are a number of special considerations.

3 First, for purposes of this study, and because the golf course is provided
4 service through a 6 inch meter, the golf course is included in the cost of service
5 study as if it was a 6 inch metered customer. As Mr. Busch has testified in his
6 Supplemental Rebuttal Testimony, the golf course is not a customer of the
7 Association.

8 Second, to develop the commodity allocation factors I used approximately
9 139.3 million gallons for the golf course 6 inch meter. This quantity of water
10 represents the quantity of water delivered to the golf course (approximately 125
11 million gallons) plus the unaccounted water (approximately 14.3 million gallons)
12 obtained from all three wells on the Talking Rock Ranch side of the system. In
13 reality, only 51 million gallons was delivered through the system to the golf course
14 from Association owned well (Production Well No. 3). I used approximately
15 139.3 million gallons for the golf course because charges to the golf course
16 include a wheeling charge for the use of the ICR mains to transport water to the
17 golf course and for construction water.

18 Third, for purposes of the cost of service study, \$11,415 of power costs
19 paid for by the golf course that are attributable to ICR's customers are included in
20 operating expenses and allocated to meter sizes other than the golf course 6 inch
21 meter.

22 Fourth, \$11,415 of power costs paid by the golf course that are attributable
23 to ICR customers are included in revenues from the golf course 6 inch meter.

24 Fifth, all purchased power costs in the study have been allocated to the 2
25 inch and smaller meters as none of the power costs in operating expenses are

1 attributed to the golf course 6 inch meter. As I have previously discussed, the golf
2 course pays all the power costs on the Talking Rock Ranch side of the system
3 including some costs attributable to ICR customers. The power costs recorded on
4 ICR's books during the Test Year are attributed to ICR customers only and not the
5 golf course. Total purchased power in the study totals \$27,654, which includes
6 \$16,239 recorded on the ICR books during the Test Year plus the \$11,415 paid for
7 by the golf course.

8 Sixth, an attempt was made in this study to account for and allocate to the
9 golf course 6 inch meter cost of service for the potential over sizing of the water
10 system to allow ICR to deliver large volumes of water to the golf course. It is not
11 clear whether or not any over sizing was actually made to the system to
12 accommodate the delivery of water to the golf course. The Talking Rock Ranch
13 transmission mains were designed to deliver water to customers at full build-out
14 which may have required the size mains presently installed. Nevertheless, to
15 address potential criticism of the study due to exclusion of over sizing impacts,
16 they were included. The potential incremental plant cost was estimated to be
17 \$158,395. This cost is the increment cost of increasing the transmission main size
18 from 10 inch to 12 inch. The depreciation impact for over sizing is \$3,168 and
19 this cost is allocated entirely to the golf course 6 inch meter cost of service.

20 **Q. WHAT IS THE RANGE OF THE OPERATING MARGINS FOR THE**
21 **VARIOUS METER SIZES AT PRESENT RATES?**

22 **A.** As shown on Schedule G-1, the operating margins vary substantially between the
23 various meter sizes at present rates. The golf course 6 inch meter provides the
24 highest operating margins at present rates at 38.68 percent. The 5/8 inch meter
25 size provides the lowest operating margin at present rates at a negative 35.81

1 percent. The 5/8 inch meter size is serving most of the customers on the system
2 while at the same time providing the lowest operating margin – even one that is
3 significantly negative.

4 **Q. WHAT IS THE OPERATING MARGIN FOR THE VARIOUS METER**
5 **SIZES AT PROPOSED RATES?**

6 A. As shown on Schedule G-2, the operating margins at proposed rates also vary
7 substantially between the various meter sizes. The golf course 6 inch meter
8 provides the highest operating margin at 40.24 percent. The 5/8 inch meter size
9 provides the lowest operating margin at present rates at 1.68 percent. Even under
10 proposed rates, the 5/8 inch meter size provides the lowest operating margin.

11 **Q. WHAT DOES THE COST OF SERVICE STUDY INDICATE?**

12 A. The 5/8 meter size is being subsidized by the 2 inch meter size and the golf course
13 6 inch meter. If the goal of the proposed rate design is to achieve an overall 14.5
14 percent operating margin and the 5/8 inch meter size provides for only 1.68
15 percent operating margin, then the 5/8 inch meter class is not paying its “fair
16 share” of the cost of service. The deficit in the revenues provided by 5/8 inch
17 meter size is being made up by the 2 inch meter size and the golf course 6 inch
18 whose operating margins are far greater than the overall 14.5 percent operating
19 margin at 36.03 percent and 40.24 percent, respectively.

20 More importantly, the overall operating margin at proposed rates provided
21 by meter sizes other than the golf course 6 inch meter is 9.13 percent – less than
22 the 14.5 percent operating margin. Without the golf course 6 inch meter, with a
23 40.24 percent, the overall operating margin would not be achieved.

24
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1 Q. WHY DO YOU REFER TO A 14.5 PERCENT OPERATING MARGIN
2 WHEN, IN THE INSTANT CASE, THE OPERATING MARGIN USED TO
3 COMPUTE THE REVENUE REQUIREMENT IS 15 PERCENT?

4 A. The overall operating margin in the cost of service study at proposed rates is 14.5
5 percent due primarily to the inclusion of power costs of \$11,415 in operating
6 expenses and in revenues. The net effect on operating income is zero but the
7 operating margin is skewed because total revenues are higher. You will find on
8 the G-2 schedule that the total operating income of \$53,489 matches the
9 Association's rejoinder schedule C-1 operating income of \$53,489 at proposed
10 rates. Put simply, we are dividing the operating income by a higher revenue
11 number so the operating margin is lower but the operating income in dollars is the
12 same.

13 Q. IF THE COST OF OVER SIZING THE MAINS WERE DOUBLED OR
14 EVEN TRIPLED, WOULD THE INDICATIONS OF THE COST OF
15 SERVICE STUDY AND YOUR CONCLUSIONS CHANGE?

16 A. No. If the plant costs for over sizing were tripled to \$475,185 (\$158,395 times 3)
17 the depreciation impact would triple to \$9,504 (\$3,168 times 3). The golf course
18 6 inch meter would still provide a much higher operating margin than the 5/8
19 meter at present and proposed rates. In fact, the operating margin for the golf
20 course 6 inch meter at present and proposed rates would be 30.30 percent and
21 31.98 percent, respectively. Compare this to the operating margins shown in the
22 cost of service study of 38.68 percent and 40.24 percent, respectively. The 5/8
23 inch meter would still be subsidized by the golf course even though the 5/8 inch
24 meter operating margin would improve to a negative 33.37 percent and 3.44
25 percent under present and proposed rates, respectively.

1 Q. DID YOU PREPARE SCHEDULES SHOWING RATE DESIGNS BASED
2 ON THE COST OF SERVICE STUDY?

3 A. Yes. Cost based monthly minimums and commodity rates are shown
4 Schedules G-8 and G-9. Schedule G-8 shows cost based rates for ICR customers
5 exclusive of the golf course, while Schedule G-9 shows cost based rates for the
6 golf course assuming the golf course is a customer. However, as I stated earlier,
7 Mr. Busch has testified that the golf course is not a customer, so Schedule G-9 is
8 for demonstrative purposes only.

9 It is important to note that the combined rate designs will achieve the over
10 all 14.5 percent operating margin. The rate design on Schedule G-8 (for ICR
11 customers) will achieve a 9.18 percent operating margin, while the rate design on
12 Schedule G-9 (for the golf course and construction water) will achieve a 40.24
13 percent operating margin.

14 Q. WOULD YOU PLEASE DISCUSS SCHEDULE G-8?

15 A. Schedule G-8 computes the cost based monthly minimums for each meter size and
16 the commodity rates. The golf course cost of service is excluded from the
17 computation as I have computed cost based monthly minimums and commodity
18 rates for the golf course separately on Schedule G-9 which I will discuss later. On
19 Schedule G-8, in the monthly minimums for each size meter, I have included the
20 demand related expenses and capital costs. The computed monthly minimum
21 gives guidance on the rates that should be charged regardless of customer water
22 usage. The proposed rates in the instant case as to monthly minimum charges on
23 the H-3 schedule are noticeably below what the computed monthly minimums
24 shown on Schedule G-8, page 3.

25 The computed commodity rate is substantially below the proposed

1 commodity rate (and for that matter, below the present commodity rates) for the
2 first tier (compare to the proposed commodity rates shown on the Association's
3 Rebuttal Schedule H-3). The disparity (computed cost vs. proposed rates)
4 continues as you compare the proposed rates using tier two or three tier rates.

5 **Q. WHAT IS THE MONTHLY MINIMUM FOR A CUSTOMER ON A 5/8**
6 **INCH METER THAT YOU COMPUTED IN YOUR COST OF SERVICE**
7 **STUDY?**

8 **A.** The monthly minimum, with no water in that minimum, should be \$53.00 when
9 you include the allocations for expenses and plant for the function of demand,
10 customer, meter and service line.

11 **Q. HOW DOES THE COMPUTED MONTHLY MINIMUM CHARGE**
12 **COMPARE TO THE ASSOCIATION'S PROPOSED MONTHLY**
13 **MINIMUM?**

14 **A.** The proposed monthly minimum for a 5/8 inch meter is \$26.20, or approximately
15 49 percent of the computed monthly minimum of \$53.00 as shown on Schedule G-
16 8, page 3. Thus, the proposed monthly minimum does not reflect the actual cost
17 for the monthly minimum.

18 **Q. WHAT IS THE COMPUTED COMMODITY CHARGE, WITHOUT**
19 **REGARD TO TIERS, THAT WOULD BE DERIVED FROM YOUR COST**
20 **OF SERVICE STUDY?**

21 **A.** The computed commodity rate is \$1.13 per 1,000 gallons of water from the cost of
22 service study (Schedule G-8, page 3).

23 **Q. HOW DOES THE COMPUTED COMMODITY RATE COMPARE TO**
24 **THE ASSOCIATION PRESENT AND PROPOSED COMMODITY**
25 **RATES?**

1 A. The present commodity rate being charged is \$2.80 per 1,000 gallons. This rate is
2 approximately 2.5 times what it costs to produce the water.

3 The Association's proposed commodity rates are \$2.984 for tier one,
4 \$3.384 for the tier two, and \$4.454 for tier three for the 5/8 inch meter. The
5 proposed second tier rates are nearly 3 times the cost to produce the water while
6 the proposed third tier rate is nearly 4 times the cost to produce the water. Thus,
7 the proposed second tier and third tier commodity rates are vastly overstated when
8 compared to the cost to produce the water.

9 **Q. DOES THE FACT THAT THE ASSOCIATION WILL BE COLLECTING**
10 **MONTHLY MINIMUMS SUBSTANTIALLY BELOW THE MONTHLY**
11 **MINIMUM COST AND COMMODITY RATES SUBSTANTIALLY**
12 **ABOVE THE COMMODITY COST ADD RISK TO THE ASSOCIATION?**

13 A. Yes. The risk is quite substantial. Inverted multi-tier rates designs as proposed in
14 this case encourage conservation. If conservation is actually achieved, usage will
15 decline and it will cause a substantial shortfall in the revenues the Association
16 collects. That means that it will be impossible to actually achieve the requested
17 operating margin.

18 **Q. COULD YOU ILLUSTRATE THE ABOVE ANSWER?**

19 A. Yes. Schedule G-10 illustrates what happens when conservation is achieved. The
20 operating margin is shown based on a 5/8 inch metered customer. I have
21 constructed the illustration showing the profit or loss that is achieved at increments
22 of 1,000 gallons through 100,000 gallons of monthly usage. The cross over point
23 going from a loss to a profit is between 10,000 and 12,000 gallons and is
24 substantially above the average usage for the 5/8 inch meter customer class of
25 approximately 7,100 gallons. By pricing the monthly minimum substantially

1 below cost and the commodity rate substantially above cost, the Association will
2 under earn if water sales drop. Conversely, if water sales increase, there is the
3 potential to over earn. Although in this particular case, since the average usage is
4 well below the break-even point, the potential to over earn is less likely than the
5 potential to under earn.

6 **Q. THE ASSOCIATION CURRENTLY HAS A SINGLE TIER RATE**
7 **DESIGN. IS MOVING FROM A SINGLE TIER DESIGN TO A TWO OR**
8 **THREE TIER DESIGN THE RISK YOU REFER TO?**

9 **A.** Yes. With the proposed rate design, the monthly minimum is being substantially
10 subsidized by the commodity rate. In other words, the Association must recover
11 large amount of fixed costs, through sales of water, which can vary based on
12 weather, or conservation efforts. Any conservation by customers will substantially
13 impact the Association's net income.

14 **Q. WHAT HAPPENS WHEN THE MONTHLY MINIMUMS AND**
15 **COMMODITY RATES ARE NOT PRICED AT COST?**

16 **A.** Two things can happen. If customers don't conserve and usage increases rather
17 than decreases, the Association will over earn. If customers conserve, or just use
18 less water due to more rainfall, the Association will under earn. If usage changes
19 substantially, either up or down, the impacts I just referred to will be magnified.

20 **Q. BUT EVEN IF THE MONTHLY MINIMUMS AND COMMODITY RATES**
21 **ARE PRICED AT COST, WOULDN'T THE ASSOCIATION STILL OVER**
22 **OR UNDER EARN IF CUSTOMERS USE MORE OR LESS WATER,**
23 **THAN WAS USED TO IN THE TEST YEAR?**

24 **A.** Yes, but to a far lower extent.
25

1 Q. WHAT WOULD BE A SINGLE TIER RATE DESIGN FOR ICR
2 CUSTOMERS ASSUMING APPROXIMATELY THE SAME LEVEL OF
3 REVENUES WERE RECOVERED THROUGH THE MONTHLY
4 MINIMUM AS PROVIDED BY THE ASSOCIATION'S PROPOSED
5 MONTHLY MINIMUMS?

6 A. On Schedule G-8, page 4, I set forth a computation of a single tier rate design.
7 The rate design assumes rates charged a rate sufficient to recover the ICR
8 customers cost of service which would include the 9.18 percent operating margin.
9 As shown, the 5/8 inch month minimum would be \$26.78 and the commodity rate
10 \$4.158. My computation contemplates 45 percent of the demand costs and 45
11 percent of the customer, service and meter costs included in the computation of the
12 monthly minimum. The 45 percent is approximately the percentage of proposed
13 revenues recovered through the monthly minimums in the instant case. In my
14 experience, the monthly minimums under Staff's proposed rate designs typically
15 recover 40 to 50 percent of the "fixed costs". Thus 45 percent is not an
16 unreasonable figure.

17 The computed monthly minimum of \$26.78 is relatively close to the
18 proposed monthly minimum of \$26.20. The computed commodity rate of \$4.158
19 is higher than both the proposed first tier rate of \$2.984 and the proposed second
20 tier rate of \$3.834, but lower than the third tier rate of \$4.454. Because the
21 commodity rates for the first and second tier are below the computed commodity
22 rate, the Association faces increased risk of not recovering the revenue
23 requirement if water sales are negatively impacted by conservation and weather.
24
25

1 Q. **WOULD YOU PLEASE DISCUSS SCHEDULE G-9?**

2 A. Schedule G-9 computes the cost based monthly minimum for the golf course 6
3 inch meter and the commodity rate assuming it were charged a rate sufficient to
4 recover its cost of service which would include the 40.24 percent operating
5 margin. As on Schedule G-8, I have included the demand related costs and capital
6 costs on Schedule G-9 in the monthly minimum. The computed monthly
7 minimum provides guidance on the rate that should be charged regardless of the
8 golf course water usage. As can be seen from Schedule G-9, page 3, the
9 computed commodity rate is substantially below the proposed commodity rates for
10 the second and third tiers as shown on Rebuttal Schedule H-3 for the 6 inch meter.

11 Q. **DOES YOUR COMPUTATION INCLUDE WATER QUANTITIES FROM**
12 **ALL THREE WELLS AND NOT STRICTLY FROM THE ASSOCIATION**
13 **OWNED WELL?**

14 A. Yes, this is to be consistent with the gallons used in the cost of service study for
15 the golf course and construction water. The water from the two production wells
16 not currently owned by the Association is not the Association's water to sell.
17 Only 51 million gallons came from to the ICR owned well and used on the golf
18 course. Construction water of 14.3 million gallons came from the two other
19 production wells. By using 139 million gallons, the commodity cost is skewed to
20 the golf course.

21 I should also note that the power costs associated with serving the golf
22 course are not included in the study. As I testified, TR Golf and Harvard currently
23 pay over \$68,000 of power costs attributed to the golf course and construction
24 water. If ICR takes responsibility for all power costs, then the commodity rate
25 would be higher as a result.

1 Q. WHAT IS THE MONTHLY MINIMUM FOR THE GOLF COURSE 6
2 INCH METER THAT YOU COMPUTED IN YOUR COST OF SERVICE
3 STUDY?

4 A. The monthly minimum, with no water in that minimum, should be approximately
5 \$3009 when you include the allocations for expenses and plant for the function of
6 demand, customer, meter and service line.

7 Q. HOW DOES THE COMPUTED MONTHLY MINIMUM CHARGE
8 COMPARE TO THE ASSOCIATION'S PROPOSED MONTHLY
9 MINIMUM FOR A 6 INCH METER?

10 A. The proposed monthly minimum for a 6 inch meter is \$1,310, or approximately 43
11 percent of the computed monthly minimum of \$3,009 as shown on Schedule G-9,
12 page 3. Thus, the proposed monthly minimum does not reflect the actual cost for
13 the monthly minimum if the proposed monthly minimum were to be used.

14 Q. WHAT IS THE COMPUTED COMMODITY CHARGE FOR THE GOLF
15 COURSE, WITHOUT REGARD TO TIERS, THAT WOULD BE DERIVED
16 FROM YOUR COST OF SERVICE STUDY?

17 A. The computed commodity rate is \$0.20 per 1,000 gallons (\$65.17 per acre foot) of
18 water as shown on Schedule G-9, page 3.

19 Q. WHAT WOULD BE A SINGLE TIER RATE DESIGN FOR THE GOLF
20 COURSE ASSUMING APPROXIMATELY THE SAME LEVEL OF
21 REVENUES WERE RECOVERED THROUGH THE MONTHLY
22 MINIMUM AS PROVIDED BY THE ASSOCIATION'S PROPOSED
23 MONTHLY MINIMUMS?

24 A. On Schedule G-9, page 4, I set forth a computation of a single tier rate design. As
25 shown, the 6 inch month minimum would be approximately \$1,655 and the

1 commodity rate \$0.317. Again, my computation contemplates 45 percent of the
2 demand costs and 45 percent of the customer, service and meter costs included in
3 the computation of the monthly minimum, as discussed earlier. The computed
4 monthly minimum of \$1,655 is higher than the proposed 6 inch meter monthly
5 minimum of \$1,310. The computed commodity rate of \$0.317 is significantly
6 lower than both the proposed first tier rate of \$3.834 and the proposed second tier
7 rate of \$4.454 for the 6 inch meter.

8 **V. ANALYSIS OF THE REVENUE REQUIREMENT WITHOUT THE GOLF**
9 **COURSE**

10 **Q. WHAT IS THE PURPOSE OF YOUR ANALYSIS OF THE REVENUE**
11 **REQUIREMENT WITHOUT THE GOLF COURSE?**

12 **A.** The purpose of my analysis is to determine the revenue increase or decrease that
13 would be required if the golf course were to be served by a separate stand alone
14 system.

15 **Q. PLEASE EXPLAIN YOUR ANALYSIS.**

16 **A.** The proforma analysis assumes the revenues provided by TR Golf and Harvard
17 (for golf course water and construction water) to ICR are eliminated from
18 revenues, and power costs currently paid for by TR Golf and Harvard on behalf of
19 ICR customers are included in operating expenses. It also assumes the revenue
20 increase required would be necessary to achieve an required operating income
21 equal to the required operating income of \$53,489 on the Association's Rebuttal
22 Schedule A-1 To illustrate, I prepared proforma schedules A-1, C-1, and C-2,
23 attached as Supplemental Rebuttal Exhibit 2.

24 As shown on the proforma schedule A-1, the adjusted operating income
25 without the golf course is a negative \$97,546. To achieve the same operating

1 income as the Association has proposed in this case, or \$53,489, a 14.53 percent
2 operating margin is required and a revenue increase of \$151,183 is necessary.
3 The revenue increase over the proforma adjusted revenues is nearly 70 percent
4 compared to the 33 percent proposed by the Association in the instant case.

5 **Q. PLEASE EXPLAIN THE PROFORMA SCHEDULE C-1 AND THE**
6 **ADJUSTMENTS MADE TO DETERMINE THE OPERATING INCOME**
7 **WITHOUT THE GOLF COURSE IS A NEGATIVE \$97,546.**

8 **A.** The proforma schedule C-1 shows adjusted the revenues and expenses without the
9 golf course. The proforma C-1 schedule starts with the adjusted test year
10 revenues and expenses per the Association's Rebuttal Schedule C-1. The rebuttal
11 adjusted revenues, operating income, and operating expenses are \$268,047,
12 \$35,058, and \$303,105, respectively. Next, revenue and expense adjustments to
13 reflect the revenues and operating expenses without the golf course are shown.
14 The details of the adjustments are shown on the proforma schedule C-2, pages 1
15 through 3 and are as follows:

- 16 1. Adjustment number 1 removes 46,944 of golf course expense
17 reimbursement revenues recorded during the test year.
- 18 2. Adjustment number 2 removes \$4,277 of wheeling charge attributed
19 to the golf course and construction water from metered revenues.
- 20 3. Adjustment number 3 increases purchased power by \$11,415 of
21 power costs incurred by TR Golf and Harvard but attributable to ICR
22 customers.

23 **Q. WHY DID YOU NOT ADJUST DEPRECIATION EXPENSE?**

24 **A.** Because the depreciation expense will be there whether or not the golf course is
25 present. With the golf course absent from the system, the full amount of

1 depreciation will need to be recovered from ICR customers.

2 **Q. DOES THE ASSOCIATION'S CAPITALIZATION CONSIST**
3 **EXCLUSIVELY OF ZERO COST CAPITAL?**

4 A. Yes. All of the Association's plant-in-service is funded with either AIAC or
5 CIAC. It is no surprise that the rate base in the instant case is negative. In other
6 words, there is no member equity financing any of the plant.

7 **Q. WHY IS THERE DEPRECIATION IF THE PLANT IS EXCLUSIVELY**
8 **FUNDED WITH ZERO COST CAPITAL?**

9 A. While no depreciation is allowed in rates for plant funded with CIAC,
10 depreciation is allowed in rates for plant funded with AIAC. Presumably, the
11 cash flows from depreciation are used for refunds on AIAC. Generally, in the
12 early years of an AIAC contract, refunds are less than the depreciation cash flows
13 providing a positive net cash flow to the Association. This helps provide some
14 financial stability while the system grows to full build-out. For most refundable
15 line extension agreements, by the time full build-out occurs, the agreement expires
16 and any remaining un-refunded balance reverts to a CIAC. Typically, no more
17 than about 30-40 percent of the original line extension agreement amount ever
18 gets refunded.

19 **Q. WOULD DEPRECIATION EXPENSE AND RATES BE LOWER IF THE**
20 **ICR PLANT WAS 100 PERCENT CONTRIBUTED?**

21 A. Yes. However, I believe that having 100 percent contributed plant isn't
22 financially healthy. Depreciation is recovery of investment in plant. Eventually,
23 plant has to be upgraded and/or replaced. Cash flows from depreciation,
24 particularly for non-profit companies, can be used to build up a plant replacement
25 reserve for these eventualities. Cash reserves can also be used to address unusual

1 events such as significant emergency repairs. If rates were lower as a result of
2 100 percent contributed plant, the Association (and its ratepayer members) would
3 not have this cash "cushion", so to speak. Non-profits, in particular, should have
4 an appropriate cash reserve since their ability to raise additional capital is limited.

5 **Q. IT APPEARS FROM YOUR PROFORMA SCHEDULE C-1 THAT**
6 **OPERATING EXPENSES INCREASE WITHOUT THE GOLF COURSE**
7 **PRESENT?**

8 **A.** That's correct. If the golf course is no longer there, ICR customers will need to
9 pay the power costs that are currently being paid for by TR Golf and Harvard.

10 **Q. WHAT IS THE NET IMPACT ON THE ICR OPERATING INCOME**
11 **WITHOUT THE GOLF COURSE?**

12 **A.** Operating income drops from a negative \$35,058 to a negative \$97,546 - a
13 reduction in operating income of \$62,488. In order to achieve the same operating
14 income as proposed in the instant case, a \$151,183 increase is required compare to
15 the \$88,547 increase proposed by the Association in the instant case.

16 **VI. RESPONSE TO THE DIRECT TESTIMONY OF DAYNE TAYLOR**

17 **Q. PLEASE RESPOND TO MR. TAYLOR'S RECOMMENDATION TO**
18 **CREATE TWO STAND-ALONE SYSTEMS: ONE FOR THE GOLF**
19 **COURSE AND ONE FOR THE ICR CUSTOMERS.**

20 **Q.** Mr. Taylor seems to make this recommendation on the belief that by creating two
21 stand-alone systems, the operating and maintenance and depreciation obligations
22 to the residential customers would be considerably less. *See* Direct testimony of
23 Dayne Taylor ("Taylor Dt.") at Recommendations. As my analysis of the
24 revenue requirement without the golf course shows, operating expenses would
25 increase, not decrease. Even if potential "over sizing" of the water system exists,

1 the impact on operating expense is small. As the cost of service study shows, the
2 estimated impact is less than \$3,200 annually. Even if this amount is taken into
3 consideration, operating expenses (including depreciation) would increase, not
4 decrease.

5 **Q. PLEASE RESPOND TO MR. TAYLOR'S TESTIMONY ON PAGE 3, IN**
6 **WHICH HE ASSERTS THAT LOWER "RATES" ARE CHARGED TO**
7 **THE GOLF COURSE THAN TO THE RESIDENTIAL CUSTOMERS.**

8 **A.** Putting aside the fact that TR Golf and Harvard are not customers of ICR, the cost
9 of service study demonstrates that TR Golf and Harvard are paying significantly
10 more than their cost of service. In fact, residential customers are being subsidized
11 by both the 2 inch meter size and golf course 6 inch meter. Even if TR Golf and
12 Harvard were to be considered customers, based on the cost of service study, my
13 recommendation would be that they not be charged the same rates as residential
14 customers. In fact, I would recommend rates for the golf course that are designed
15 to recover the cost of service. Thus, no subsidization would occur under the new
16 rate design in order to equitable to all classes of customers. This in turn would
17 mean that residential customers pay more and the golf course less under a fair and
18 equitable rate design. I have previously discussed a single tier rate design which
19 would maintain the current level of subsidization afforded to residential customers
20 by the golf course on pages 28 and 29 of my testimony. If all classes of customers
21 were to contribute equally (no subsidization), the golf course would pay lower
22 rates, while the 5/8 inch meter (residential class) would pay higher rates.

23 **Q. HAVE LARGE VOLUME USERS LIKE GOLF COURSES BEEN**
24 **AFFORDED RATES DIFFERENT THAN RESIDENTIAL CUSTOMERS**
25 **BY THIS COMMISSION?**

1 A. Yes. An example is Chaparral City Water Company. In Decision 68176
2 (September 30, 2005), the irrigation/bulk water commodity rates were much lower
3 than the commodity rates for residential customers. In Decision 68176, the
4 irrigation/bulk commodity rate approved was \$1.56 per 1,000 gallons. This rate
5 applied to all gallons sold. The commodity rates for the residential class
6 customers (3/4 inch meter) were \$1.68, \$2.52, and \$3.03 per 1,000 gallons for the
7 first, second and third tiers, respectively.

8 **Q. IF THE GOLF COURSE WERE TO PAY TARIFF RATES WOULD YOU**
9 **RECOMMEND THE GOLF COURSE PAY THE SAME COMMODITY**
10 **RATES AS THE RESIDENTIAL CUSTOMERS?**

11 A. No. The cost of service study already demonstrates that the golf course is
12 subsidizing the residential class (5/8 inch meter). If the golf course paid
13 residential rates, the residential class would be even more subsidized than it
14 already is. Further, if TR Golf were to be charged the proposed rates in the
15 instant case, the revenues provided to ICR would, at a minimum, increase four-
16 fold to nearly \$240,000 annually. The increase to the golf course may have the
17 unintended consequences, such as a protracted and costly legal battle to unravel
18 the Well Agreement and much higher rates to ICR customers in the future if the
19 golf course leaves the system - as my analysis of the revenue requirement without
20 the golf course demonstrates.

21 **Q. HOW DID YOU COMPUTE THE \$240,000?**

22 A. I assumed the golf course would pay the \$1,310 monthly minimum. Annually,
23 this is \$15,720. The first block revenues (425,000 gallons) would be computed as
24 12 months times 425 (thousand gallons) times the proposed commodity rate of
25 \$3.834 equaling \$19,553. The second block revenues would be computed as

1 50,878 (thousand gallons) annual gallons from the Association owned well less the
2 first block gallons of 5,400 (thousand gallons) times the second tier commodity
3 rate of \$4,454 equaling \$202,559. Together the revenues equal \$237,832
4 (\$15,720 + \$19,533 + \$202,559), nearly \$240,000. My computation does not
5 include wheeling charges for the balance of the water from the other two
6 production wells delivered to the golf course and construction water.

7 **Q. PLEASE CONTINUE.**

8 **A.** Putting aside the further subsidization of the residential class if proposed rates are
9 used, an unintended consequence of such an increase would be that the golf course
10 leaves the system, no longer providing current subsidization to residential
11 customers. As I will discuss, my analysis of the revenue requirement without the
12 golf course shows that residential customers would see a nearly 70 percent
13 increase rather than the 33 percent increase proposed in the instant case. In
14 addition, in my non-legal opinion, the Association may face significant legal costs
15 to sever the Well Agreement – costs which it cannot afford.

16 **Q. WHAT WOULD HAPPEN IF THE COMMISSION IMPUTES REVENUES**
17 **FROM THE GOLF COURSE TO ICR AT THE PROPOSED RATES FOR**
18 **ICR CUSTOMERS AND THE ASSOCIATION DOES NOT RECOVER**
19 **THOSE REVENUES?**

20 **A.** The revenues produced by the imputed rates would be a fiction. This will have
21 serious financial consequences to the Association. Ultimately, the member-
22 customers of ICR will suffer.

23 **Q. BASED ON YOUR TWO ANALYSES (THE COST OF SERVICE STUDY**
24 **AND THE ANALYSIS OF THE REVENUE REQUIREMENT WITHOUT**
25 **THE GOLF COURSE), DO ICR CUSTOMERS BENEFIT FINANCIALLY**

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FROM THE WELL AGREEMENT WITH TR GOLF AND HARVARD?

A. Yes. Assuming the Well Agreement remains in place and the same level of revenues provided during the Test Year are provided to the Association in the future, ICR customers will benefit.

Q. DOES THAT CONCLUDE YOUR TESTIMONY?

A. Yes.

8635031.4

SUPPLEMENTAL REBUTTAL

EXHIBIT 1

WELL AGREEMENT

THIS WELL AGREEMENT (this "Agreement") is made this 25th day of February, 2003 by and between ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Utility"), HARVARD SIMON I, L.L.C., an Arizona limited liability company ("Developer"), and TALKING ROCK GOLF, L.L.C., an Arizona limited liability company ("Talking Rock Golf") for the purposes and considerations hereinafter set forth.

RECITALS

A. Developer is the Second Beneficiary under the First American Title Insurance Agency of Yavapai, Inc. Trust No. 4750, which trust owns approximately 3,470 acres of real property situated in Yavapai County, Arizona, more particularly described in Exhibit "A" attached hereto and incorporated herein by this reference (the "Property"). Developer is authorized to obtain water and wastewater utility services for the Property. A portion of the Property, approximately 400 acres, was previously located within Utility's Certificate of Convenience and Necessity ("CC&N") as shown in the map attached hereto as Exhibit "B" and incorporated herein by this reference. Until recently, the remainder of the Property, approximately 3,070 acres (the "Extension Area"), as shown in Exhibit "B," was not located in the certificated service area of the Utility or of any other certificated water utility provider or in the service area of any municipal water utility service provider. The majority of the Property, approximately 2,500 acres, is located in an area eligible for membership in Utility pursuant to Utility's By-Laws.

B. Utility is a public service corporation as defined in Article XV, Section 2 of the Arizona Constitution and, as such, is regulated by the Arizona Corporation Commission ("Commission"). Utility has been granted a CC&N by the Commission authorizing Utility to provide water utility services.

C. Developer is developing a residential community at the Property to be known as the Talking Rock Ranch that will contain approximately 1627 residential dwellings, certain common areas and a ranch compound with a clubhouse, swimming pool, tennis courts and a health and fitness center. Developer requested that water utility service be extended and provided to the Property by Utility in furtherance of Developer's planned development of the Property. Pursuant to that Main Extension Agreement (Water Service) dated March 5, 2001, between Utility and Developer (the "Main Extension Agreement"), Utility sought approval from the Commission to extend Utilities' CC&N to include the Extension Area and to take all other actions and obtain other government approvals as necessary in connection with the extension of Utility's CC&N to include the Extension Area. Thereafter, Utility is willing to extend water utility service to the Property in accordance with the terms and conditions set forth in the Main Extension Agreement and in accordance with relevant law, including the rules and regulations of the Commission.

D. Pursuant to the Main Extension Agreement, Developer is obligated to construct and install certain Facilities, as defined in the Main Extension Agreement, including without limitation an off-site water transmission main (the "Off-Site Main") described in Exhibit "C" to the Main Extension Agreement.

E. On January 15, 2002, the Commission issued Decision No. 64630, extending Utilities' CC&N to include the Extension Area, subject to certain conditions stated in the Decision. One condition stated in Decision No. 64630 is that Developer should advance to Utility the wells Developer has drilled for the purpose of providing water to the Property.

F. Pursuant to that First Amendment to Main Extension Agreement to be executed by the parties concurrently with their execution of this Agreement (the "First Amendment"), the Facilities to be constructed and installed by Developer will include the Production Wells, as herein defined. Upon the Commission's approval of the First Amendment, the term 'Main Extension Agreement' used herein shall mean the Main Extension Agreement as modified by the First Amendment.

G. Talking Rock Golf has constructed an 18-hole golf course at the Property, with a driving range, other practice facilities, storage lakes and related amenities and facilities (the "Golf Course"). Except as provided in the Main Extension Agreement, Talking Rock Golf will arrange for its own supply of water to the Golf Course for construction of the Golf Course, and for landscape irrigation, lake fill and other nonpotable purposes, as provided in this Agreement.

H. Developer has drilled two wells on the real property described on Exhibit "D" (the "Wellsite"). Talking Rock Golf owns the Wellsite. Pump tests of the wells indicate that the wells at the Wellsite have the potential to produce an adequate quality and quantity of water for Utility to use as a domestic water supply for the Property. In addition, pump tests indicate that wells at the Wellsite and at property adjacent to the Wellsite have the potential to produce an adequate quality and quantity of water to supply construction water and to provide the Golf Course with water for landscape irrigation and lake fill purposes.

I. Utility wishes to use water from wells drilled at the Wellsite as a domestic water supply for the Property, and Developer is willing to convey certain wells at the Wellsite to Utility for use as the domestic water supply for the Property, on the terms, conditions and restrictions contained herein.

NOW, THEREFORE, in consideration of the following covenants and agreements, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereby agree as follows:

AGREEMENTS

1. Construction of Wells by Developer.

(a) Developer has caused two wells to be drilled, constructed, installed and equipped at the Wellsite, as depicted on Exhibit "E." Production Well 2 and Production Well 3, both as depicted on Exhibit "E", are sometimes referred to herein, individually, as a "Production Well," and, together, as the "Production Wells." In addition, Developer has caused a third well to be drilled, constructed, installed and equipped at property located immediately adjacent to the Wellsite (the "Adjacent Property"), which well is depicted on Exhibit "E" as Production Well 1. Well pump tests conducted by Southwest Ground-water Consultants, Inc. indicate that Production Well 2 has an estimated production capacity of 530 gallons per minute ("gpm"), assuming pumping for 12 hours per day independent of Production Well 1 and

Production Well 3, and Production Well 3 has an estimated production capacity of 430 gpm, assuming pumping for 12 hours per day, independent of Production Well 1 and Production Well 2. Developer has provided to Utility a copy of a letter dated October 31, 2002 summarizing the pump tests run by Southwest Ground-water Consultants, Inc. on Production Well 2 and Production Well 3.

(b) Developer obtained approval to construct the Production Wells from all agencies having regulatory jurisdiction, including Yavapai County Environmental Services Department and Arizona Department of Environmental Quality ("ADEQ"). Developer has caused Production Well 2 and Production Well 3 to be drilled, constructed, installed and equipped at the Well site in substantial accordance with the design for the same approved by Yavapai County Environmental Services Department and ADEQ. Utility's engineers have tested and inspected Production Well 2 and Production Well 3. Based on that inspection and testing, Utility has requested several modifications to the equipment installed at the Production Wells as described in that letter to Shephard-Wesnitzer, Inc. from Dava and Associates dated June 19, 2002 (the "Well Modifications").

2. Transfer and Conveyance of Production Well 3. Immediately following the approval of the First Amendment by the Commission or the Commission staff (as necessary) and the approval by the Commission or the Commission staff (as necessary) of this Well Agreement, if such approval is required by the Commission, Developer will transfer and convey Production Well 3 to Utility, including all equipment, pumps, motors, valves, pipes, electrical system, and other appurtenances, by Bill of Sale in form attached as Exhibit "F," and on the terms and conditions stated in paragraph 4. In the Bill of Sale for Production Well 3, Developer will also transfer and convey to Utility the piping, valves and other facilities necessary to connect Production Well 3 to the Off-side Main (such piping, valves and other facilities being referred to herein as the "PW-3 Connection Facilities").

3. Transfer and Conveyance of Production Well 2. On or before the date that Utility provides water service to the 800th single-family residence at the Property, Talking Rock Golf will transfer and convey Production Well 2 to Utility, including all equipment, pumps, motors, valves, pipes, electrical system and other appurtenances, by Bill of Sale in the form attached as Exhibit "F," and on the terms and conditions stated in paragraph 4. In the Bill of Sale for Production Well 2, Talking Rock Golf will also transfer and convey to Utility the piping, valves and other facilities necessary to connect Production Well 2 to the Off-Site Main (such piping, valves and other facilities being referred to herein as the "PW-2 Connection Facilities").

4. Terms and Conditions of Transfer and Conveyance. The transfer and conveyance of Production Well 2 and the transfer and conveyance of Production Well 3 shall each be on the following terms and conditions:

(a) Concurrently with the execution of the Bill of Sale for Production Well 3 and the execution of the Bill of Sale for Production Well 2, as the case may be, Talking Rock Golf will grant an easement to Utility over, under, upon and across the Well site, together with an access easement over and across the Well site and other property allowing ingress and egress to the Production Well then being conveyed from a public right-of-way, and a pipeline easement, if necessary, for the Off-Site Main or for the PW-3 Connection Facilities and the PW-2 Connection Facilities, in form attached as Exhibit "G" (each, an "Easement"). The Well site

and other property over which the Easement is granted is referred to herein as the "Easement Area".

(b) Each Production Well and the Easement therefor will be transferred, conveyed and granted subject to taxes and assessments not yet due and payable, and subject to the terms, limitations and conditions stated in this Well Agreement and all matters of record. Notwithstanding the foregoing, all monetary liens encumbering the Production Well then being transferred will be released at the time of the transfer and conveyance (other than liens for taxes and assessments not yet due and payable). Any monetary liens encumbering the Easement Area for a Production Well will be released at the time the Easement for the Production Well is granted, unless the holder of the monetary lien has consented to the Easement. At the time of the transfer, Developer will provide evidence in the form of lien waivers or other appropriate documents that all claims of contractors, subcontractors, mechanics and materialmen with respect to the Production Well then being transferred have been paid and are fully satisfied. Without limiting the foregoing, Utility acknowledges and agrees to accept each Production Well and each Easement subject to the conditions and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land, L.L.C. dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona, pursuant to which the Well site was conveyed to Talking Rock Land, L.L.C., an Arizona limited liability company, an affiliate of Developer ("Talking Rock Land").

(c) Prior to the transfer of a Production Well to Utility, Utility shall have its engineers test and inspect the Production Well then being transferred at reasonable times as determined by the parties. Following testing and inspection, Utility shall issue a written notice of acceptance of the Production Well then being transferred to Developer (as to Production Well 3) or to Talking Rock Golf (as to Production Well 2); provided, however, that (i) ADEQ has issued an approval of construction for the Production Well; (ii) the Production Well in question is reasonably acceptable to Utility; and (iii) all Well Modifications have been completed at the Production Well in question, to the reasonable satisfaction of Utility. Utility shall consider a Production Well to be reasonably acceptable to Utility under subparagraph (ii) above if the Production Well is in substantially the same condition as existed at Utility's earlier inspection and testing of the Production Well referred to in paragraph 1(b), except that the Well Modifications shall have been completed and except for ordinary wear and tear. At the time of the transfer, Developer shall provide to Utility three (3) sets of "as-built" drawings and specifications for the Production Well then being transferred, certified and sealed by Developer's engineer to be true and correct.

(d) Developer warrants that, upon transfer to Utility, Production Well 3 will be free from all defects and deficiencies in construction, materials and/or workmanship for a period of time commensurate with the warranty period provided to Developer by contractors retained by Developer to construct Production Well 3, but in no event, for a period of less than one (1) year from the date of Utility's acceptance. Talking Rock Golf warrants that, upon transfer to Utility, Production Well 2 will be free from all defects and deficiencies in construction, materials and/or workmanship for one (1) year from the date of Utility's acceptance of Production Well 2. During the warranty period, Developer, as to Production Well 3, and Talking Rock Golf, as to Production Well 2, agree to promptly undertake any necessary corrective construction efforts required to remedy any defects and deficiencies in construction, materials and/or workmanship upon notice by Utility. Upon Utility's acceptance of a Production

Well, Developer shall assign any guaranties and warranties issued in connection with construction of that Production Well that are still in effect. Upon Utility's acceptance of a Production Well, Utility shall be deemed to have accepted that Production Well in an "as is" and "as-constructed" condition, subject only to the warranty period concerning defects and deficiencies in construction, materials and/or workmanship provided for herein. Each Production Well will be transferred, conveyed and granted without representation or warranty as to the quantity or quality of water that may be produced from the Production Well, either at the time of the conveyance or in the future.

(e) Without the express written consent of Developer and Talking Rock Golf, Utility shall not increase the production capacity of a Production Well transferred and conveyed by Developer to Utility beyond the production capacity of that Production Well identified in the Bill of Sale for that Production Well.

(f) This Agreement shall survive each transfer and conveyance of a Production Well and the grant of each Easement. All terms, conditions, covenants and restrictions pertaining to the use of the Production Wells contained in this Agreement shall continue in full force and effect after each such transfer, conveyance and grant. In particular, Utility will accept each Production Well transferred and conveyed to Utility subject to the production limitations stated in paragraph 12 and the limitations on location of use stated in paragraph 13.

5. Water Service. After Developer or Talking Rock Golf transfers and conveys a Production Well to Utility under paragraph 2 or paragraph 3, Utility will deliver water to the Property from the transferred and conveyed Production Well for the purpose of providing domestic water service to customers within the Property for all purposes, including common area landscape watering, but excluding (i) water service to the Golf Course for landscape irrigation and lake fill purposes at the Golf Course, until such time as Talking Rock Golf requests water service to the Golf Course pursuant to the Main Extension Agreement, and (ii) water service for construction purposes. All deliveries by Utility from the transferred and conveyed Production Well shall be subject to the terms, conditions, covenants and restrictions of this Agreement. This paragraph does not limit Utility's obligations under paragraphs 14 and 15 to allow Developer to use unused capacity in the transferred and conveyed Production Well for golf course irrigation and for construction purposes, as provided in those paragraphs.

6. Construction of Off-Site Transmission Main and Other Facilities. Developer has planned, designed, constructed and installed the Off-Site Main as provided in the Main Extension Agreement. The Off-Site Main extends from the Wellsite along the alignment shown on Exhibit "C" to a meter (the "Utility Meter") at that 300,000 gallon storage facility located at the Property approximately as shown on Exhibit "C." Developer has designed, constructed and installed a pump station, booster pumps and related infrastructure at the storage facility located at the Property and may plan, design, construct and install a second pump station located at the Property as provided in the Main Extension Agreement (the "Pump Station"). Upon the Developer's transfer and conveyance of Production Well 3, Developer will also transfer and convey to Utility the Off-Site Main, the 300,000-gallon storage facility and the Pump Station, including all equipment, valves, booster pumps, electrical systems and related infrastructure and appurtenances, by Bill of Sale in the form attached as Exhibit "H," and pursuant to the terms of the Main Extension Agreement. The Off-Site Main, the 300,000 gallon

storage facility, the Pump Station and all related infrastructure are referred to herein as the "Other Facilities."

7. Condition to Obligations. Developer's obligation to transfer and convey Production Well 3 to Utility, Talking Rock Golf's obligation to transfer and convey Production Well 2 to Utility and Utility's obligation to accept Production Well 2 and Production Well 3 are subject to the approval of the First Amendment by the Commission or the Commission staff (as necessary), and the approval of this Well Agreement by the Commission or the Commission staff (as necessary), if such approval is required by the Commission. In addition, Utility's obligation to accept Production Well 2 and Production Well 3 is subject to the condition that ADEQ has issued an approval of construction for the Production Well then being transferred. If the Commission or the Commission's staff determines that the First Amendment does not satisfy the conditions stated in Decision No. 64630, Developer and Utility will amend the First Amendment (and Developer, Talking Rock Golf and Utility will amend this Well Agreement, if necessary) to address the inadequacies of the First Amendment identified by the Commission or the Commission's staff.

8. Ownership and Operation by Developer Prior to Transfer. Until such time as Developer transfers and conveys Production Well 3, the PW-3 Connection Facilities and the Other Facilities to Utility pursuant to this Agreement (a) Developer shall own Production Well 3, the PW-3 Connection Facilities and the Other Facilities, and shall have the exclusive right to physical possession and control of, and the right of access to, Production Well 3, the PW-3 Connection Facilities and the Other Facilities; (b) Developer shall own the plans and specifications for Production Well 3, the PW-3 Connection Facilities and the Other Facilities, and any guaranties or warranties issued in connection therewith; (c) Developer shall manage and operate Production Well 3, the PW-3 Connection Facilities and the Other Facilities in accordance with standard utility practices and in accordance with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems; provided, however, that Developer shall have no obligation to test water pumped from Production Well 3 or to treat water pumped from Production Well 3; (d) Developer shall maintain and repair Production Well 3, the PW-3 Connection Facilities and the Other Facilities as necessary to keep Production Well 3 and the Other Facilities in good condition and repair; and (e) Developer shall pay all costs and expenses of operating, managing, maintaining, repairing and replacing Production Well 3, the PW-3 Connection Facilities and the Other Facilities. Developer may delegate its obligations under this paragraph to a contractor that is experienced in the operation, maintenance and repair of water systems and has been approved by Utility, which approval will not be unreasonably withheld or delayed, provided, however, that such delegation shall not release Developer from its obligations under this paragraph.

9. Ownership and Operation by Talking Rock Golf Prior to Transfer. Until such time as Talking Rock Golf transfers and conveys Production Well 2 and the PW-2 Connection Facilities to Utility pursuant to this Agreement (a) Talking Rock Golf shall own Production Well 2 and the PW-2 Connection Facilities, and shall have the exclusive right to physical possession and control of, and the right of access to, Production Well 2 and the PW-2 Connection Facilities; (b) Talking Rock Golf shall own the plans and specifications for Production Well 2 and the PW-2 Connection Facilities, and any guaranties or warranties issued in connection therewith; (c) Talking Rock Golf shall manage and operate Production Well 2 and the PW-2 Connection Facilities in accordance with standard utility practices and in accordance

with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems; provided, however, that Talking Rock Golf shall have no obligation to test water pumped from Production Well 2 or to treat water pumped from Production Well 2; (d) Talking Rock Golf shall maintain and repair Production Well 2 and the PW-2 Connection Facilities as necessary to keep Production Well 2 and the PW-2 Connection Facilities in good condition and repair; and (e) Talking Rock Golf shall pay all costs and expenses of operating, managing, maintaining, repairing and replacing Production Well 2 and the PW-2 Connection Facilities. Talking Rock Golf may delegate its obligations under this paragraph to a contractor that is experienced in the operation, maintenance and repair of water systems and has been approved by Utility, which approval will not be unreasonably withheld or delayed, provided, however, that such delegation shall not release Talking Rock Golf from its obligations under this paragraph. Until such time as Talking Rock Golf transfers and conveys Production Well 2 to Utility, Production Well 2 shall be considered a Golf Course Well, as provided in paragraph 14.

10. Ownership and Operation After Transfer.

(a) Following the transfer and conveyance of Production Well 3, the PW-3 Connection Facilities and the Other Facilities to Utility, and without changing or modifying the terms, conditions and limitations stated in this Agreement or in the Easement, (i) Utility shall own Production Well 3, the Other Facilities, and the PW-3 Connection Facilities, and shall have the right to physical possession and control of, and the right of access to Production Well 3, the Other Facilities, and the PW-3 Connection Facilities; (ii) Utility shall manage and operate Production Well 3, the Other Facilities and the PW-3 Connection Facilities in accordance with standard utility practices and in accordance with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems; (iii) Utility shall maintain and repair Production Well 3, the Other Facilities and the PW-3 Connection Facilities as necessary to keep Production Well 3, the Other Facilities and the PW-3 Connection Facilities in good condition and repair; and (iv) Utility shall pay all costs and expenses of operating, managing, maintaining, repairing and replacing Production Well 3, the Other Facilities and the PW-3 Connection Facilities, subject to the terms of paragraph 18. Utility may delegate its obligations under this paragraph to another contractor experienced in the operation, maintenance and repair of water systems, provided, however, that such delegation shall not release Utility from its obligations under this paragraph.

(b) Following the transfer and conveyance of Production Well 2 and the PW-2 Connection Facilities to Utility, and without changing or modifying the terms, conditions and limitations stated in this Agreement or in the Easement, (i) Utility shall own Production Well 2 and the PW-2 Connection Facilities, and shall have the right to physical possession and control of, and the right of access to Production Well 2 and the PW-2 Connection Facilities; (ii) Utility shall manage and operate Production Well and the PW-2 Connection Facilities in accordance with standard utility practices and in accordance with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems; (iii) Utility shall maintain and repair Production Well 2 and the PW-2 Connection Facilities as necessary to keep Production Well 2 and the PW-2 Connection Facilities in good condition and repair; and (iv) Utility shall pay all costs and expenses of operating, managing, maintaining, repairing and replacing Production Well 2 and the PW-2 Connection Facilities, subject to the terms of paragraph 18. Utility may delegate its obligations

under this paragraph to another contractor experienced in the operation, maintenance and repair of water systems, provided, however, that such delegation shall not release Utility from its obligations under this paragraph.

11. Testing; Treatment; Chlorination Facilities.

(a) Water quality testing at Production Well 1, Production Well 2 and Production Well 3 indicates that the water pumped from all three wells may be suitable for domestic water purposes without additional treatment. Notwithstanding the groundwater quality, Utility has requested, and Talking Rock Golf has designed and is willing to install certain facilities at the Wellsite having sufficient capacity to treat all water withdrawn from the Production Wells (the "Chlorination Facilities"). The Chlorination Facilities will consist of, collectively, (i) three chlorinators and three injection pumps, solution tank, control systems and other equipment and materials as provided in the approved design for the Chlorination Facilities described in paragraph 11(b); (ii) a small building located at the Wellsite as depicted on Exhibit "E" that will enclose the chlorinators, injection pumps, solution tank, control systems and other equipment; (iii) three 3/4-inch diameter pipelines that will each convey chlorine solution from a chlorinator to one of the Production Wells (each, a "Chlorine Pipeline"); and (iv) connections, valves and other equipment necessary to connect each Chlorine Pipeline to a Production Well.

(b) Talking Rock Golf will cause the installation of the Chlorination Facilities, as follows:

(i) The design of the Chlorination Facilities has been approved by ADEQ, the Yavapai County Environmental Services Department and Utility. On or before ninety (90) days after the date hereof, Talking Rock Golf will cause the Chlorination Facilities to be installed at the Wellsite in substantial accordance with the design for the same approved by Utility and the pertinent regulatory agencies. If Talking Rock Golf transfers and conveys Production Well 3 to Utility prior to Talking Rock Golf completing the installation of the Chlorination Pipeline for Production Well 3, Utility will allow Talking Rock Golf, its agents and contractors, access to Production Well 3 at times mutually acceptable to Utility and Talking Rock Golf for the purpose of connecting said Chlorination Pipeline to Production Well 3.

(ii) Following installation of the Chlorination Facilities, Utility shall have its engineers test and inspect the Chlorination Facilities at such reasonable times as determined by the parties. Following such testing and inspection, Utility shall issue a written notice of acceptance of the Chlorination Facilities, provided, however, that ADEQ has issued an approval of construction for the Chlorination Facilities, and the Chlorination Facilities are reasonably acceptable to Utility. Utility shall consider the Chlorination Facilities reasonably acceptable to Utility if they have been installed in substantial compliance with the design for the same approved by Utility and by the pertinent regulatory agencies.

(iii) Immediately following the issuance by Utility of a notice of acceptance for the Chlorination Facilities, Talking Rock Golf will transfer and convey the Chlorination Facilities to Utility by Bill of Sale substantially in the form of attached Exhibit "I." Upon delivery of the Bill of Sale for the Chlorination Facilities, Utility shall be deemed to have accepted the Chlorination Facilities in an "as is" and "as-constructed" condition, subject only to the warranty concerning defects and deficiencies in construction, materials and/or workmanship

provided in the Bill of Sale. The parties acknowledge that the Bill of Sale for the Chlorination Facilities may be delivered by Talking Rock Golf separate from and after the delivery by Talking Rock Golf of the Bill of Sale for Production Well 3 pursuant to paragraph 2 hereof.

(iv) Concurrently with the execution of the Bill of Sale for the Chlorination Facilities, Talking Rock Golf will grant an easement to Utility over, under, upon and across the Wellsite containing the building that is part of the Chlorination Facilities, together with an access easement over and across the Wellsite and other property, allowing ingress and egress to said building from a public right-of-way, and together with pipeline easements for the Chlorination Pipelines substantially in the form attached as Exhibit "J" (the "Chlorination Facilities Easement").

(v) The Chlorination Facilities and the Chlorination Facilities Easement will be transferred, conveyed and granted subject to taxes and assessments not yet due and payable, and subject to the terms, limitations and conditions stated in this Well Agreement and all matters of record. Notwithstanding the foregoing, all monetary liens encumbering the Chlorination Facilities will be released at the time of the transfer and conveyance (other than liens for taxes and assessments not yet due and payable). Any monetary liens encumbering the easement area described in the Chlorination Facilities Easement will be released at the time the Chlorination Facilities Easement is granted, unless the holder of the monetary lien has consented to the Chlorination Facilities Easement. At the time of the transfer, Talking Rock Golf will provide evidence in the form of lien waivers or other appropriate documents that all claims of contractors, subcontractors, mechanics and materialmen with respect to the Chlorination Facilities have been paid and are fully satisfied.

(vi) Following the transfer and conveyance of Chlorination Facilities to Utility, and without changing or modifying the terms, conditions and limitations stated in this Agreement or the Chlorination Facilities Easement, (i) Utility shall own the Chlorination Facilities, and shall have the right to physical possession and control of, and the right of access to the Chlorination Facilities; (ii) Utility shall manage and operate the Chlorination Facilities in accordance with standard utility practices and in accordance with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems; (iii) Utility shall maintain and repair the Chlorination Facilities as necessary to keep the Chlorination Facilities in good condition and repair; and (iv) Utility shall be responsible for all costs and expenses of operating, managing, maintaining, repairing and replacing the Chlorination Facilities, subject to the terms of paragraph 18. Utility may delegate its obligations under this paragraph to another contractor experienced in the operation, maintenance and repair of water treatment systems, provided, however, that such delegation shall not release Utility from its obligations under this paragraph.

(c) Following the transfer and conveyance of Production Well 3 to Utility, Utility shall perform all water quality testing and monitoring of water delivered to the Utility Meter as required by all governmental authorities having jurisdiction. Utility will provide copies of water quality test results to Developer. Talking Rock Golf will grant Utility access to Production Well 3, Production Well 2 and Production Well 1 (as herein defined) to permit water quality monitoring and testing by Utility as provided in the Easement.

(d) Utility shall treat all water delivered to the Utility Meter as

necessary to meet water quality standards imposed by all regulatory agencies having jurisdiction, as such standards may change from time to time. ALL WATER PUMPED FROM PRODUCTION WELL 3, PRODUCTION WELL 2 AND PRODUCTION WELL 1 SHALL BE ACCEPTED BY UTILITY "AS IS," AND NEITHER DEVELOPER NOR TALKING ROCK GOLF MAKE ANY REPRESENTATIONS OR WARRANTIES OF ANY NATURE REGARDING, NOR SHALL DEVELOPER OR TALKING ROCK GOLF BE IN ANY WAY RESPONSIBLE FOR, THE QUALITY OR QUANTITY OF WATER AVAILABLE FROM PRODUCTION WELL 3, PRODUCTION WELL 2 OR PRODUCTION WELL 1, EITHER NOW OR IN THE FUTURE.

(e) Utility shall be solely responsible for (i) the planning, design, installation and construction of any and all parts, components, equipment or materials installed at any location for the treatment of water pumped from Production Well 3, Production Well 2 or Production Well 1, excluding the Chlorination Facilities (the "Additional Treatment Facilities"), and (ii) the planning, design, installation and construction of the piping, valves and other facilities necessary to connect Production Well 1, Production Well 2 or Production Well 3 to any Additional Treatment Facilities (the "Additional Connection Facilities"). Neither Developer nor Talking Rock Golf shall have any obligation to pay any costs or expenses whatsoever related to the planning, design, installation or construction of the Additional Treatment Facilities or the Additional Connection Facilities, or any costs or expenses whatsoever related to the replacement of any of the Chlorination Facilities, the Additional Treatment Facilities (if any), or the Additional Connection Facilities (if any). Talking Rock Golf will allow Utility to construct and install any Additional Treatment Facilities or Additional Connection Facilities at the Wellsite and at the Adjacent Property and to operate, maintain, repair and replace the same, subject to the terms of this Agreement, the Easement and the Chlorination Facilities Easement; provided, however, that Utility shall comply with all fencing and landscaping requirements for the Additional Treatment Facilities imposed by Talking Rock Golf or Developer, and shall submit the plans for the Additional Treatment Facilities and the Additional Connection Facilities to Talking Rock Golf and Developer for their approval, which will not be unreasonably withheld or delayed, all as provided in the Easement and the Chlorination Facilities Easement. If the Additional Treatment Facilities are for Production Well 1 and must be located on the Adjacent Property as reasonably determined by Utility, Talking Rock Golf will grant an easement to Utility on, over, across and upon the Adjacent Property for such Additional Treatment Facilities in form reasonably acceptable to Utility and Talking Rock Golf. The term "Treatment Facilities" when used in this Well Agreement means the Chlorination Facilities, any Additional Treatment Facilities and any Additional Connection Facilities.

(f) Promptly after Utility determines that Additional Treatment Facilities are necessary and that Utility will install the Additional Treatment Facilities at the Wellsite and/or at the Adjacent Property, Utility will notify Developer and Talking Rock Golf of Utility's determination. Thereafter, Utility will design the Additional Treatment Facilities as required under this paragraph and will submit the final plans and specifications to Developer and Talking Rock Golf for approval, as required under this paragraph. Utility will also submit to Developer and Talking Rock Golf the final plans and specifications for any Additional Connection Facilities necessary to connect the Production Wells to the Additional Treatment Facilities.

12. Maximum Amount; Flow Rate. In any calendar year, the maximum total

amount of water Utility may withdraw from the Production Wells transferred and conveyed to Utility shall be 554 acre-feet ("Maximum Amount"). The Maximum Amount is based on the expected annual domestic demand for water at the Property at full-build, plus twenty-five percent (25%). In any calendar year, Utility shall not withdraw water from the Production Wells transferred and conveyed to Utility in excess of the Maximum Amount. The Maximum Amount shall not include water withdrawn from a Production Well and wheeled by Utility to the Golf Course pursuant to paragraph 14 and shall not include water withdrawn from a Production Well and wheeled by Utility to the Property for construction purposes pursuant to paragraph 15. The maximum flow rate measured at the Utility Meter that may be utilized by Utility for domestic water purposes (the "Maximum Flow Rate") shall be the lesser of (a) the actual combined production capacity of the Production Wells transferred and conveyed to Utility at the particular time in question under customary operating parameters, or (b) 687.5 gpm, which is based on the peak daily demand for water at the Property at full buildout, plus twenty-five (25%). The Maximum Flow Rate shall not include the flow rate of water withdrawn from a Golf Course Well (herein defined) or withdrawn from the Production Wells transferred and conveyed to Utility and wheeled to the Golf Course Meter pursuant to paragraph 14 or withdrawn from the Production Wells transferred and conveyed to Utility and wheeled to construction meters at the Property pursuant to paragraph 15. Utility shall have absolutely no right whatsoever to withdraw water from the Production Wells transferred and conveyed to Utility in excess of the Maximum Amount or to utilize water delivered to the Utility Meter for domestic water purposes at a rate in excess of the Maximum Flow Rate.

13. Location of Use. Utility shall use all water withdrawn from the Production Wells transferred and conveyed to Utility (a) to serve customers located within the Property; (b) to satisfy Talking Rock Golf's request for water for the Golf Course, to the extent water is wheeled to the Golf Course from a Production Well pursuant to paragraph 14, and (c) to satisfy Developer's request for construction water wheeled under paragraph 15. Utility shall not withdraw water from the Production Wells transferred and conveyed to Utility for any other purpose, or deliver such water to any other location, or serve such water to any customers located outside the Property.

14. Golf Course Water; Wheeling. Utility acknowledges that Talking Rock Golf has constructed the Golf Course at the Property. Except as provided in the Main Extension Agreement, Talking Rock Golf will provide water to the Golf Course, as follows:

(a) Developer has caused Production Well 1 to be constructed and installed at the Adjacent Property, having an estimated production rate of 525 gpm, assuming pumping for 12 hours per day independent of Production Well 2 and Production Well 3. Developer has conveyed Production Well 1 and Production Well 2 to Talking Rock Golf, along with the PW-2 Connection Facilities and the piping, valves and other facilities necessary to connect Production Well 1 to the Off-Site Main (the "PW-1 Connection Facilities"). Following the conveyance of Production Well 3 to Utility, and without limiting its rights under this paragraph 14, Talking Rock Golf will deliver water from Production Well 1 and Production Well 2 to the Golf Course to satisfy the landscape irrigation and lake fill demands at the Golf Course. Following the conveyance of Production Well 2 to Utility, and without limiting its rights under this paragraph 14, Talking Rock Golf will deliver water from Production Well 1 to satisfy the landscape irrigation and lake fill demands at the Golf Course. The terms "landscape irrigation" and "golf course irrigation" when used in this Well Agreement mean the irrigation of any and all

landscaping located anywhere on the Golf Course, whether such landscaping is turf or non-turf, and without regard to whether the water is delivered through sprinklers or drip irrigators or other means. The term "Golf Course Wells" when used in this Well Agreement (i) means Production Well 1 and Production Well 2, until such time as Talking Rock Golf conveys Production Well 2 to Utility pursuant to this Well Agreement, and (ii), after Talking Rock Golf conveys Production Well 2 to Utility, means Production Well 1.

(b) Utility acknowledges that Developer had installed the PW-1 Connection Facilities, at the cost and expense of Developer. Developer submitted the design of the PW-1 Connection Facilities to Utility for its approval, and Utility approved said design. Developer has caused PW-1 Connection Facilities to be constructed and installed in substantial accordance with the design for the same approved by Utility.

(c) Talking Rock Golf shall manage, operate, maintain, repair and replace Production Well 1 and the PW-1 Connection Facilities at its sole cost and expense. Talking Rock Golf shall manage, operate, maintain, repair and replace Production Well 2 and the PW-2 Connection Facilities, at its sole cost and expense, until Talking Rock Golf conveys Production Well 2 and the PW-2 Connection Facilities to Utility. Talking Rock Golf shall operate, manage, maintain and repair the Golf Course Wells, the PW-1 Connection Facilities and the PW-2 Connection Facilities in accordance with standard utility practice applicable to domestic water systems and in accordance with all laws, rules, ordinances and regulations of all governmental authorities having jurisdiction applicable to domestic water systems ("Applicable Law"); provided, however, that Talking Rock Golf shall have no obligation to test water pumped from a Golf Course Well or to treat water pumped from a Golf Course Well. Utility and Talking Rock Golf will periodically (not less than once per calendar year) meet and review standard utility practices and the Applicable Law pertinent to the operation, management, maintenance and repair of domestic wells and domestic water delivery systems. Talking Rock Golf will utilize only personnel familiar with said standard utility practices and the Applicable Law in the operation, management, maintenance and repair of the Golf Course Wells, the PW-1 Connection Facilities and the PW-2 Connection Facilities. Utility may, at its request and from time to time, observe and supervise Talking Rock Golf's operation, management, maintenance and repair of the Golf Course Wells, the PW-1 Connection Facilities and the PW-2 Connection Facilities to ensure compliance with this paragraph.

(d) (i) Utility, Developer and Talking Rock Golf acknowledge and agree that: (A) the total estimated production capacity of Production Well 2 and Production Well 3 is greater than the Maximum Flow Rate of 687.5 gpm; (B) Utility will not need to use the entire production capacity of Production Well 2 and Production Well 3 (as estimated) in order to provide domestic water service to all customers within the Property; (C) even after full build-out of the Property, during some hours of the day, there will be unused production capacity in the Production Wells transferred and conveyed to Utility pursuant to this Agreement. For example, and not by way of limitation, after full build-out of the Property, unused production capacity in the Production Wells transferred and conveyed to Utility is likely to be available from approximately 10 p.m. of each day to approximately 6 a.m. of the following day.

(ii) Upon request by Talking Rock Golf, Utility will allow Talking Rock Golf to use the entire unused production capacity of the transferred and conveyed Production Wells available from time to time to provide water to the Golf Course for golf course

irrigation and lake-fill purposes. Utility shall reasonably determine the amount of the unused production capacity of the Production Wells transferred and conveyed to Utility and the hours during which such unused capacity exists. Utility will operate the transferred and conveyed Production Wells, as agent for Talking Rock Golf, to allow water from the transferred and conveyed Production Wells to be delivered to the Golf Course for landscape irrigation and lake fill purposes during the hours that unused production capacity is available at the Production Wells and up to the entire unused production capacity so available. Talking Rock Golf may request the use of the unused production capacity at any and all Production Wells transferred and conveyed to Utility. Talking Rock Golf may request the use of the unused production capacity at a Production Well even if Talking Rock Golf is not using the entire production capacity of the Golf Course Wells. While a Production Well is used for both domestic water service and for golf course irrigation and lake-fill purposes at the Golf Course, Talking Rock Golf and Utility will share the costs of operation, maintenance and repair of the Production Well as provided in paragraph 18(c).

(iii) Utility shall charge Talking Rock Golf a Wheeling Charge for the amount of water withdrawn from the transferred and conveyed Production Wells and delivered to the Golf Course pursuant to this subparagraph, billed and paid as provided in subparagraph 14(f) and paragraph 19. Utility's willingness to allow Talking Rock Golf to use the unused capacity in the Production Wells transferred and conveyed to Utility and to operate the Production Wells transferred and conveyed to Utility for the benefit of Talking Rock Golf is in consideration of Developer's installation of the Production Wells and Developer's and Talking Rock Golf's willingness to convey Production Well 3 and Production Well 2 entirely to Utility, rather than conveying an undivided tenant-in-common interest in the Production Wells to Utility.

(e) Except as provided below, following the transfer and conveyance of Production Well 3 to Utility pursuant to paragraph 3, Utility shall wheel up to 400 acre-feet per year of water for golf course irrigation and lake-fill purposes through the Off-Site Main, the Pump Station and the storage and domestic delivery system at the Property to a water meter installed by Developer at the golf course storage lake (the "Golf Course Meter"). Notwithstanding the foregoing, during calendar year 2003, Utility shall wheel up to 518 acre feet of water to the Golf Course Meter for golf course irrigation and lake-fill purposes, Utility acknowledging that such greater amount of water is necessary for landscape grow-in purposes. The wheeled water shall include water produced at the Golf Course Wells and water produced at the Production Wells transferred and conveyed to Utility that have unused production capacity as provided in paragraph 14(d). The Treatment Facilities, the Off-Site Main, the Pump Station and the storage and domestic delivery system at the Property have been and will be sized to accommodate the peak water deliveries for the Golf Course and for domestic water service to customers within the Property. Utility will operate the Treatment Facilities, the Off-Site Main, the Pump Station and the storage and domestic delivery system at the Property, as agent for Talking Rock Golf, to allow water to be wheeled from the Production Wells transferred and conveyed to Utility and the Golf Course Wells for landscape irrigation and lake-fill purposes at the Golf Course as provided in this paragraph 14. Except during emergency situations described in paragraph 14(i), the flow rate as measured at the Utility Meter of the water that Utility must wheel through the Off-Site Main for golf course irrigation and lake-fill purposes and the flow rate as measured at the Golf Course Meter of the water that Utility must wheel through the Pump Station and the storage and domestic water delivery system of the Property for golf course irrigation and lake-fill purposes shall be the lesser of (i) the flow rate requested by Talking Rock

Golf, or (ii) the actual production rate of the Golf Course Wells at the particular time in question, plus the combined unused production capacity of the transferred and conveyed Production Wells at the particular time in question, or (iv) 925 gpm. Utility acknowledges and agrees that the transfer and conveyance of the Chlorination Facilities may occur after Utility has commenced wheeling water from the Golf Course Wells to the Golf Course as provided herein.

(f) In consideration of the agreement of Utility to wheel water to the Golf Course, Talking Rock Golf will pay Utility \$10.00 per acre foot of water (the "Wheeling Charge") wheeled from the transferred and conveyed Production Wells or the Golf Course Wells through the Off-Site Main, the Pump Station and the Property's storage and domestic delivery system to the Golf Course, as measured at the Golf Course Meter. The Wheeling Charge shall increase as of January 1, 2004 and on January 1 of each calendar year thereafter in accordance with the percentage increase in the Consumer Price Index as developed by the United States Bureau of Labor Statistics (Consumer Price Index for Urban Consumers (U), 1982-1984 = 100, U.S. City Average) (the "CPI") as of the relevant Adjustment Date over the CPI as of January 1, 2001 (such increase is referred to as the "Inflation Adjustment"). The CPI will be determined as of September 30 of each year (the "Adjustment Date"), and Talking Rock Golf will notify Utility, prior to December 1 of that year, of Talking Rock Golf's calculation of the Inflation Adjustment and the applicable price increase, if any, to be implemented as of the ensuing January 1. If the CPI ceases to be published or available, Talking Rock Golf may select another index that, in Talking Rock Golf's reasonable discretion, approximates the CPI, and such index shall thereafter be used instead of the CPI in calculating the applicable Inflation Adjustment under this paragraph. If the CPI remains the same or if the CPI decreases for any given year, the Wheeling Charge shall remain unchanged from the preceding year.

(g) On a monthly basis, Talking Rock Golf will pay Utility the Wheeling Charge for the amount of water wheeled from the transferred and conveyed Production Wells or the Golf Course Wells to the Golf Course during the immediately-preceding billing period. Each said payment shall be paid within fifteen (15) days after delivery of the calculation of the Wheeling Charge pursuant to paragraph 19. If Talking Rock Golf fails to timely make a payment of a Wheeling Charge under the subparagraph, and Talking Rock Golf does not cure such failure within ten (10) days after Talking Rock Golf receives written notice from Utility of such failure, Utility may refuse to wheel water from the transferred and conveyed Production Wells or the Golf Course Wells to the Golf Course until such time as Talking Rock Golf pays the delinquent amount to Utility.

(h) Other than the payment of the Wheeling Charge and the amounts due under paragraph 18, neither Developer, nor Talking Rock Golf, nor any successor or assign of either of them shall have any obligation to pay for the delivery of water wheeled to the Golf Course pursuant to this Agreement, or to pay for the operation, maintenance, repair or replacement of any facilities used in the wheeling of water to the Golf Course pursuant to this Well Agreement, including the Treatment Facilities, the Off-Site Main, the Pump Station and the storage and delivery system at the Property.

(i) Utility acknowledges and agrees that Talking Rock Golf may withdraw water from the Golf Course Wells in any quantity and deliver such water to the Golf Course for golf course irrigation and lake fill purposes, and this Agreement shall not, in any way, affect or limit Talking Rock Golf's right to so withdraw and deliver water. The foregoing

sentence does not modify the limitations on the amount of water that Utility is obligated to wheel under paragraph 14(e), or the maximum flow rate for wheeled water.

(j) In the event that an emergency causes a reduction in the transmission capacity of the Off-Site Main, or a reduction in the treatment capacity of the Treatment Facilities, or a reduction in the storage or delivery capacity of the Pump Station or any other component of the domestic water system at the Property and such reduction causes a shortage of water for domestic delivery to Utility customers located at the Property, (i) Utility may use so much of the transmission capacity of the Off-Site Main or the treatment capacity of the Treatment Facilities, or the storage or delivery capacity of the Pump Station and all other components of the domestic water system at the Property (as the case may be) as is necessary to satisfy the domestic water demands of Utility's customers located at the Property, for so long as the emergency exists, and (ii) Utility will use the remaining transmission capacity of the Off-Site Main, or the remaining treatment capacity of the Treatment Facilities, or the remaining storage or delivery capacity of the Pump Station and the other components of the domestic water system at the Property (as the case may be) to wheel water for golf course irrigation pursuant to this paragraph. Utility will immediately take such actions as are necessary to restore the transmission capacity of the Off-Site Main, or the treatment capacity of the Treatment Facilities, or the remaining storage or delivery capacity of the domestic water system at the Property (as the case may be) to the capacity that existing prior to the occurrence of the emergency.

15. Construction Water; Wheeling. Developer will provide water to the Property for construction purposes, as follows:

(a) Developer may use water from the transferred and conveyed Production Wells for construction purposes at the Property. At Developer's request, Utility will operate the transferred and conveyed Production Wells as Developer's agent to allow water from the transferred and conveyed Production Wells to be delivered to the Property for construction purposes. While the Production Wells are used for both domestic water service and for construction purposes, Utility will charge Talking Rock Golf for a share of the costs of operation, maintenance and repair of the Production Wells as provided in paragraph 18(b) and (c).

(b) Utility shall wheel up to 125 acre-feet per year of water for construction purposes through the Off-Site Main, the Pump Station and the storage and domestic delivery system at the Property to construction meters to be installed at the Property. Utility will operate the Treatment Facilities, the Off-Site Main, the Pump Station and the storage and domestic delivery system at the Property, as agent for Developer, to allow water to be wheeled from the Production Wells transferred and conveyed to Utility for construction purposes at the Property. Except in emergency situations described in paragraph 15(f), the flow rate as measured at the construction meters of the water that Utility must wheel through the Pump Station and the storage and domestic water delivery system of the Property for construction purposes shall be the lesser of (i) the flow rate requested by Developer, or (ii) the actual combined production capacity of the transferred and conveyed Production Wells at the particular time in question, less the production rate necessary to satisfy then-existing domestic water demands, and less the production rate necessary to satisfy Talking Rock Golf's requests for the use of unused production capacity at the transferred and conveyed Production Wells pursuant to paragraph 14(d).

(c) In consideration of the agreement of Utility to wheel water to the Property for construction purposes, Developer shall cause Talking Rock Golf to pay Utility the Wheeling Charge for water wheeled from the transferred and conveyed Production Wells through the Off-Site Main, the Pump Station and the Property's storage and domestic delivery system to the Property for construction purposes, as measured at the construction meters.

(d) On a monthly basis, Developer will pay or cause Talking Rock Golf to pay Utility the Wheeling Charge for the amount of water wheeled from the transferred and conveyed Production Wells to the Property for construction purposes during the immediately-preceding billing period. Each said payment shall be paid within fifteen (15) days after delivery of the calculation of the Wheeling Charge pursuant to paragraph 19. If Developer or Talking Rock Golf fails to timely make a payment of a Wheeling Charge under the subparagraph, and Developer does not cure or cause Talking Rock Golf to cure such failure within ten (10) days after Developer and Talking Rock Golf receive written notice from Utility of such failure, Utility may refuse to wheel water from the Production Wells for construction purposes until such time as Developer pays or causes Talking Rock Golf to pay the delinquent amount to Utility.

(e) Other than the payment of the Wheeling Charge and the amounts due under paragraph 18, neither Developer, nor Talking Rock Golf, nor any successor or assign of either of them shall have any obligation to pay for the delivery of water wheeled to the Property for construction purposes pursuant to this Agreement, or to pay for the operation, maintenance, repair or replacement of any facilities used in the wheeling of water to the Property for construction purposes pursuant to this Agreement, including the Off-Site Main, the Pump Station and the storage and delivery system at the Property.

(f) In the event that an emergency causes a reduction in the transmission capacity of the Off-Site Main, or a reduction in the treatment capacity of the Treatment Facilities, or a reduction in the storage or delivery capacity of the Pump Station or any other component of the domestic water system at the Property and such reduction causes a shortage of water for domestic delivery to Utility customers located at the Property, (i) Utility may use so much of the transmission capacity of the Off-Site Main, or the treatment capacity of the Treatment Facilities, or the storage or delivery capacity of the Pump Station and all other components of domestic water system at the Property (as the case may be) as is necessary to satisfy the domestic water demands of Utility's customers located at the Property, for so long as the emergency exists, and (ii) Utility will use the remaining transmission capacity of the Off-Site Main, or the remaining treatment capacity of the Treatment Facilities, or the remaining storage or delivery capacity of the Pump Station and all other components of the domestic water system at the Property (as the case may be) to wheel water for golf course irrigation pursuant to paragraph 14, and (iii) after satisfying the demands for water described in paragraphs 15(f)(i) and (ii), Utility will use any remaining transmission capacity of the Off-Site Main or any remaining treatment capacity of the Treatment Facilities, or any remaining storage or delivery capacity of the Pump Station and the other components of the domestic water system at the Property (as the case may be) to wheel water to the Property for construction purposes pursuant to this paragraph.

16. Additional Wells. Talking Rock Land, Talking Rock Golf or Developer may drill and equip an additional well or wells at the Property for use in supplying construction water to the Property or for use in supplying golf course irrigation and lake fill

water. Following the completion of such additional well or wells, Utility and the owner of the well will negotiate in good faith for the wheeling by Utility of the water produced for such additional well or wells on terms substantially similar to those contained herein, provided, however, that (a) except as provided below, Utility reasonably determines that there is available capacity in the Off-Site Main, the Pump Station and other components of the storage and delivery system at the Property at the time of day water would be wheeled from such additional well or wells, and (b) Utility reasonably determines that the quality of the water produced from such additional well or wells (after treatment with chlorination facilities similar to those installed by Talking Rock Golf at the Wellsite) is acceptable. Notwithstanding the foregoing, if such additional well or wells is for use in supplying golf course irrigation and lake fill water, and the owner of such well or wells agrees that the flow rate that Utility must wheel through the Off-Site Main, the Pump Station and other components of the storage and delivery system at the Property to the Golf Course shall not exceed 925 gpm (as provided in paragraph 14(e)), Utility shall determine that there is available capacity in the Off-Site Main, the Pump Station and the other components of the storage and delivery system at the Property to wheel water from such additional well or wells.

17. Term. The term of this Agreement shall be perpetual. In the event that the continuing effect of this Agreement is determined to be unenforceable by a court of competent jurisdiction, then the initial term of this Agreement shall be one hundred twenty (120) years, commencing on the date hereof. Thereafter, the term of this Agreement shall be extended, automatically and without notice, for consecutive periods of twenty-five (25) years each after the initial one hundred twenty (120) year period has expired.

18. Costs and Expenses.

(a) Wells Owned and Used by One Party. Talking Rock Golf shall be solely responsible for the costs and expenses of the operation, maintenance and repair of the Golf Course Wells. Except as provided in paragraph 18(c), Utility shall be solely responsible for the costs and expenses of the operation, maintenance and repair of the Production Wells transferred and conveyed to Utility.

(b) Additional Treatment Facilities. In the event that Utility installs Additional Treatment Facilities for the treatment of water withdrawn solely from a Golf Course Well, Talking Rock Golf shall be solely responsible for the costs and expenses of the operation, maintenance and repair of such Additional Treatment Facilities. Except as provided in paragraph 18(c), Utility shall be solely responsible for the costs and expenses of the operation, maintenance and repair of Additional Treatment Facilities installed by Utility for the treatment of water withdrawn solely from Production Wells transferred and conveyed to Utility.

(c) Wells Jointly Used. For each transferred and conveyed Production Well that Utility allows Talking Rock Golf to use to provide water to the Golf Course pursuant to paragraph 14(d) during a particular calendar year or allows Developer to use for construction purposes pursuant to paragraph 15 during a particular calendar year, Utility and Talking Rock Golf will share the costs and expenses of the operation, maintenance and repair of that Production Well and the costs and expenses of the operation, maintenance and repair of any Additional Treatment Facilities installed solely for the treatment of water from that Production Well, as follows:

(i) Fixed Monthly Fee. On or before the first day of each month, commencing with the first month after Developer transfers and conveys Production Well 3 to Utility, Talking Rock Golf will pay Utility the Fixed Monthly Fee (herein defined) as a reasonable estimate of Talking Rock Golf's proportionate share of the Well OM&R Costs (herein defined) for the transferred and conveyed Production Wells incurred or to be incurred during the calendar year in question. "Fixed Monthly Fee" means \$1,250.00 for the year 2003. Thereafter, the Fixed Monthly Fee may be adjusted by Utility no more frequently than once per calendar year by Utility providing written notice of an adjustment in the Fixed Monthly Fee to Talking Rock Golf, along with evidence justifying the adjustment in the Fixed Monthly Fee, such as, for example, the Well OM&R Costs for prior calendar years, or changes in the amount of water wheeled from the transferred and conveyed Production Wells to the Golf Course under paragraph 14 or for construction purposes under paragraph 15. The adjusted Fixed Monthly Fee shall thereafter be due commencing either (A) on the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment, or (B) on the first day of the second month following Talking Rock Golf's receipt of the notice of said adjustment, if Talking Rock Golf receives the notice of said adjustment on a date that is less than ten (10) days prior to the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment.

(ii) Actual Proportionate Share. Talking Rock Golf's actual proportionate share of the Well OM&R Costs for a calendar year for the Production Wells governed by this paragraph 18(c) shall be an amount equal to (A) the total amount of Well OM&R Costs incurred by Utility with respect to the transferred and conveyed Production Wells for the calendar year; (B) multiplied by a fraction, (I) the numerator of which shall be the amount of water measured at the Golf Course Meter and at construction meters during the calendar year, less the amount of water withdrawn from the Golf Course Wells during the calendar year, and (II) the denominator of which shall be the amount of water measured at the Utility Meter during the calendar year, less the amount of water withdrawn from that Golf Course Wells during the calendar year.

(iii) On or before January 31st of each calendar year, commencing in 2004, Talking Rock Golf will deliver to Utility the meter readings for the Golf Course Wells, indicating the amount of water withdrawn from the Golf Course Wells during the preceding calendar year.

(d) Pump Station. Utility and Talking Rock Golf will share the costs and expenses of the operation, maintenance and repair of the Pump Station, as follows:

(i) Fixed Pump Station Fee. On or before the first day of each month, commencing with the first month after Developer transfers and conveys Production Well 3 to Utility, Talking Rock Golf will pay Utility the Fixed Pump Station Fee (herein defined) as a reasonable estimate of Talking Rock Golf's proportionate share of the Pump Station OM&R Costs (herein defined) for the Pump Station incurred or to be incurred during the calendar year in question. "Fixed Pump Station Fee" means \$250.00 for the year 2003. Thereafter, the Fixed Pump Station Fee may be adjusted by Utility no more frequently than once per calendar year by Utility providing written notice of an adjustment in the Fixed Pump Station Fee to Talking Rock Golf, along with evidence justifying the adjustment in the Fixed Pump Station Fee, such as, for example, the Pump Station OM&R Costs for prior calendar years, or

changes in the amount of water wheeled to the Golf Course under paragraph 14 or for construction purposes under paragraph 15. The adjusted Fixed Pump Station Fee shall thereafter be due commencing either (A) on the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment, or (B) on the first day of the second month following Talking Rock Golf's receipt of the notice of said adjustment, if Talking Rock Golf receives the notice of said adjustment on a date that is less than ten (10) days prior to the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment.

(ii) Actual Proportionate Share. Talking Rock Golf's actual proportionate share of the Pump Station OM&R Costs for a calendar year shall be an amount equal to (A) the total amount of Pump Station OM&R Costs incurred by Utility for the calendar year; (B) multiplied by a fraction, the numerator of which shall be the amount of water measured at the Golf Course Meter and at construction meters during the calendar year, and the denominator of which shall be the amount of water measured at the Utility Meter during the calendar year.

(iii) Alternative Calculation. Notwithstanding the foregoing, if Talking Rock Golf installs a separate water transmission line for the delivery of water withdrawn from the Golf Course Well(s) directly to the Golf Course and does not utilize the Off-Site Main during the course of a calendar year to deliver water withdrawn from the Golf Course Well(s) to the Golf Course, then Talking Rock Golf's actual proportionate share of the Pump Station OM&R Costs for that calendar year shall be an amount equal to (A) the total amount of Pump Station OM&R costs incurred by Utility for the calendar year; (B) multiplied by a fraction, (I) the numerator of which shall be the amount of water measured at the Golf Course Meter and the construction meters during the calendar year, less the amount of water withdrawn from the Golf Course Wells during the calendar year, and (II) the denominator of which shall be the amount of water measured at the Utility Meter during the calendar year.

(e) Treatment Facilities. Talking Rock Golf will pay all costs and expenses of the operation, maintenance and repair of those Additional Treatment Facilities, if any, installed by Utility and used to treat water withdrawn solely from a Golf Course Well, and Utility and Talking Rock Land will share the costs and expenses of the operation, maintenance and repair of the Treatment Facilities used to treat water withdrawn from Production Wells and Golf Course Wells, including the Chlorination Facilities, as follows:

(i) Fixed Treatment Fee. On or before the first day of each month, commencing with the first month after Talking Rock Golf transfers and conveys the Chlorination Facilities to Utility, Talking Rock Golf will pay Utility the Fixed Treatment Fee (herein defined) as a reasonable estimate of the Golf Course Well Treatment OM&R Costs (herein defined) and of the Shared Well Treatment OM&R Costs (herein defined) incurred or to be incurred during the calendar year in question. "Fixed Treatment Fee" means \$250.00 for the year 2003. Thereafter, the Fixed Treatment Fee may be adjusted by Utility ~~no frequently~~ than once per calendar year by Utility providing written notice of an adjustment in the Fixed Treatment Fee to Talking Rock Golf, along with evidence justifying the adjustment in the Fixed Treatment Fee, such as, for example, the Treatment OM&R Costs for prior calendar years, or changes in the amount of water pumped from the Golf Course Wells. The adjusted Fixed Treatment Fee shall thereafter be due commencing either (A) on the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment, or (B) on the first day of

the second month following Talking Rock Golf's receipt of the notice of said adjustment, if Talking Rock Golf receives notice of said adjustment on a date that is less than ten (10) days prior to the first day of the first month following Talking Rock Golf's receipt of the notice of said adjustment.

(ii) Actual Proportionate Share. Talking Rock Golf's actual proportionate share of the Shared Treatment OM&R Costs for a calendar year shall be an amount equal to (A) the total amount of Shared Treatment OM&R Costs incurred by Utility for the calendar year; (B) multiplied by a fraction, the numerator of which shall be the amount of water measured at the Golf Course Meter and at construction meters during the calendar year, and the denominator of which shall be the amount of water measured at the Utility Meter during the calendar year.

(iii) Alternative Calculation. Notwithstanding the foregoing, if Talking Rock Golf installs a separate water transmission line for the delivery of water withdrawn from the Golf Course Well(s) directly to the Golf Course and does not utilize the Off-Site Main during the course of a calendar year to deliver water withdrawn from the Golf Course Well(s) to the Golf Course and does not utilize the Treatment Facilities to treat the water withdrawn from the Golf Course Wells and delivered to the Golf Course, then Talking Rock Golf's actual proportionate share of the Shared Treatment OM&R Costs for that calendar year shall be an amount equal to (A) the total amount of Shared Treatment OM&R costs incurred by Utility for the calendar year; (B) multiplied by a fraction, (I) the numerator of which shall be the amount of water measured at the Golf Course Meter and the construction meters during the calendar year, less the amount of water withdrawn from the Golf Course Wells during the calendar year, and (II) the denominator of which shall be the amount of water measured at the Utility Meter during the calendar year.

(f) Annual Calculation - Well OM&R Costs. On or before February 15th of each calendar year, Utility will deliver to Talking Rock Golf copies of all invoices and receipts related to Well OM&R Costs for the preceding calendar year pertaining to the Production Wells governed by paragraph 18(c), along with Utility's calculation of Talking Rock Golf's actual proportionate share of the Well OM&R Costs for the Production Wells for the preceding calendar year calculated pursuant to paragraph 18(c)(ii), information on the meter readings used in the calculation, and the amount of any underpayment or overpayment of Well OM&R Costs, taking into account the Fixed Monthly Fee paid by Talking Rock Golf during the calendar year in question. Utility shall reimburse to Talking Rock Golf any overpayment by Talking Rock Golf of Well OM&R Costs at the time that Utility delivers the foregoing information and materials to Talking Rock Golf. Within fifteen (15) days after Talking Rock Golf's receipt of the foregoing information and materials, Talking Rock Golf shall pay to Utility the amount of any underpayment of Talking Rock Golf's actual proportionate share of Well OM&R Costs, without deduction or offset from the underpayment. Notwithstanding the foregoing, Talking Rock Golf may pay any underpayment amount or accept any overpayment amount under protest, reserving any and all rights it may have against Utility in the event that Talking Rock Golf disputes the calculation of Talking Rock Golf's actual proportionate share of Well OM&R Costs. If Talking Rock Golf fails to timely pay the Fixed Monthly Fee under paragraph 18(c)(i) or the amount of any underpayment of Talking Rock Golf's actual proportionate share of Well OM&R Costs under this subparagraph, and Talking Rock Golf does not cure such failure within ten (10) days after Talking Rock Golf receives written notice from

Utility of such failure, Utility may refuse to wheel water from the transferred and conveyed Production Wells or the Golf Course Wells to the Golf Course until such time as Talking Rock Golf pays the delinquent amount to Utility.

(i) "Well OM&R Costs" means any and all costs and expenses of using, operating, maintaining and repairing the transferred and conveyed Production Wells or the Additional Treatment Facilities, if any, installed to treat water withdrawn solely from the transferred and conveyed Production Wells, including without limitation, electricity charges, water quantity measurement and monitoring costs; water quality testing and monitoring costs; water quality treatment costs; personnel costs; supplies; taxes and fees; insurance; and administration and billing costs. Well OM&R Costs do not include Capital Costs (defined below).

(ii) Capital Costs. Neither Developer nor Talking Rock Golf shall have any obligation to pay any costs or expenses whatsoever related to planning, design, installation or construction of any parts, components, equipment or materials installed at the transferred and conveyed Production Wells, after the transfer and conveyance of the Production Well in question to Utility, which are considered capital in nature under generally accepted accounting principles (the "Capital Costs"), whether or not such parts, components, equipment or materials are replacements of currently-existing parts, components, equipment or materials at the transferred and conveyed Production Wells, and whether or not such parts, components, equipment and material are considered Treatment Facilities or replacements of Treatment Facilities. Utility shall be solely responsible for the payment of all Capital Costs. Utility acknowledges and agrees that Developer's installation of the Production Wells, at Developer's cost, is a sufficient contribution to capital by Developer and Talking Rock Golf.

(g) Annual Calculation - Pump Station OM&R Costs. On or before February 15th of each calendar year, Utility will deliver to Talking Rock Golf copies of all invoices and receipts related to Pump Station OM&R Costs for the preceding calendar year, along with Utility's calculation of Talking Rock Golf's actual proportionate share of the Pump Station OM&R Costs for the preceding calendar year calculated pursuant to paragraph 18(d)(ii) or (iii), information on the meter readings used in the calculation, and the amount of any underpayment or overpayment of Pump Station OM&R Costs, taking into account the Fixed Pump Station Fee paid by Talking Rock Golf during the calendar year in question. Utility shall reimburse to Talking Rock Golf any overpayment by Talking Rock Golf of Pump Station OM&R Costs at the time that Utility delivers the foregoing information and materials to Talking Rock Golf. Within fifteen (15) days after Talking Rock Golf's receipt of the foregoing information and materials, Talking Rock Golf shall pay to Utility the amount of any underpayment of Talking Rock Golf's actual proportionate share of Pump Station OM&R Costs, without deduction or offset from the underpayment. Notwithstanding the foregoing, Talking Rock Golf may pay any underpayment amount or accept any overpayment amount under protest, reserving any and all rights it may have against Utility in the event that Talking Rock Golf disputes the calculation of Talking Rock Golf's actual proportionate share of Pump Station OM&R Costs. If Talking Rock Golf fails to timely pay the Fixed Pump Station Fee under paragraph 18(d)(i) or the amount of any underpayment of Talking Rock Golf's actual proportionate share of Pump Station OM&R Costs under this subparagraph, and Talking Rock Golf does not cure such failure within ten (10) days after Talking Rock Golf receives written notice from Utility of such failure, Utility may refuse to wheel water from the transferred and

conveyed Production Wells or the Golf Course Wells to the Golf Course until such time as Talking Rock Golf pays the delinquent amount to Utility.

(i) "Pump Station OM&R Costs" means any and all costs and expenses of using, operating, maintaining and repairing the Pump Station, including without limitation, electricity charges; supplies; personnel costs; taxes and fees; insurance; and administration and billing costs. Pump Station OM&R Costs do not include Pump Station Capital Costs (defined below).

(ii) Capital Costs. Neither Developer nor Talking Rock Golf shall have any obligation to pay any costs or expenses whatsoever related to planning, design, installation or construction of any parts, components, equipment or materials installed at the Pump Station, after the initial installation of the Pump Station, which are considered capital in nature under generally accepted accounting principles (the "Pump Station Capital Costs"), whether or not such parts, components, equipment or materials are replacements of currently-existing parts, components, equipment or materials at the Pump Station. Utility shall be solely responsible for the payment of all Pump Station Capital Costs. Utility acknowledges and agrees that Developer's installation of the Pump Station, at Developer's cost, is a sufficient contribution to capital by Developer and Talking Rock Golf.

(h) Annual Calculation – Treatment OM&R Costs. On or before February 15th of each calendar year, Utility will deliver to Talking Rock Golf copies of all invoices and receipts related to Treatment OM&R Costs for the preceding calendar year, along with Utility's calculation of Talking Rock Golf's actual proportionate share of the Shared Treatment Costs for the preceding calendar year calculated pursuant to paragraph 18(e)(ii) or (iii), information on the meter readings used in the calculation, and of the amount of any underpayment or overpayment of Treatment OM&R Costs, taking into account the Fixed Treatment Fee paid by Talking Rock Golf during the calendar year in question. Utility shall reimburse to Talking Rock Golf any overpayment by Talking Rock Golf of Treatment OM&R Costs at the time that Utility delivers the foregoing information and materials to Talking Rock Golf. Within fifteen (15) days after Talking Rock Golf's receipt of the foregoing information and materials, Talking Rock Golf shall pay to Utility the amount of any underpayment of Talking Rock Golf's actual proportionate share of Treatment OM&R Costs, without deduction or offset from the underpayment. Notwithstanding the foregoing, Talking Rock Golf may pay any underpayment amount or accept any overpayment amount under protest, reserving any and all rights it may have against Utility in the event that Talking Rock Golf disputes the calculation of Talking Rock Golf's actual proportionate share of Treatment OM&R Costs. If Talking Rock Golf fails to timely pay the Fixed Treatment Fee under paragraph 18(e)(i) or the amount of any underpayment of the actual Treatment OM&R Costs under this subparagraph, and Talking Rock Golf does not cure such failure within ten (10) days after Talking Rock Golf receives written notice from Utility of such failure, Utility may refuse to wheel water from the Golf Course Wells to the Golf Course until such time as Talking Rock Golf pays the delinquent amount to Utility.

(i) "Golf Course Well Treatment OM&R Costs" means any and all costs and expenses of using, operating, maintaining and repairing the Additional Treatment Facilities, if any, used to treat water withdrawn solely from a Golf Course Well, including without limitation, electricity charges; water quality testing and monitoring costs; water quality treatment costs; supplies; personnel costs; taxes and fees; insurance; and

administration and billing costs. Golf Course Well Treatment OM&R Costs do not include Treatment Capital Costs (defined below).

(ii) "Shared Well Treatment OM&R Costs" means any and all costs and expenses of using, operating, maintaining and repairing the Treatment Facilities, including the Chlorination Facilities, used to treat water withdrawn from the Production Wells and the Golf Course Wells, including without limitation, electricity charges; water quality testing and monitoring costs; water quality treatment costs; supplies; personnel costs; taxes and fees; insurance; and administration and billing costs. Shared Well Treatment OM&R Costs do not include Treatment Capital Costs (defined below).

(iii) "Treatment OM&R Costs" means the Golf Course Well Treatment OM&R Costs for a particular year plus the Shared Well Treatment OM&R Costs for the particular year.

(iv) Capital Costs. Neither Developer nor Talking Rock Golf shall have any obligation to pay any costs or expenses whatsoever related to planning, design, installation or construction of any parts, components, equipment or materials installed as Treatment Facilities, which are considered capital in nature under generally accepted accounting principles (the "Treatment Capital Costs"), including any parts, components, equipment or materials that are replacements of the parts, components, equipment or materials installed as part of the Chlorination Facilities. Utility shall be solely responsible for the payment of all Treatment Capital Costs. Utility acknowledges and agrees that the installation of the Chlorination Facilities, at Talking Rock Golf's cost, is a sufficient contribution to capital by Developer and Talking Rock Golf.

19. Practices and Procedures; Meter Reading; Access to Meters. Utility, Developer and Talking Rock Golf will develop practices and procedures for the ordering of water and the operation of the transferred and conveyed Production Wells, the Golf Course Wells, the Treatment Facilities, the Off-Site Main, the Pump Station and the storage and distribution system at the property, with the intent that (a) sufficient water is pumped from the transferred and conveyed Production Wells and delivered to the Property to satisfy, in full and at all times, the domestic water demands at the Property, consistent with the terms, conditions and limitations of this Agreement; (b) sufficient water is pumped from the transferred and conveyed Production Wells and the Golf Course Wells and wheeled to the Golf Course to satisfy, in full and at all times, the demands for golf course irrigation and lake-fill water at the Golf Course, consistent with the terms, conditions and limitations of this Agreement; and (c) sufficient water is pumped from the transferred and conveyed Production Wells and wheeled to the Property to satisfy, in full and at all times, the construction water demands at the Property, consistent with the terms, conditions and limitations of this Agreement. On a monthly basis, Utility will provide Developer and Talking Rock Golf with (i) meter readings from the Utility Meter, the Golf Course Meter, and the construction meters, (ii) a calculation of the amount of water provided for domestic purposes equal to the water measured at the Utility Meter less the water measured at the Golf Course Meter and the construction meters, (iii) a calculation of the Golf Course Wheeling Charge for the billing period in question, equal to the Wheeling Charge multiplied by the amount of water delivered to the Golf Course Meter during the billing period, and (iv) a calculation of the construction Wheeling Charge for the billing period in question, equal to the Wheeling Charge multiplied by the amount of water delivered to the construction meters during

the billing period. Utility will allow Developer and Talking Rock Golf monthly access to the Utility Meter for the purpose of reading the Utility Meter. Talking Rock Golf will allow Developer and Utility monthly access to the Golf Course Meter for the purpose of reading the Golf Course Meter. Developer will cause Talking Rock Land to allow Developer and Utility monthly access to the construction meters for the purpose of reading the construction meters. Developer or Talking Rock Golf may request that Utility calibrate and adjust the Utility Meter not more frequently than twice per calendar year, and Utility will so calibrate and adjust (if necessary) the Utility Meter, at the cost of Talking Rock Golf. Utility may request that Talking Rock Golf calibrate and adjust the Golf Course Meter not more frequently than twice per calendar year, and Talking Rock Golf, at its cost, will so calibrate and adjust (if necessary) the Golf Course Meter.

20. Scheduled Shutdowns. Utility may shut down any of the transferred and conveyed Production Wells, the Treatment Facilities, the Off-Site Main or any other facilities transferred and conveyed to Utility pursuant to this Agreement, for inspection, maintenance and repair, or for the installation of capital replacements, or in the event of an emergency. For scheduled shutdowns, Utility will use reasonable efforts to schedule such shutdowns at times that will minimize adverse impacts on the operation of the Golf Course Wells. Utility shall diligently complete any inspection, repair or maintenance of the Production Wells, the Treatment Facilities, the Off-Site Main or the other facilities transferred and conveyed to Utility pursuant to this Agreement. Interruption of use shall not render Utility liable to Developer or Talking Rock Golf for damages. Utility will provide Developer and Talking Rock Golf with written notice of a shutdown of the transferred and conveyed Production Wells, the Treatment Facilities, the Off-Site Main or the other facilities transferred and conveyed pursuant to this Agreement, as the case may be, not less than ten (10) business days prior to the shutdown, except in the event of an emergency, in which event no prior notice of the shutdown will be required. In the event of an emergency, Utility will immediately take such actions as are reasonably necessary to restore the Production Well or Wells, the Treatment Facilities, the Off-Site Main or the other facilities transferred and conveyed pursuant to this Agreement, as the case may be, to pre-emergency operation.

21. Non-Discrimination Provision. Utility covenants and agrees to treat Developer in a non-discriminatory manner. Utility shall, as a prerequisite to providing service, require all future homebuilders and/or developers contributing or advancing water supply to Utility to serve customers in Utility's certificated service area, to convey ownership of all production well(s) used to supply water to Utility.

22. No Public Dedication. The transfer and conveyance of a Production Well, the Chlorination Facilities, the Off-Site Main or any other property to Utility shall not have the effect of dedicating the Wellsite, the Adjacent Property, any of the Property or any other real property owned by Developer or Talking Rock Golf to any public use or purpose.

23. Estoppel Certificate. A party shall at any time and from time to time upon not less than ten (10) days prior written notice from the other party execute, acknowledge and deliver to the requesting party a statement in writing (a) certifying that this Agreement is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Agreement, as so modified, is in full force and effect), and the date to which amounts due hereunder are paid in advance, if any; (b) acknowledging that there are not,

to the knowledge of the certifying party, any uncured defaults on the part of the other party hereunder, or specifying such defaults, if there are any claimed; and (c) confirming such other matters as the requesting party may reasonably request. Any such statement may be relied upon by the requesting party, and any prospective purchaser or encumbrancer of the requesting party's property. Upon a failure to sign the statement or notify the requesting party in writing of any inaccuracies in the statement within the time period stated above, the statement submitted by a requesting party shall be deemed approved.

24. Force Majeure. No party to this Agreement shall be liable to the others for failure, default or delay in performing any of its obligations hereunder, other than for the payment of money obligations specified herein, in case such failure, default or delay is caused by strikes or other labor problems; forces of nature, unavoidable accident, fire, acts of the public enemy, interference by civil authorities, passage of laws, orders of the court; adoption of rules or ordinances; acts, failures to act, decisions or orders or regulations of any governmental or military body or agency, office or commission; delays in receipt of materials; or any other cause, whether of similar nature, not within the control of the party affected and which, by the exercise of due diligence, such party is unable to prevent or mitigate the outcome ("Force Majeure Matters"); provided, however, that the party's failure, default or delay in performance shall be excused only for so long as such cause or event is present. Should any Force Majeure Matter occur, the parties hereto agree to proceed with diligence to do whatever is reasonable and necessary with respect to the Force Majeure Matter so that each party may perform its obligations under this Agreement.

25. Insurance. During the term of this Agreement, Talking Rock Golf shall, at its own expense, maintain in full force a policy or policies of commercial general liability insurance and fire and casualty insurance, in such amounts and with such companies as it deems reasonably appropriate. The policy(ies) shall insure Talking Rock Golf, with Utility as an additional named insured, against all liability for injury to persons and property and for the death of any person occurring in or about the Golf Course Wells or the Wellsite. During the term of this Agreement, Utility shall, at its own expense, maintain in full force a policy or policies of commercial general liability insurance and fire and casualty insurance, in such amounts and with such companies as it deems reasonably appropriate. The policy(ies) shall insure Utility, with Developer, Talking Rock Land and Talking Rock Golf as additional insureds, against all liability for injury to persons and property and for the death of any person occurring at or about the transferred and conveyed Production Wells, the Treatment Facilities, the Off-Site Main, the Other Facilities, Utility's storage, treatment or water distribution system, or caused or alleged to be caused by the delivery of water through Utility's storage, treatment or distribution system.

26. Indemnity. Utility shall indemnify, save and hold harmless Developer, Talking Rock Land and Talking Rock Golf and their members, officers, directors, partners, principals, employees and agents for, from and against any and all loss or damage arising from or relating to the storage, treatment, delivery or service of water withdrawn from a transferred and conveyed Production Well by Utility pursuant to this Agreement or withdrawn from a transferred and conveyed Production Well or a Golf Course Well and wheeled by Utility pursuant to this Agreement, including any liability resulting from the quality of the water or any violation of laws, rules or regulations relating to human health or the safety or protection of the environment.

27. Notices. All notices and other written communications required hereunder

shall be sent to the parties as follows:

Swayze McCraine
ICR Water Users Association
P.O. Box 4413
Prescott, Arizona 86302

Douglas R. Zuber
Harvard Simon I, L.L.C.
c/o Harvard Investment, Inc.
7600 E. Doubletree Ranch Rd., Suite 220
Scottsdale, AZ 85258

Douglas R. Zuber
Talking Rock Golf, L.L.C.
c/o Harvard Investments, Inc.
7600 E. Doubletree Ranch Rd., Suite 220
Scottsdale, AZ 85258

Each party shall advise the other party in writing of any change in the manner in which notice is to be provided hereunder. Notices shall be in writing and shall be given by personal delivery, or by overnight delivery by a national delivery service, or by delivery through the United States Postal Service, registered or certified mail, return receipt requested, postage prepaid. Notices shall be deemed delivered when received, if by personal delivery, or on the next business day after delivery, if by overnight delivery, or on the third day after deposit with the United States Postal Service, addressed as noted above.

28. Right of Assignment.

(a) Developer may assign this Agreement, or any of its rights and obligations hereunder, to another party provided that written notice of such assignment is given to Utility and Talking Rock Golf prior to the effective date of assignment and provided, further, that the assignee assumes in writing Developer's obligations hereunder and agrees to be bound by this Agreement. Upon delivery of such notice and a written assumption of Developer's obligations hereunder, Developer shall be released from all obligations arising under this Agreement after the effective date of the assignment and assumption. With regard to construction at the Property, the rights and obligations under paragraph 15 and under any other provisions of this Agreement pertinent to the delivery of water to the Property for construction purposes may be assigned and delegated by Developer, its successors and assigns, to any future owner of all or any portion of the Property, by the assignor giving written notice of such assignment to Utility and Talking Rock Golf prior to the effective date of assignment, together with an agreement in writing by the assignee to assume Developer's obligations under paragraph 15 and such other provisions of this Agreement, and a description of the property owned by the assignee. Upon delivery of such notice and a written assumption of Developer's obligations under paragraph 15 and such other provisions of this Agreement, Developer shall be released from all obligations arising under paragraph 15 or such other provisions after the effective date of the assignment and assumption that pertain to delivery of construction water to the property

owned by the assignee.

(b) Talking Rock Golf may assign this Agreement, or any of its rights and obligations hereunder, to another party provided that written notice of such assignment is given to Utility and Developer prior to the effective date of assignment and provided, further, that the assignee assumes in writing Talking Rock Golf's obligations hereunder and agrees to be bound by this Agreement. Upon delivery of such notice and a written assumption of Talking Rock Golf's obligations hereunder, Talking Rock Golf shall be released from all obligations arising under this Agreement after the effective date of the assignment and assumption. With regard to the Golf Course, the rights and obligations under paragraph 14 and under any other provisions of this Agreement pertinent to the Golf Course Wells or the delivery of water to the Golf Course from the transferred and conveyed Production Wells or the Golf Course Wells may be assigned and delegated by Talking Rock Golf, its successors and assigns, to any future owner of the Golf Course, by the assignor giving written notice of such assignment to Utility and Developer prior to the effective date of assignment, together with an agreement in writing by the assignee to assume Talking Rock Golf's obligations under paragraph 14 and such other provisions of this Agreement. Upon delivery of such notice and a written assumption of Talking Rock Golf's obligations under paragraph 14 and such other provisions of this Agreement, Talking Rock Golf shall be released from all obligations arising under paragraph 14 or such other provisions after the effective date of the assignment and assumption.

(c) Utility may assign all of its rights under this Agreement, and delegate all of its obligations hereunder, to another water utility company obligated to provide domestic water service to the Property, provided that written notice of such assignment is given to Developer and Talking Rock Golf prior to the effective date of assignment and provided, further, that the assignee assumes in writing Utility's obligations hereunder and agrees to be bound by this Agreement. Upon delivery of such notice and a written assumption of Utility's obligations hereunder, Utility shall be released from all obligations arising under this Agreement after the effective date of the assignment and assumption.

29. Default. If any party breaches, or defaults under, this Agreement, and such breach or default continues for a period of two (2) days with respect to any breach or default by Utility under paragraphs 11, 12, 13, 14 and 15, or for a period of ten (10) days with respect to any default in the payment of money, or for a period of thirty (30) days with respect to any other default, in each case after receipt by the defaulting party of a written notice describing the default, the non-defaulting party may immediately pursue any and all remedies available for such breach or default at law or in equity, including bringing an action for injunctive relief or for specific performance.

30. Attorneys' Fees. The prevailing party in any litigation or other proceeding concerning or related to this Agreement, or the enforcement of thereof, shall be entitled to recover its costs and reasonable attorneys' fees.

31. Time of the Essence. Time is of the essence of every provision hereof.

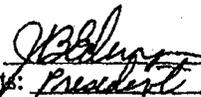
32. Prior Agreement. Developer and Utility previously entered into a Water Purchase Agreement dated April 27, 2001 (the "Water Purchase Agreement"). Upon the execution and delivery of this Agreement, the Water Purchase Agreement shall be entirely

superceded, terminated, void and of no further force or effect whatsoever. Each party shall, at the request of the other party, confirm in writing that the Water Purchase Agreement is so superceded, terminated, void and of no further force or effect.

33. Miscellaneous. This Agreement shall be governed by the laws of the State of Arizona. Without changing the assignment provision of paragraph 28, this Agreement, and each and every term and condition contained herein, shall be binding upon and inure to the benefit of the successors and assigns of Utility, Developer and Talking Rock Golf. This Agreement sets forth the entire agreement between the parties and supersedes all prior negotiations, understandings and agreements between them, except as otherwise expressly provided herein. No change in, addition to, or waiver of any provisions of this Agreement shall be binding upon any party unless in writing and signed by all parties. This Agreement may be executed in two or more original or facsimile counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument. In case any provision of this Agreement shall be determined to be invalid, illegal or unenforceable, it shall, to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as most nearly to retain the intent of the parties. If such modification is not possible, such provision shall be severed from this Agreement. In either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby. The headings in this Agreement are inserted for convenience only, and shall not constitute a part of this Agreement or be used to construe or interpret any of its provisions. The parties have participated jointly in the negotiation and drafting of this Agreement. If a question of interpretation arises, this Agreement shall be construed as if drafted jointly by the parties, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, an Arizona
public service corporation

By: 
Its: President

"Utility"

HARVARD SIMON I, L.L.C., an Arizona limited
liability company

By: Harvard Talking Rock, L.L.C.
Its Operating Member

By: Harvard Investments, Inc., an
Nevada corporation
Its Manager

By: 
Its: President

"Developer"

TALKING ROCK GOLF, L.L.C., an Arizona
limited liability company *

By: 
Its: President of
Harvard Investments, Inc.,
Manager of
Harvard Talking Rock, L.L.C.,
Operating Member of
Harvard Simon I, L.L.C.,
Manager of
TALKING ROCK GOLF, L.L.C.*

PARCEL I:

All of Sections 15 and 16, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona.

PARCEL II:

Thence Northeast quarter of Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, lying Northeasterly of Prescott-Simmons Road, as it existed on June 10, 1920.

EXCEPT all that portion of Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

COMMENCING at the point of intersection of the Easterly right of way of the Simmons Road and the North line of said Section 17, being the TRUE POINT OF BEGINNING;

Thence South 89°54' East, along the North line of said Section 17, a distance of 514.55 feet;

Thence South 34°33' East, parallel with the said Simmons Road 514.55 feet;

Thence North 89°54' West, 514.55 feet to a point on the said Easterly right of way of the Simmons Road;

Thence North 34°33' West, 514.55 feet, along the said Easterly right of way of the Simmons Road to the TRUE POINT OF BEGINNING as conveyed in Warranty Deed recorded November 13, 1996 in Book 3310 of Official Records, Page 854.

PARCEL III:

All of Sections 21 and 22, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian.

EXCEPT THEREFROM all coal, oil, gas and other mineral deposits as reserved in the Patent recorded in Book 25 of Official Records, Page 106.

(Affects Section 22, Township 16 North, Range 3 West.)

EXCEPT for that portion lying within the following described Parcels:

PARCELA:

Section 21 and Section 22 of Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian, County of Yavapai, State of Arizona, described as follows:

Exhibit "A"

BEGINNING at the intersection of the South line of said Section 22 and the Westerly sideline of Williamson Valley Road, 100 feet wide (also know as Prescott-Simmons Highway);

Thence along said Westerly line, North 30°31'54" West, 945.97 feet;

Thence parallel with the Southerly line of said Section 22, North 88°54'05" West, 2,215.12 feet to the East line of said Section 21;

Thence parallel with the Southerly line of said Section 21, South 86°23'15" West, 2,826.98 feet;

Thence continuing along said parallel line, South 88°48'30" West, 1,170.00 feet;

Thence South 03°42'29" East, 805.67 feet to the South line of said Section 21;

Thence along said Section line, North 88°48'30" East, 1,151.53 feet to the Southerly quarter corner of said Section, said corner is monumented with a 3 inch diameter brass disk set in concrete, stamped "WJ CHEEK 1961 PE 2398";

Thence continuing along said South line North 86°23'15" East, 2,804.18 feet to the Southeast corner of said Section 21, said corner is monumented with a 3 inch diameter brass disk set in concrete, stamped "WJ CHEEK 1961 PE 2398";

Thence along the Southerly line of said Section 22, South 88°54'05" East, 2,684.88 feet to the POINT OF BEGINNING.

PARCEL B:

Any portion lying South of the Northerly right of way line of Nancy Drive as recorded in Book 16 of Maps, Page 63 and East of the Easterly right of way of Williamson Valley Road.

PARCEL IV:

The North half of Section 28, Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian.

EXCEPT for the following described Parcel:

That portion of Section 28, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the Northeast corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete stamped "WJ CHEEK PE 2398";

Thence along the North line of said Section 28, South $86^{\circ}23'15''$ West, 2,804.18 feet to the North quarter corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete, stamped "WJ CHEEK PE 2398";

Thence continuing along said North line of Section 28, South $88^{\circ}48'30''$ West, 1,151.53 feet to a line parallel with the East line of said Section 28;

Thence along said parallel line, South $03^{\circ}42'29''$ East, 2,614.40 feet to the mid-section line of said Section 28;

Thence along said mid-section line, North $88^{\circ}26'14''$ East, 3,957.37 feet to the East quarter corner of said Section 28, said corner is monumented with a 3 inch diameter brass disk set in concrete stamped "WJ CHEEK PE 2398";

Thence along the East line of said Section 28, North $03^{\circ}42'29''$ West, 2,707.30 feet to the POINT OF BEGINNING.

PARCEL V:

Section 33 of Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, County of Yavapai, State of Arizona, lying Northerly and Northwesterly of the following described line:

BEGINNING on the West line of said Section, North $0^{\circ}12'47''$ West, 1,992.80 feet from the Southwest corner of said Section, said corner is monumented with a General Land Office survey monument;

Thence North $89^{\circ}47'13''$ East, 1051.14 feet to an existing 4 strand barbed wire fence;

Thence generally along said fence line, North $55^{\circ}49'36''$ East, 5,326.57 feet to the East line of said Section:

EXCEPT from all Parcels I, II and III any portion lying within Prescott-Simmons-Highway right of way.

PARCEL VI:

A portion of Section 11, Township 16 North, Range 3 West, of the Gila and Salt River Meridian, Yavapai County, Arizona, described as follows:

BEGINNING at the Southwest corner of said Section 11, as depicted on the Survey Plat recorded in Book 53 of Land Surveys, Page 30, records of said Yavapai County;

Thence South $88^{\circ}11'06''$ East, along the South line of said Section 11, a distance of 2,711.26 feet to the South quarter corner of said Section 11, as depicted on said Plat;

Thence South $88^{\circ}10'26''$ East, (of record South $88^{\circ}13'$ East), along said South line, a distance of 164.88 feet (of record 165.00 feet), to the Southwest corner of that certain parcel described in Book 2196 of Official Records, Page 746 and Book 3603 of Official Records, page 873, records of said Yavapai County, said corner being monumented with a one-half inch iron bar,

Thence North $00^{\circ}08'09''$ West, (of record North $00^{\circ}06'45''$ West), along the West line thereof, a distance of 1,826.06 feet (of record 1826.19 feet), to the Northwest corner of said Parcel, being also the Southwest corner of that certain parcel described in Book 2633 of Official Records, Page 474, records of said Yavapai County, said corner being monumented with a one-half inch iron bar,

Thence North $00^{\circ}05'23''$ West (of record North $00^{\circ}06'45''$ West), along the West line of said parcel described in Book 2633 of Official Records, Page 474, a distance of 1,829.88 feet (of record 1,837.24 feet), to the Northwest corner thereof, being also the Southwest corner of that certain parcel described in Book 2439 of Official Records, Page 517, records of said Yavapai County, said corner being monumented with a one-half inch iron bar,

Thence North $00^{\circ}07'54''$ West, (of record North $00^{\circ}07'00''$ West), along the West line of said parcel described in Book 2439 of Official Records, Page 517, a distance of 1,832.47 feet (of record 1,832.48 feet), to the Northwest corner of said parcel, said corner being a point on the North line of said Section 11 and being monumented with a one-half inch iron bar,

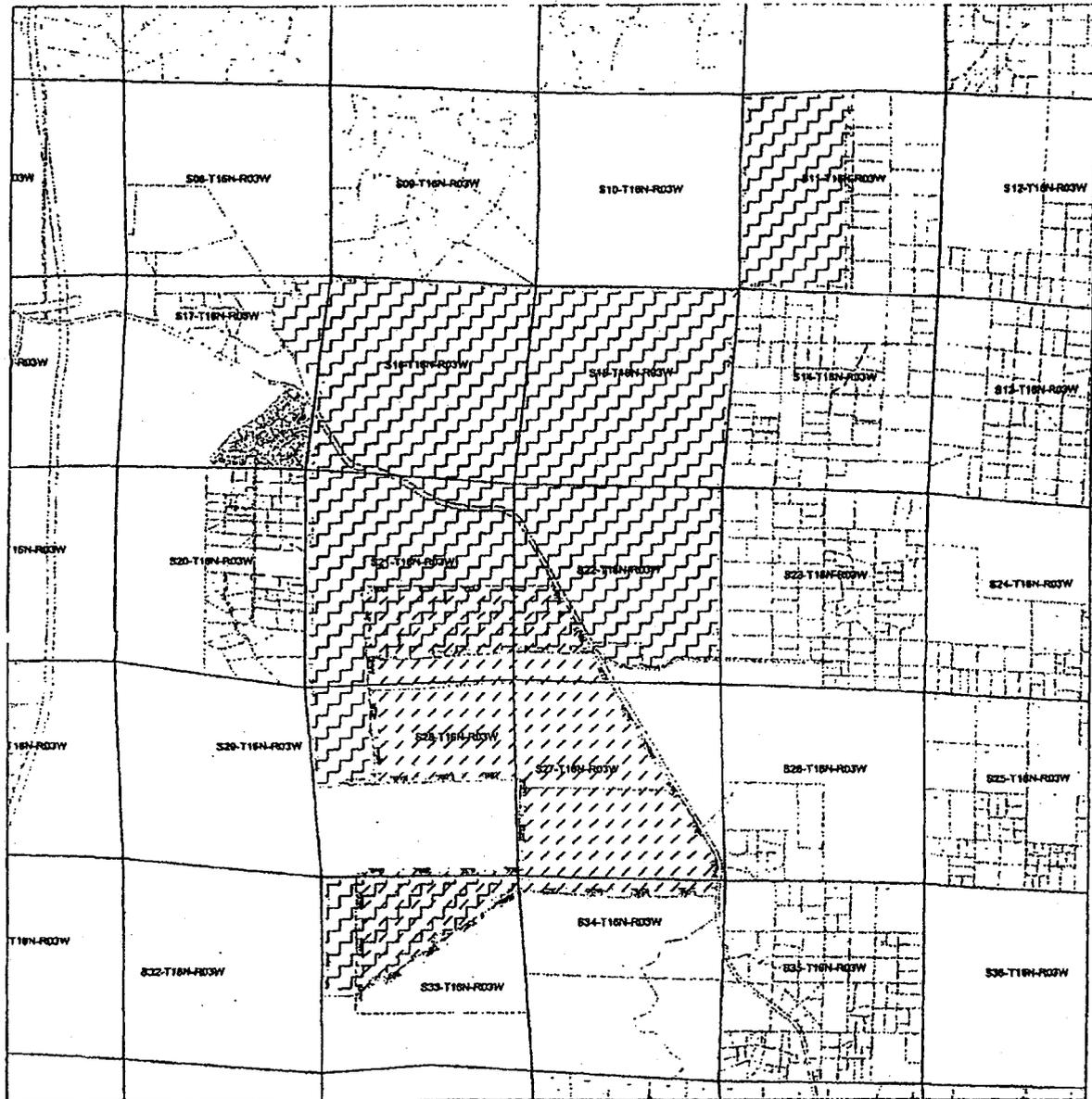
Thence North $88^{\circ}56'36''$ West (of record North $88^{\circ}56'06''$ West), along said north line, a distance of 165.03 feet (of record 165.00 feet), to the North quarter corner of said Section 11, as depicted on said Plat;

Thence North $88^{\circ}56'16''$ West, along said North line, a distance of 2,778.19 feet to the Northwest corner of said Section 11, as depicted on said Plat;

Thence South $00^{\circ}50'19''$ East, along the West line of said Section 11, a distance of 2,726.26 feet to the West quarter corner of said Section 11, as depicted on said Plat;

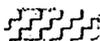
Thence South $00^{\circ}49'50''$ East, along said West line, a distance of 2,726.10 feet to the POINT OF BEGINNING.

ICR WATER USERS ASSOCIATION EXISTING CC&N AND REQUESTED EXPANSION

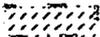


LEGEND

ICR WATER USERS
REQUESTED CC&N EXPANSION



ICR WATER USERS
CC&N AREA



PROPERTY OF
TRUST No. 4750

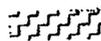
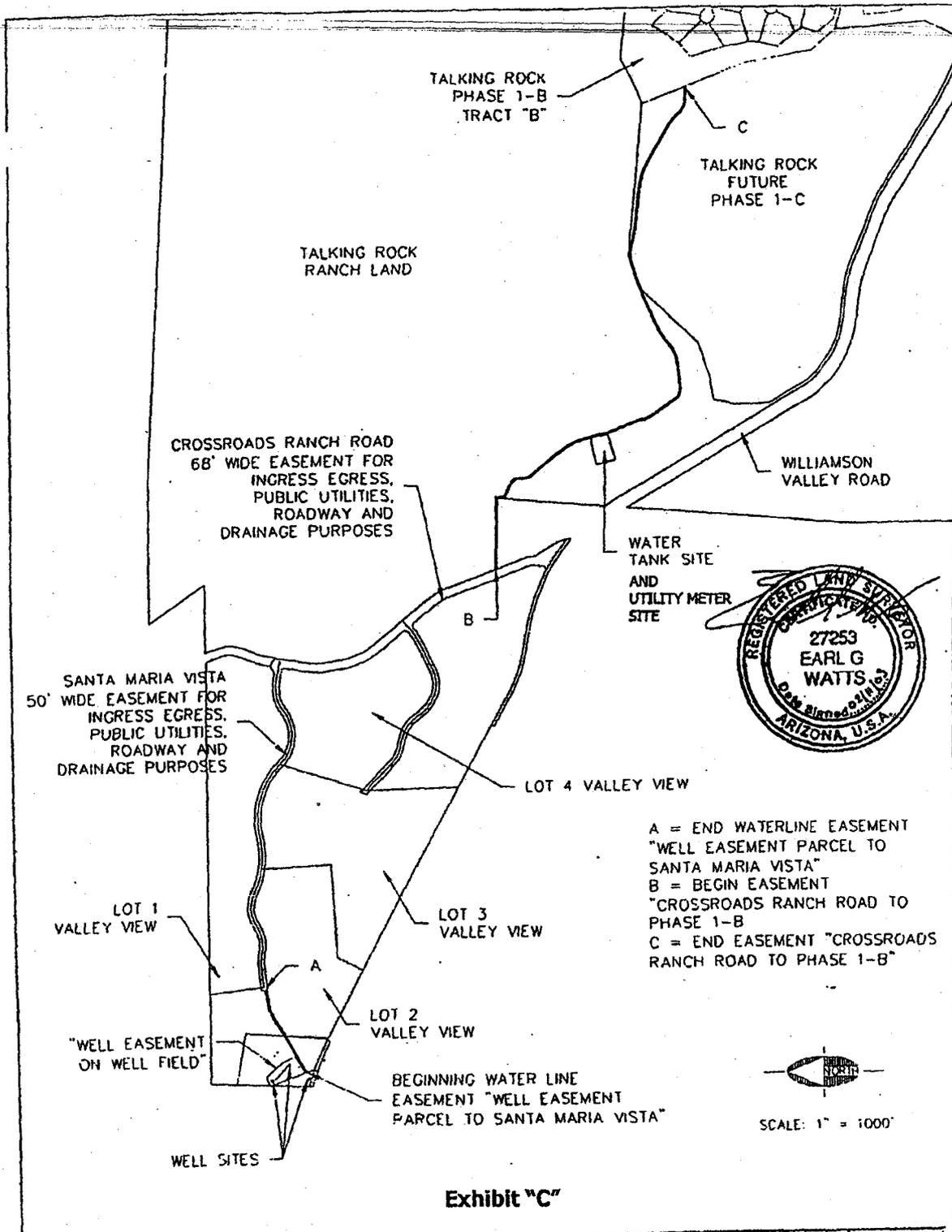


EXHIBIT "B"



SHEPARD - WESNITZER, INC. CIVIL ENGINEERING AND SURVEYING 1146 W. HWY 89A SUITE B, SEDONA, AZ 86340 (928) 282-1061	JOB NO. 02240	TALKING ROCK RANCH	YAVAPAI COUNTY ARIZONA	SHEET 1
	DATE: FEB 03	EXHIBIT WATER LINE EASEMENT		OF 1
	SCALE: 1" = 1000'			
	DRAWN: WH			
	DESIGN: N/A			
CHECKED: EGW				

LEGAL DESCRIPTION
Talking Rock Off-site Water Easement
Well Easement on Well Field
(February 11, 2003)

A parcel of land lying within Parcel 2, Amended Record of Survey of Valley View Estates as recorded in Book 49 of Land Surveys, Page 66 in the Yavapai County Recorder's Office (R1), lying in Section 17, Township 16 North, Range 3 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona;

BEGINNING at the Southeast corner of Section 17, from which the East Quarter corner of Section 17 bears North $04^{\circ}56'24''$ East, a distance of 2644.68 feet (Record per a Results of Survey as recorded in Book 53 of Land Surveys, Page 24 in the Yavapai County Recorders Office (R2) and Basis of Bearings for this description);

Thence North $46^{\circ}18'18''$ West, a distance of 5869.55 feet (R2) to the Southwest corner of said Parcel 2 and the Southwest corner of a Well Easement as recorded in Book 3697 of Official Records, Page 369, Yavapai County Recorder's Office (R3), said point being on the Northerly Right of Way line of Williamson Valley Road;

Thence North $02^{\circ}31'38''$ East, along the Westerly line of said Parcel 2, a distance of 25.48 feet (North $02^{\circ}27'51''$ East, a distance of 25.48 feet R3);

Thence South $76^{\circ}26'12''$ East, along the Northerly line of a 25.00 feet wide Easement for Public Utilities, Public Roadway and Drainage Purposes per R1, a distance of 1.21 feet (South $76^{\circ}30'00''$ East, a distance of 1.21 feet R3), to a point of curvature, the central point of which bears South $13^{\circ}33'48''$ West;

Thence along a curve concave Southwest, having a radius of 1471.23 feet, through a central angle of $05^{\circ}08'20''$, a distance of 131.95 feet (R3);

Thence leaving said Northerly Easement line, North $20^{\circ}12'03''$ West, (North $20^{\circ}15'50''$ West R3), along the Easterly line of R3, a distance of 69.75 feet to the TRUE POINT OF BEGINNING;

Thence continuing along the Easterly line of R3, North $20^{\circ}12'03''$ West (North $20^{\circ}15'50''$ West R3), a distance of 265.15 feet to a point on the West line of said Parcel 2 (per R1);

Thence leaving the Easterly line of R3, North $02^{\circ}31'38''$ East (North $02^{\circ}27'51''$ East R1), along the West line of Parcel 2, a distance of 24.22 feet;

Exhibit "D"

Thence leaving the West line of Parcel 2, North 69°47'57" East, a distance of 65.64 feet;

Thence South 40°37'38" East, a distance of 170.16 feet;

Thence South 22°57'00" East, a distance of 104.63 feet;

Thence South 60°13'27" West, a distance of 141.37 feet to the TRUE POINT OF BEGINNING.

Containing 0.75 Acres, more or less.

This legal description was prepared by Earl G. Watts, RLS 27253, on behalf of and at the request of Shephard-Wesnitzer, Inc., Sedona, AZ.



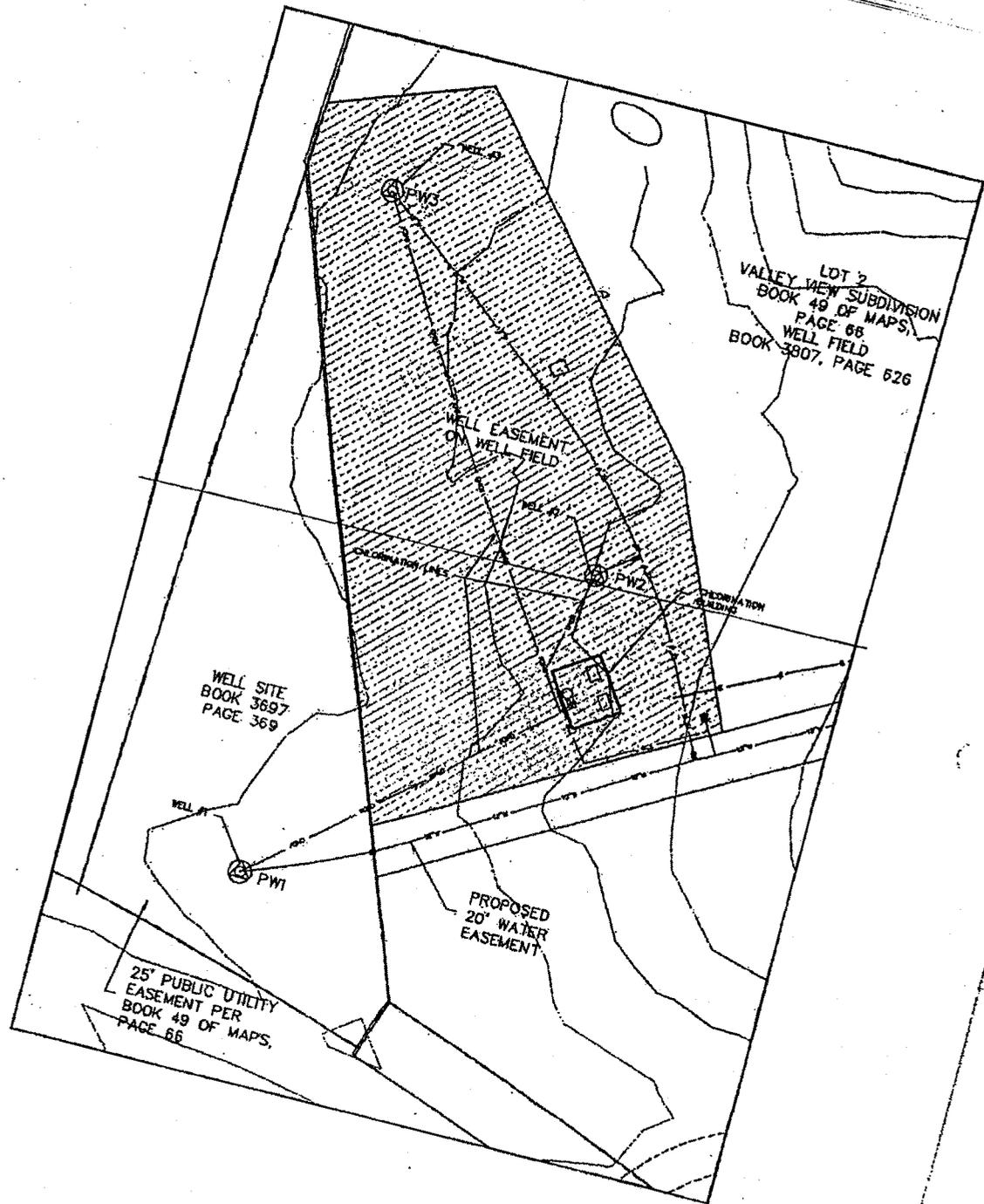


Exhibit "E"

[FORM – Revise for Production Well 2 to reflect Talking Rock Golf
as Seller and other conforming changes.]

When Recorded, Return to:

Michael T. Hallam, Esq.
Lewis and Roca, LLP
40 North Central Avenue
Phoenix, AZ 85004-4429

BILL OF SALE
(Production Well)

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, HARVARD SIMON I, L.L.C., an Arizona limited liability company, ("Seller"), hereby sells, transfers, conveys and absolutely sets over to ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Buyer"), (a) that well identified on Arizona Department of Water Resources records as Well Registration No. 55-_____ located at the property described on Exhibit "1" attached hereto, including all casing, pumps, motors, valves, pipes, meters, electrical facilities and connections, fencing and other parts, equipment, machinery and appurtenances used in the operation of the well (collectively, "Production Well 3"); and (b) that ___-inch water pipeline located at the property described on Exhibit "2" attached hereto, including valves and other parts, equipment, and other connecting facilities, extending from Production Well 3 to the Off-Site Main (herein defined) (collectively, the "PW-3 Connection Facilities"). The Off-Site Main is that 12-inch water transmission pipeline depicted on Exhibit "3" that extends from the wellfield developed by Seller at that property described on Exhibit "4" to a master-planned community commonly known as Talking Rock Ranch.

Seller hereby warrants title to Production Well 3 and the PW-3 Connection Facilities, subject to (i) taxes and assessments not yet due and payable; (ii) the terms, conditions, covenants and restrictions contained in that Well Agreement dated _____, 2003 (the "Well Agreement") between Seller and Buyer, including, without limitation, paragraphs 12 and 13 thereof; (iii) the terms, conditions, covenants and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona (the "Deed"); and (iv) all other matters of record. Buyer hereby accepts Production Well 3 and the PW-3 Connection Facilities subject to the terms, conditions, covenants and restrictions contained in the Well Agreement and the terms, conditions, covenants and restrictions contained in the Deed. In addition to the terms, conditions, covenants and restrictions contained in the Well Agreement or in the Deed, Buyer agrees that the maximum production capacity of Production Well 3 shall not exceed 430 gallons per minute, and Buyer shall not increase the production capacity of Production Well 3 beyond 430 gallons per minute without the express written consent of Seller and Talking Rock Golf, L.L.C., an Arizona limited liability company, or their successors and assigns. Notwithstanding

EXHIBIT "F"

anything to the contrary contained herein, Seller warrants title to Production Well 3 free and clear of any monetary liens, encumbrances or security interests (other than liens for taxes and assessments not yet due and payable).

Seller warrants that Production Well 3 will be free from all defects and deficiencies in construction, materials and/or workmanship for the longer of (i) one (1) year from the date hereof, or (ii) for the same period of time that the construction warranties provided to Seller pertaining to Production Well 3 remain in effect, if said construction warranties provided to Seller pertaining to Production Well 3 extend beyond the one-year period. During the warranty period, Seller agrees to promptly undertake any necessary corrective construction efforts required to remedy any defects and deficiencies in construction, materials and/or workmanship upon notice by Buyer. Upon Buyer's acceptance of this Bill of Sale, Buyer shall be deemed to have accepted Production Well 3 in "as is" and "as-constructed" condition, subject only to the warranty concerning defects and deficiencies in construction, materials and/or workmanship provided for herein. Seller makes no representation or warranty whatsoever as to the quantity or quality of water that may be produced from Production Well 3, either on the date hereof or in the future.

IN WITNESS WHEREOF, Seller and Buyer have duly executed this Bill of Sale this ____ day of _____, 2003.

SELLER:

HARVARD SIMON I, L.L.C., an Arizona limited liability company

By: **HARVARD TALKING ROCK, L.L.C.**
Its: Operating Member

By: **HARVARD INVESTMENTS, INC.**,
a Nevada corporation
Its: Manager

By: _____
Its: _____

BUYER:

ICR WATER USERS ASSOCIATION, an Arizona public service corporation

By: _____
Its: _____

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of HARVARD INVESTMENTS, INC., a Nevada corporation, Manager of HARVARD TALKING ROCK, L.L.C., Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

[FORM - Revise for Production Well 2]

When recorded, return to:
Michael T. Hallam, Esq.
Lewis and Roca
40 North Central Avenue
Phoenix, Arizona 85004-4429

EASEMENT

(Production Wells and Related Facilities)

In consideration of TEN DOLLARS (\$10.00) and other good and valuable consideration paid to TALKING ROCK GOLF, L.L.C., an Arizona limited liability company ("Talking Rock Golf"), by ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Utility"), the receipt and sufficiency of which are hereby acknowledged, Talking Rock Golf, Utility and HARVARD SIMON I, L.L.C., an Arizona limited liability company ("Developer") agree as follows:

1. **GRANT OF WELLSITE EASEMENT.** Subject to the conditions, limitations and restrictions stated herein, Talking Rock Golf does hereby grant to Utility, its successors and assigns, a non-exclusive perpetual easement, over, under, upon and across that parcel of land legally described on attached Exhibit "1" (the "Wellsite Easement Parcel"), for the following purposes:

(a) The use, operation, maintenance and repair of that well identified in Arizona Department of Water Resources records as Well Registration No. 55-_____, located at the Wellsite Easement Parcel, which well is referred to as Production Well 3 under that certain Well Agreement dated _____, 2003 between Developer, Utility and Talking Rock Golf (the "Well Agreement");

(b) The withdrawal of water from Production Well 3 for use by Utility for domestic purposes at the real property described in Exhibit "2" (the "Property");

(c) The withdrawal of water from Production Well 3 on behalf of and as requested by Talking Rock Golf for the purpose of wheeling water from Production Well 3 to the 18-hole golf course located at the Property pursuant to the Well Agreement;

(d) The withdrawal of water from Production Well 3 on behalf of and as requested by Developer for construction purposes at the Property pursuant to the Well Agreement;

(e) The withdrawal of water from Production Well 3 for water quality monitoring and testing as required by law in amounts reasonably sufficient for the purpose;

EXHIBIT "G"

(f) The installation, use, operation, repair, maintenance and replacement of parts, components, equipment or materials at the Wellsite Easement Property for the treatment of water pumped from Production Well 3 (the "Additional Treatment Facilities");

(g) The use, operation, repair, maintenance and replacement of piping, valves, fittings and other plant utility currently located in the Wellsite Easement Parcel and used for the purpose of delivering water from Production Well 3 to the Property (the "PW-3 Connection Facilities"); and

(h) Pedestrian and vehicular ingress and egress over the Wellsite Easement Parcel as necessary for the exercise by Utility of the rights granted in paragraph 1(a) through 1(g) above.

2. GRANT OF ACCESS EASEMENT. Subject to the conditions, limitations, covenants and restrictions stated herein, Talking Rock Golf does hereby grant to Utility, its successors and assigns, a non-exclusive, perpetual easement on, over and across that parcel of land legally described on attached Exhibit "3" (the "Access Area") for pedestrian and vehicular ingress and egress to the Wellsite Easement Parcel.

3. TREATMENT FACILITIES. At its sole cost and expense, and as further described in the Well Agreement, Utility may install and construct Additional Treatment Facilities at the Wellsite Easement Parcel, in furtherance of the purpose described in paragraph 1(f), provided, however, that:

(a) Utility provides Talking Rock Golf and Developer with plans and specifications for the Additional Treatment Facilities before the plans and specifications are submitted to any regulatory agency for approval. Talking Rock Golf and Developer shall have the right to approve the location, size and design features of the Additional Treatment Facilities, which approval will not be unreasonably withheld or delayed. Approval by Talking Rock Golf and Developer is a condition precedent to Utility installing or constructing any component of the Additional Treatment Facilities;

(b) Talking Rock Golf or Developer may require that Utility change the proposed location of the Additional Treatment Facilities, or any component thereof, as a condition to their approval of the Additional Treatment Facilities;

(c) Utility will comply with all fencing and landscaping requirements for the Additional Treatment Facilities imposed by Talking Rock Golf or the Developer; and

(d) Utility will install and construct the Additional Treatment Facilities at the locations and having the size and design features approved by Talking Rock Golf and Developer.

If Utility's repair, maintenance or replacement of the Additional Treatment Facilities results in any change in the location, size or design features of the Additional Treatment Facilities, the conditions stated in subparagraphs 4(a) through 4(d) shall apply to said repair, maintenance and replacement. Neither Talking Rock Golf nor Developer make any representation or warranty of any nature regarding the quality of water available from Production Well 3, either now or in the future. Utility is solely responsible for treating the water withdrawn from Production Well 3 as

necessary to meet water quality standards imposed by all regulatory agencies having jurisdiction, as such standards may change from time to time. Notwithstanding the approval by Talking Rock Golf or Developer of the location, size and design features of the Additional Treatment Facilities, neither Talking Rock Golf nor Developer shall have any responsibility or liability for the performance or effectiveness of the Additional Treatment Facilities.

4. GENERAL COVENANTS, CONDITIONS, RESTRICTIONS AND LIMITATIONS. The exercise by Utility of the easements granted herein is subject to the following covenants, conditions, restrictions and limitations:

(a) Utility acknowledges and agrees that the Wellsite Easement Parcel encompasses another well identified in Arizona Department of Water Resources records as Well Registration No. 55-_____, which well is referred to as Production Well 2 in the Well Agreement, and also encompasses certain piping, valves, fittings and other plant utility currently located in the Wellsite Easement Parcel and used for the purpose of delivering water from Production Well 2 to the Property (the "PW-2 Connection Facilities"), and that this Easement grants no rights to Utility with respect to Production Well 2 or the PW-2 Connection Facilities;

(b) Utility's use, operation, maintenance and repair of Production Well 3 is subject to the terms, conditions, restrictions and limitations contained in the Well Agreement, including, without limitation, paragraphs 12 and 13 of the Well Agreement;

(c) Utility's use and operation of Production Well 3 is subject to the terms, conditions, restrictions and limitations contained in that Special Warranty Deed from Bluegrass West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in Book 3807, Page 626, records of Yavapai County, Arizona (the "Deed");

(d) Without the express written consent of Developer and Talking Rock Golf, or their successors and assigns, Utility shall not increase the production capacity of Production Well 3 beyond 430 gallons per minute;

(e) Utility shall use due care in entering the Wellsite Easement Parcel and the Access Area and in exercising its rights under this instrument;

(f) Utility may shut down Production Well 3, the PW-3 Connection Facilities, or the Additional Treatment Facilities as provided in the Well Agreement;

(g) Except in the event of shutdowns as provided in the Well Agreement, Utility shall not interfere with or disrupt Talking Rock Golf's use of the Wellsite Easement Parcel, or its use, operation, repair, maintenance or replacement of Production Well 2, the PW-2 Connection Facilities or any other wells owned by Talking Rock Golf;

(h) If Utility's exercise of its rights hereunder results in any disturbance of or damage to the Wellsite Easement Parcel or the Access Area, or any improvement thereon, Utility shall restore the Wellsite Easement Parcel or the Access Area to its original condition, including repairing any damage to any improvements located on the Wellsite Easement Parcel to the satisfaction of Talking Rock Golf, replacing any disturbed or damaged landscaping on the Wellsite Easement Parcel or the Access Area (whether naturally existing or intentionally

planted), and compacting, contouring and leveling the Wellsite Easement Parcel or the Access Area to the satisfaction of Talking Rock Golf; and

(i) If a party installs locked gates on the Wellsite Easement Parcel or the Access Area, or on adjacent land such that the other party's access to or use of the Wellsite Easement Parcel or the Access Area for permitted purposes is impeded, such party shall provide the others with keys to those locks.

5. INDEMNITY; RELEASES.

(a) Utility assumes any and all liability for injury to or death of persons and loss or destruction of or damage to property, in any manner arising from or growing out of or alleged to have arisen from or grown out of the entry and use of the Wellsite Easement Parcel or the Access Area or any improvements thereon, by or under Utility, however such injury, death, loss, destruction or damage may occur or be caused;

(b) Utility hereby releases, discharges, protects, indemnifies, saves and holds harmless Talking Rock Golf and Developer from any and all claims, demands, suits, actions, causes of actions, damages, losses, recoveries, judgments, costs and expenses whatsoever, including reasonable attorneys fees and costs, which are caused or occasioned by or have resulted from (or are alleged to have been caused or occasioned by or have resulted from) any use of the Wellsite Easement Parcel or the Access Area by or under Utility;

(c) Utility assumes and shall conduct the defense of any suit or proceeding brought against Talking Rock Golf or Developer for recovery for injury to or death of persons or for loss or destruction of or damage to property in any manner arising from or growing out of (or alleged to have arisen from or to have grown out of) any entry or use of the Wellsite Easement Parcel or the Access Area, or any improvements thereon by or under the Utility, unless Talking Rock Golf or Developer, as the case may be, desires to defend or to participate in the defense of any such suit or proceeding. Utility shall pay and satisfy any judgment which be rendered in any such suit or proceeding against Talking Rock Golf or Developer, together with all costs and expenses incident thereto, including reasonable attorneys fees;

(d) Utility shall protect and keep the title of the Wellsite Easement Parcel or the Access Area free and clear of and from any and all mechanics', laborers', materialmen's or other liens, claims, clouds and encumbrances in any manner arising from or growing out of any entry or use of the Wellsite Easement Parcel or the Access Area, or any improvements thereon, by or under Utility, or any work or operations conducted upon the Wellsite Easement Parcel or the Access Area by or under Utility.

6. RIGHTS OF TALKING ROCK GOLF. Talking Rock Golf reserves the right to use and enjoy the Wellsite Easement Parcel and the Access Area to the fullest extent possible, provided that such use and enjoyment do not unreasonably interfere with Utility's exercise of the rights granted herein.

7. ASSIGNMENT. Utility may assign its rights and delegate its obligations under this Easement only to the successors in interest to Utility who are obligated to provide domestic water service to the Property, provided that written notice of such assignment is given

to Developer and Talking Rock Golf prior to the effective date of the assignment and provided, further, that the assignee assumes in writing Utility's obligations hereunder and agrees to be bound by this Easement, and provided, further, that the assignee has assumed in writing Utility's obligations under the Well Agreement and has agreed to be bound by the Well Agreement. Upon delivery of such notice and a written assumption of Utility's obligations hereunder and under the Well Agreement, Utility shall be released from all obligations arising under this Easement after the effective date of the assignment and assumption.

8. DEFAULT. If any party breaches, or defaults under, this Easement, and such breach or default continues for a period of two (2) days with respect to any breach or default by Utility under any of paragraphs 5(b) through 5(g) or with respect to a breach or default by any party under paragraph 5(i), or for a period of ten (10) days with respect to any other breach or default, in each case after receipt by the defaulting party of a written notice describing the default, the non-defaulting party may immediately pursue any and all remedies available for such breach or default at law or in equity, including bringing an action for injunctive relief or for specific performance. The parties shall provide written notice to each other as provided in the Well Agreement.

9. WARRANTY OF TITLE. Talking Rock Golf covenants that it is the owner of the Wellsite Easement Parcel and the Access Area, subject to existing matters of record, including the Deed, and the rights of parties in possession, and has the right, title and capacity to grant the easements described in this instrument. Notwithstanding the foregoing, Talking Rock Golf warrants that title to the Wellsite Easement Parcel and the Access Area is free and clear of any monetary liens, encumbrances or security interests (other than taxes and assessments not yet due and payable) except those monetary liens, encumbrances and security interests the holders of which have consented to the grant of this Easement.

10. NO MODIFICATION; GOVERNING INSTRUMENT. By the execution of this instrument, the parties do not intend to modify, amend or effect the Well Agreement in any respect. In the event of any conflict between the terms of this instrument and the terms of the Well Agreement, the terms of the Well Agreement shall govern and prevail.

11. EFFECT OF AGREEMENT. This Easement runs with the land, is a burden upon the Wellsite Easement Parcel and the Access Area, is binding upon Talking Rock Golf and all persons having or acquiring any interest in the Wellsite Easement Parcel or the Access Area, and runs to the benefit of Talking Rock Golf, Developer and their successors and assigns. This Easement runs and inures to the benefit of, and is binding upon, Utility, its successors and assigns, subject to the terms of paragraph 8. This Easement will not operate to dedicate any property for public use.

DATED: This ____ day of _____, 2003.

TALKING ROCK GOLF, L.L.C.,
an Arizona limited liability company

By: _____
Its: _____

DEVELOPER:

HARVARD SIMON I, L.L.C., an Arizona
limited liability company

By: Harvard Talking Rock, L.L.C.
Its Operating Member

By: Harvard Investments, Inc., a
Nevada corporation
Its Manager

By: _____
Its _____

ACCEPTED AND AGREED TO:

ICR WATER USERS ASSOCIATION,
an Arizona public service corporation

By: _____
Name: _____
Title: _____

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of
_____, 2003, by _____, the _____ of TALKING
ROCK GOLF, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of HARVARD INVESTMENTS, INC., a Nevada corporation, the Manager of HARVARD TALKING ROCK, L.L.C., an Arizona limited liability company, the Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

BILL OF SALE
(Off-Site Main and other Facilities)

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, **HARVARD SIMON I, L.L.C.**, an Arizona limited liability company ("Seller"), hereby sells, transfers, conveys and absolutely sets over to **ICR WATER USERS ASSOCIATION**, an Arizona public service corporation ("Buyer"), (a) that 12-inch water transmission main located within the property described on Exhibit "1" attached hereto, (b) that 300,000 gallon water storage facility located at the property described on Exhibit "2" attached hereto; and (c) that pump station located at the property described on attached Exhibit "2", together with all equipment, valves, meters, booster pumps, electrical systems, control systems and related infrastructure and appurtenances (together, the "Facilities"). Seller warrants title to the Facilities free and clear of any liens and encumbrances.

Seller warrants that the Facilities will be free from all defects and deficiencies in construction, materials and/or workmanship for a period the longer of (i) of one (1) year from the date hereof, or (ii) for the same period of time that the construction warranties provided to Seller pertaining to the Facilities remain in effect, if said construction warranties provided to Seller during the warranty period, Seller agrees to promptly undertake any necessary corrective construction efforts required to remedy any defects and deficiencies in construction, materials and/or workmanship upon notice by Buyer. Upon Buyer's acceptance of this Bill of Sale, Buyer shall be deemed to have accepted the Facilities in "as is" and "as-constructed" condition, subject only to the warranty concerning defects and deficiencies in construction, materials and/or workmanship provided for herein.

Dated: _____, 2003.

SELLER:

HARVARD SIMON I, L.L.C., an Arizona limited liability company

By: **HARVARD TALKING ROCK, L.L.C.**
Its: Operating Member

By: **HARVARD INVESTMENTS, INC.**,
a Nevada corporation
Its: Manager

By: _____
Its: _____

EXHIBIT "H"

BUYER:

**ICR WATER USERS ASSOCIATION, an Arizona
public service corporation**

By: _____
Its: _____

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of HARVARD INVESTMENTS, INC., a Nevada corporation, Manager of HARVARD TALKING ROCK, L.L.C., Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

BILL OF SALE
(Chlorination Facilities)

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, **TALKING ROCK GOLF, L.L.C.**, an Arizona limited liability company ("Seller"), hereby sells, transfers, conveys and absolutely sets over to **ICR WATER USERS ASSOCIATION**, an Arizona public service corporation ("Buyer"), that water chlorination equipment and facilities, consisting of (a) three (3) chlorinators and three (3) injection pumps, solution tank, control systems and other related equipment and materials; (b) a building located at the real property described on Exhibit "1" that encloses said chlorinators, injection pumps, solution tank, control systems and other related equipment and materials; and (c) three (3) ___-inch diameter pipelines, together with connections, valves, and other equipment (each, a "Chlorine Pipeline") used to convey chlorine solution from said building to three (3) separate wellsites. The Chlorine Pipelines are located in the real property described on Exhibit "2." All of the water chlorination equipment and facilities described in subparagraphs (a), (b) and (c) are referred to herein collectively as the "Chlorination Facilities." Seller warrants title to the Chlorination Facilities free and clear of any liens and encumbrances.

Seller warrants that the Chlorination Facilities will be free from all defects and deficiencies in construction, materials and/or workmanship for the longer of (i) one (1) year from the date hereof, or (ii) for the same period of time that the construction warranties provided to Seller pertaining to the Chlorination Facilities remain in effect, if said construction warranties provided to Seller pertaining to the Chlorination Facilities extend beyond the one-year period. During the warranty period, Seller agrees to promptly undertake any necessary corrective construction efforts required to remedy any defects and deficiencies in construction, materials and/or workmanship upon notice by Buyer. Upon Buyer's acceptance of this Bill of Sale, Buyer shall be deemed to have accepted the Chlorination Facilities in "as is" and "as-constructed" condition, subject only to the warranty concerning defects and deficiencies in construction, materials and/or workmanship provided for herein.

Dated: _____, 2003.

SELLER:

TALKING ROCK GOLF, L.L.C., an Arizona limited liability company

By: _____
Its: _____

EXHIBIT "1"

When recorded, return to:

Michael T. Hallam, Esq.
Lewis and Roca
40 North Central Avenue
Phoenix, Arizona 85004-4429

EASEMENT

(Chlorination Facilities)

In consideration of TEN DOLLARS (\$10.00) and other good and valuable consideration paid to TALKING ROCK GOLF; L.L.C., an Arizona limited liability company ("Talking Rock Golf"), by ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Utility"), the receipt and sufficiency of which are hereby acknowledged, Talking Rock Golf, Utility and HARVARD SIMON I, L.L.C., an Arizona limited liability company ("Developer") agree as follows:

1. GRANT OF CHLORINATION FACILITIES EASEMENT. Subject to the conditions, limitations and restrictions stated herein, Talking Rock Golf does hereby grant to Utility, its successors and assigns, a non-exclusive perpetual easement, over, under, upon and across that parcel of land legally described on attached Exhibit "1" (the "Wellsite Easement Parcel"), for the following purposes:

(a) The use, operation, maintenance, repair and replacement of (i) three chlorinators and three injection pumps, solution tank, control systems and other equipment, installed by Talking Rock Golf at the Wellsite Easement Parcel pursuant to that certain Well Agreement dated _____, 2003 between Developer, Utility and Talking Rock Golf (the "Well Agreement"); (ii) a small building installed by Talking Rock Golf at the Wellsite Easement Parcel that encloses the chlorinators, injection pumps, solution tank, control systems and other equipment; (iii) three ___-inch diameter pipelines (each, a "Chlorine Pipeline") that will each convey chlorine solution from a chlorinator to one of those wells identified in Arizona Department of Water Resources records as Well Registration Nos. 55-_____, 55-_____, and 55-_____, which wells are referred to, respectively, as Production Well 1, 2 and 3 in the Well Agreement; and (iv) connections, valves and other equipment necessary to connect a Chlorine Pipeline to a Production Well, to the extent located at the Wellsite Easement Parcel (all such facilities being referred to collectively as the "Chlorination Facilities"); and

(b) Pedestrian and vehicular ingress and egress over the Wellsite Easement Parcel as necessary for the exercise by Utility of the rights granted in paragraph 1(a) above.

2. Grant of Easement over Adjacent Property. Subject to the conditions, limitations and restrictions stated herein, Talking Rock Golf does hereby grant to Utility, its successors and

EXHIBIT "J"

assigns, a non-exclusive perpetual easement, over, under, upon and across that parcel of land legally described on attached Exhibit "2" (the "Adjacent Parcel"), for the following purposes:

(a) The use, operation, maintenance, repair and replacement of (i) the Chlorine Pipeline that will convey chlorine solution from the Wellsite Easement Parcel to Production Well 1, which is located on the Adjacent Parcel; and (ii) connections, valves and other equipment necessary to connect the Chlorine Pipeline to Production Well 1; and

(b) Pedestrian and vehicular ingress and egress over the Wellsite Easement Parcel and the Adjacent Parcel as necessary for the exercise by Utility of the rights granted in paragraph 2(a) above.

3. GRANT OF ACCESS EASEMENT. Subject to the conditions, limitations, covenants and restrictions stated herein, Talking Rock Golf does hereby grant to Utility, its successors and assigns, a non-exclusive, perpetual easement on, over and across that parcel of land legally described on attached Exhibit "3" (the "Access Area") for pedestrian and vehicular ingress and egress to the Wellsite Easement Parcel and the Adjacent Parcel.

4. GENERAL COVENANTS, CONDITIONS, RESTRICTIONS AND LIMITATIONS. The exercise by Utility of the easements granted herein is subject to the following covenants, conditions, restrictions and limitations:

(a) Utility shall use due care in entering the Wellsite Easement Parcel, the Adjacent Parcel and the Access Area and in exercising its rights under this instrument;

(b) Utility may shut down Chlorination Facilities as provided in the Well Agreement;

(c) Except in the event of shutdowns as provided in the Well Agreement, Utility shall not interfere with or disrupt Talking Rock Golf's use of the Wellsite Easement Parcel or the Adjacent Parcel, or its use, operation, repair, maintenance or replacement of Production Well 1 or Production Well 2 or any other wells owned by Talking Rock Golf;

(d) If Utility's exercise of its rights hereunder results in any disturbance of or damage to the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area, or any improvement thereon, Utility shall restore the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area to its original condition, including repairing any damage to any improvements located on the Wellsite Easement Parcel or the Adjacent Parcel to the satisfaction of Talking Rock Golf, replacing any disturbed or damaged landscaping on the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area (whether naturally existing or intentionally planted), and compacting, contouring and leveling the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area to the satisfaction of Talking Rock Golf; and

(e) If a party installs locked gates on the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area, or on adjacent land such that the other party's access to or use of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area for permitted purposes is impeded, such party shall provide the others with keys to those locks.

5. INDEMNITY; RELEASES.

(a) Utility assumes any and all liability for injury to or death of persons and loss or destruction of or damage to property, in any manner arising from or growing out of or alleged to have arisen from or grown out of the entry and use of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area or any improvements thereon, by or under Utility, however such injury, death, loss, destruction or damage may occur or be caused;

(b) Utility hereby releases, discharges, protects, indemnifies, saves and holds harmless Talking Rock Golf and Developer from any and all claims, demands, suits, actions, causes of actions, damages, losses, recoveries, judgments, costs and expenses whatsoever, including reasonable attorneys fees and costs, which are caused or occasioned by or have resulted from (or are alleged to have been caused or occasioned by or have resulted from) any use of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area by or under Utility;

(c) Utility assumes and shall conduct the defense of any suit or proceeding brought against Talking Rock Golf or Developer for recovery for injury to or death of persons or for loss or destruction of or damage to property in any manner arising from or growing out of (or alleged to have arisen from or to have grown out of) any entry or use of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area, or any improvements thereon by or under the Utility, unless Talking Rock Golf or Developer, as the case may be, desires to defend or to participate in the defense of any such suit or proceeding. Utility shall pay and satisfy any judgment which be rendered in any such suit or proceeding against Talking Rock Golf or Developer, together with all costs and expenses incident thereto, including reasonable attorneys fees;

(d) Utility shall protect and keep the title of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area free and clear of and from any and all mechanics', laborers', materialmen's or other liens, claims, clouds and encumbrances in any manner arising from or growing out of any entry or use of the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area, or any improvements thereon, by or under Utility, or any work or operations conducted upon the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area by or under Utility.

6. RIGHTS OF TALKING ROCK GOLF. Talking Rock Golf reserves the right to use and enjoy the Wellsite Easement Parcel, the Adjacent Parcel and the Access Area to the fullest extent possible, provided that such use and enjoyment do not unreasonably interfere with Utility's exercise of the rights granted herein.

7. ASSIGNMENT. Utility may assign its rights and delegate its obligations under this Easement only to the successors in interest to Utility who are obligated to provide domestic water service to the Property, provided that written notice of such assignment is given to Developer and Talking Rock Golf prior to the effective date of the assignment and provided, further, that the assignee assumes in writing Utility's obligations hereunder and agrees to be bound by this Easement, and provided, further, that the assignee has assumed in writing Utility's obligations under the Well Agreement and has agreed to be bound by the Well Agreement. Upon delivery of such notice and a written assumption of Utility's obligations hereunder and under the Well Agreement, Utility shall be released from all obligations arising under this

Easement after the effective date of the assignment and assumption.

8. DEFAULT. If any party breaches, or defaults under, this Easement, and such breach or default continues for a period of two (2) days with respect to any breach or default by Utility under any of paragraphs 4(b) or 4(c), or with respect to a breach or default by any party under paragraph 4(e), or for a period of ten (10) days with respect to any other breach or default, in each case after receipt by the defaulting party of a written notice describing the default, the non-defaulting party may immediately pursue any and all remedies available for such breach or default at law or in equity, including bringing an action for injunctive relief or for specific performance. The parties shall provide written notice to each other as provided in the Well Agreement.

9. WARRANTY OF TITLE. Talking Rock Golf covenants that it is the owner of the Wellsite Easement Parcel and the Access Area, subject to existing matters of record, including the Deed, and the rights of parties in possession, and has the right, title and capacity to grant the easements described in this instrument. Notwithstanding the foregoing, Talking Rock Golf warrants that title to the Wellsite Easement Parcel and the Access Area is free and clear of any monetary liens, encumbrances or security interests (other than taxes and assessments not yet due and payable) except those monetary liens, encumbrances and security interests the holders of which have consented to the grant of this Easement.

10. NO MODIFICATION; GOVERNING INSTRUMENT. By the execution of this instrument, the parties do not intend to modify, amend or effect the Well Agreement in any respect. In the event of any conflict between the terms of this instrument and the terms of the Well Agreement, the terms of the Well Agreement shall govern and prevail.

11. EFFECT OF AGREEMENT. This Easement runs with the land, is a burden upon the Wellsite Easement Parcel, the Adjacent Parcel and the Access Area, is binding upon Talking Rock Golf and all persons having or acquiring any interest in the Wellsite Easement Parcel, the Adjacent Parcel or the Access Area, and runs to the benefit of Talking Rock Golf, Developer and their successors and assigns. This Easement runs and inures to the benefit of, and is binding upon, Utility, its successors and assigns, subject to the terms of paragraph 7. This Easement will not operate to dedicate any property for public use.

DATED: This ____ day of _____, 2003.

TALKING ROCK GOLF, L.L.C.,
an Arizona limited liability company

By: _____
Its: _____

DEVELOPER:

HARVARD SIMON I, L.L.C., an Arizona
limited liability company

By: Harvard Talking Rock, L.L.C.
Its Operating Member

By: Harvard Investments, Inc., a
Nevada corporation
Its Manager

By: _____
Its _____

ACCEPTED AND AGREED TO:

ICR WATER USERS ASSOCIATION,
an Arizona public service corporation

By: _____
Name: _____
Title: _____

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of
_____, 2003, by _____, the _____ of TALKING
ROCK GOLF, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of HARVARD INVESTMENTS, INC., a Nevada corporation, the Manager of HARVARD TALKING ROCK, L.L.C., an Arizona limited liability company, the Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, on behalf of the company.

Notary Public

My Commission Expires:

STATE OF ARIZONA)
) ss
County of)

The foregoing instrument was acknowledged before me this ____ day of _____, 2003, by _____, the _____ of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

SUPPLEMENTAL REBUTTAL

EXHIBIT 2

ICR Water Users Association
 Test Year Ended December 31, 2006
 Computation of Increase in Gross Revenue
 Requirements As Adjusted (without Golf Course)

Exhibit 2
 Proforma Schedule A-1
 Page 1
 Witness: Bourassa

Line No.				
1	Fair Value Rate Base		\$	(576,986)
2				
3	Adjusted Operating Income			(97,694)
4				
5	Current Rate of Return			N/A
6				
7	Required Operating Income	Operating Margin =		14.53%
8			\$	53,489
9	Required Rate of Return on Fair Value Rate Base			N/A
10				
11	Operating Income Deficiency		\$	151,183
12				
13	Gross Revenue Conversion Factor			1.0000
14				
15	Increase in Gross Revenue			
16	Requirement		\$	151,183
17				
18	% Increase over Adjusted Revenues			69.73%
19				
20				
21	<u>COMPARISON TO COMPANY REBUTTAL FILING WHICH INCLUDES GOLF COURSE</u>			
22				
23	Increase in Gross Revenue			
24	Requirement per Rebuttal Filing		\$	88,547
25				
26	% Increase over Adjusted Revenues per Rebuttal Filing			33.03%
27				
28				
29	Dollar Increase over Rebuttal Filing		\$	62,635
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40	<u>SUPPORTING SCHEDULES:</u>			
41	Rebuttal B-1			
42	Proforma Schedule C-1			
43				
44				
45				

ICR Water Users Association
 Test Year Ended December 31, 2006
 Income Statement (without Golf Course)

Line No.	ADJUSTMENT LABEL-->	1 Remove Golf Course Revenues	2 Wheeling Charges	3 Pumping Power Costs	4 Intentionally Left Blank	5 Intentionally Left Blank	Adjusted Results	Required Rate Increase	Required with Rate Increase
1	Revenues	\$ 214,643	(4,277)				\$ 210,367	\$ 151,183	\$ 361,549
2	Metered Water Revenues	53,403	(46,944)			6,459		6,459	
3	Unmetered Water Revenues	268,047	(46,944)			216,826	\$ 151,183	\$ 368,009	
4	Other Water Revenues								
5									
6	Operating Expenses								
7	Salaries and Wages - Employees								6,388
8	Purchased Water	6,388				6,388		27,654	
9	Purchased Power	16,239		11,415		27,654			
10	Fuel for Power Production								2,516
11	Chemicals								4,029
12	Water Testing	2,516				2,516			14,389
13	Repairs and Maintenance	4,029				4,029			1,720
14	Office Expense	14,389				14,389			32,549
15	Contractual Services - Accounting	1,720				1,720			513
16	Contractual Services - Legal	32,549				32,549			86,227
17	Contractual Services - Operations	513				513			3,600
18	Contractual Services - Other	86,227				86,227			
19	Rental of Building/Real Property								
20	Rental of Equipment	3,600				3,600			
21	Transportation Expenses								
22	Telephone								751
23	Insurance	751				751			8,995
24	Reg. Comm. Exp. - Amortization of Rate Case	8,995				8,995			20,000
25	Bad Debt Expense	20,000				20,000			
26	Miscellaneous Expenses	235				235			235
27	Depreciation Expenses	93,748				93,748			93,748
28	Property Taxes	11,160				11,160			11,160
29	Payroll Taxes								
30	Sales Tax Expense								
31	Income Tax	45				45			45
32									
33	Total Operating Expenses	\$ 303,105	\$ -	\$ 11,415	\$ -	\$ 314,520	\$ -	\$ 314,520	\$ 59,489
34	Operating Income	(35,058)	(46,944)	(11,415)		(97,694)	\$ 151,183	\$ 59,489	
35	Other Income (Expense)								180
36	Interest Income	180				180			779
37	Other Income	779				779			
38	Interest Expense								
39	Other Expense								
40									
41	Total Other Income (Expense)	\$ 959	\$ -	\$ -	\$ -	\$ 959	\$ -	\$ 959	\$ -
42	Net Profit (Loss)	(34,099)	(46,944)	(11,415)		(98,735)	\$ 151,183	\$ 54,448	

RECAP SCHEDULES:
 Proforma A-1

SUPPORTING SCHEDULES:
 Rebuttal C-1
 Proforma C-2

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 1

Exhibit 2
Proforma Schedule C-2
Page 1
Witness: Bourassa

Line No.			
1	<u>Remove Golf Course Revenues</u>		
2			
3			
4	Golf Course Revenues (Expense Reimbursements and Wheeling Charges)	\$	46,944
5			
6			
7	Adjustment to Revenues/Expenses	\$	<u>(46,944)</u>
8			
9			
10			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Exhibit 2
Proforma Schedule C-2
Page 2
Witness: Bourassa

Line No.				
1	<u>Remove Wheeling Charges For Golf Course Water and Construction Water</u>			
2				
3				
4	Golf Course Water Wheeling Charges			
5	Quantity of Water Delivered in acre feet	383.69		
6	Wheeling Charge per acre foot	\$ 10.00		
7	Total Wheeling Charges		\$ 3,837	
8				
9				
10	Construction Water Wheeling Charges			
11	Quantity of Water Delivered in acre feet	43.99		
12	Wheeling Charge per acre foot	\$ 10.00		
13	Total Wheeling Charges		\$ 440	
14				
15	Total Wheeling Charges		<u>\$ 4,277</u>	
16				
17				
18	Adjustment to Revenues/Expenses		<u>\$ (4,277)</u>	
19				
20				
21				
22				
23				
24				
25				
26				
27				
28				
29				

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 3

Exhibit 2
Proforma Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	<u>Purchased Power Costs Paid By Talking Rock Golf Course but Attributed to TR Customers and Not Golf Course</u>		
2			
3			
4	TRR Pumping Station	\$	34,241
5	TRR Well Field		38,480
6			
7			
8	Total Power Costs Paid By Golf Course	\$	<u>72,721</u>
9			
10	Gallons Delivered to Talking Rock G.C., Contrction Water, and ICR Customers (in 1,000's)		148,867
11	Cost per 1,000 gallons	\$	0.4885
12			
13	Gallons delivered to ICR Customers (in 1,000's) during test year		9,508
14	Cost per 1,000 gallons	\$	0.4885
15	Allocated Power Costs Paid by Talking Rock Golf Course	\$	4,644
16			
17	Double Adobe Station (100% attributable to ICR but paid by Talking Rock G. C.)	\$	6,771
18			
19	Total Power Costs Paid By Golf Course Attributed to ICR Customers	\$	<u>11,415</u>
20			
21			
22	Adjustment to Revenues/Expenses	\$	<u>11,415</u>
23			
24			
25			
26			
27			
28			
29			
30			

SUPPLEMENTAL REBUTTAL

EXHIBIT 3

TALKING ROCK RANCH
Gallons Pumped and Sold

Water Sent
to Golf Course

MONTH	Well #1	PUMPED Well #2	Well #3	TOTAL PUMPED	SOLD	UNACCOUNTED
JAN 2006	2,166,000	226,000	3,613,000	6,005,000	5,195,171	809,829
FEB	2,043,000	178,000	3,806,000	6,027,000	4,982,254	1,044,746
MAR	1,191,000	0	2,583,000	3,774,000	3,082,761	691,239
APR	7,045,000	130,000	3,135,000	10,310,000	9,985,147	324,853
MAY	17,557,000	2,046,000	7,255,000	26,858,000	25,303,403	1,554,597
JUN	13,769,000	5,490,000	9,608,000	28,867,000	25,204,564	3,662,436
JUL	6,670,000	759,000	7,207,000	14,636,000	12,986,572	1,679,428
AUG	10,378,000	242,000	5,205,000	15,825,000	14,103,820	1,721,180
SEP	6,951,000	69,000	5,007,000	12,027,000	10,775,088	1,251,912
OCT	4,580,000	215,000	7,231,000	12,026,000	12,211,474	-185,474
NOV	3,860,000	224,000	2,794,000	6,878,000	6,813,662	64,338
DEC 2006	2,672,000	21,000	2,941,000	5,634,000	3,918,384	1,715,616
	<u>78,882,000</u>	<u>9,600,000</u>	<u>60,385,000</u>	<u>148,867,000</u>	<u>134,532,300</u>	<u>14,334,700</u>
AC FT.	242.1	29.5	185.3	456.9	412.9	44.0

383,691 AC. FT.

Residential
Use
Total

9,506,390 29.174 AC. FT.
134,532,390 412.865 AC. FT.

SUPPLEMENTAL REBUTTAL

EXHIBIT 4

ICR Water Company Users Association

Test Year Ended December 31, 2006

Cost of Service Study, Using Commodity Demand Method

Operating Margins at Present Rates

Exhibit
Rebuttal Schedule
Page 1
Witness: Bourassa

G-1

Line No.	Meter Size->	Totals	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	3"	4"	Const. & Golf Course
1	Water Revenues and	\$ 204,571	\$ 148,282		\$ 15,942		\$ 35,492			\$ 4,854
2	Revenue Annualizations	9,738	1,547		1,344		6,847			
3	Reconciliation BC to C-1	336	336							
4	Misc. Revenue (a)	64,818	5,927		355		177			58,359
5	Total Revenues	\$ 279,462	\$ 156,092		\$ 17,640		\$ 42,517			\$ 63,213
6										
7	Operating Expenses (b)	\$ 209,566	\$ 149,537		\$ 14,572		\$ 25,552			\$ 19,906
8	Depreciation and									
9	Amortization (b)	93,748	56,147		8,032		13,202			16,366
10	Property Tax (c)	11,160	6,233		704		1,698			2,524
11	Income Tax (d)	45	72		7		(3)			(31)
12	Total Operating Expenses	\$ 314,519	\$ 211,989		\$ 23,316		\$ 40,450			\$ 38,765
13	Operating Income	\$ (35,057)	\$ (55,897)		\$ (5,675)		\$ 2,067			\$ 24,448
14	Interest Expense (e)									
15	Net Income	\$ (35,057)	\$ (55,897)		\$ (5,675)		\$ 2,067			\$ 24,448
16	Rate Base (f)	\$ (576,987)	\$ (307,668)		\$ (50,757)		\$ (87,021)			\$ (131,542)
17	Operating margin (g)	-12.54%	-35.81%	0.00%	-32.17%	0.00%	4.86%	0.00%	0.00%	38.68%

(a) Miscellaneous Revenue includes \$46,944 of golf course expense reimbursement revenues recorded during test year plus \$11,315 of power costs paid by golf cou
\$6,459 of miscellaneous revenues allocated to other meter sizes based on customer counts.

(b) Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.

(c) Property Taxes allocation based on Revenues

(d) Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income

(e) Interest Expense allocation based on Rate Base. Please see Schedule G-3, Page 1

(f) Rate Base computations are shown on Schedule G-3, Page 1

(g) Operating Income Divided by Total Revenues

Line No.	Meter Size->	Totals	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	3"	4"	6"	Const. & Golf Course
1	Water Revenues	\$ 289,305	\$ 207,922	\$ -	\$ 22,328	\$ -	\$ 53,434	\$ -	\$ -	\$ 5,620	
2	Revenue Annualizations	13,964	2,085		1,862		10,017				
3	Reconciliation BC to C-1	(78)	(78)								
4	Misc. Revenue (a)	64,818	5,927		355		177				58,359
5	Total Revenues	\$ 368,008	\$ 215,855	\$ -	\$ 24,545	\$ -	\$ 63,628	\$ -	\$ -	\$ -	\$ 63,979
6											
7	Operating Expenses (b)	\$ 209,566	\$ 149,537	\$ -	\$ 14,572	\$ -	\$ 25,552	\$ -	\$ -	\$ -	\$ 19,906
8	Depreciation and Amortization (b)	93,748	56,147		8,032		13,202				16,366
9	Property Tax (c)	11,160	6,546		744		1,930				1,940
10	Income Tax (d)	45	3		1		19				22
11	Total Operating Expenses	\$ 314,519	\$ 212,232	\$ -	\$ 23,349	\$ -	\$ 40,704	\$ -	\$ -	\$ -	\$ 38,234
12	Operating Income	\$ 53,489	\$ 3,623	\$ -	\$ 1,196	\$ -	\$ 22,925	\$ -	\$ -	\$ -	\$ 25,746
13	Interest Expense (e)										
14	Net Income	\$ 53,489	\$ 3,623	\$ -	\$ 1,196	\$ -	\$ 22,925	\$ -	\$ -	\$ -	\$ 25,746
15	Rate Base (f)	\$ (576,987)	\$ (307,668)	\$ -	\$ (50,757)	\$ -	\$ (87,021)	\$ -	\$ -	\$ -	\$ (131,542)
16	Operating Margin (g)	14.53%	1.68%	0.00%	4.87%	0.00%	36.03%	0.00%	0.00%	0.00%	40.24%
17											
18											
19	Percent of Total Customers		91.507%	0.000%	5.479%	0.000%	2.740%	0.000%	0.000%	0.000%	0.274%
20											

(a) Miscellaneous Revenue includes \$46,944 of golf course expense reimbursement revenues recorded during test year plus \$11,315 of power costs paid by golf course. \$6,459 of miscellaneous revenues allocated to other meter sizes based on customer counts.

(b) Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.

(c) Property Taxes allocation based on Revenues

(d) Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income

(e) Interest Expense allocation based on Rate Base, Please see Schedule G-3, Page 1

(f) Rate Base computations are shown on Schedule G-3, Page 1

(g) Operating Income Divided by Total Revenues

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study, Using Commodity Demand Method
 Allocation of Rate Base by Function

Exhibit
 Rebuttal Schedule
 Page 1
 Witness: Bourassa

G-5

Line No.	Adjusted	Demand	Commodity	Customer	Meter	Service	Totals
1	\$ (576,987)	\$ (563,492)	\$ (101,483)	\$ 31,378	\$ 16,503	\$ 40,107	\$ (576,987)
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
	<u>(576,987)</u>	<u>(563,492)</u>	<u>(101,483)</u>	<u>31,378</u>	<u>16,503</u>	<u>40,107</u>	<u>(576,987)</u>

ICR Water Company Users Association
Test Year Ended December 31, 2008
Cost of Service Study, Using Commodity Demand Method
Allocation of Expenses to Functions

Line No.	Description	Adjusted	Demand	Golf Course Demand Over-sizing	ICR Customers Only		Golf Course Commodity Over-sizing	Customer	Meter	Service	Totals	
					Purchased Wtr Commodity	Purchased Pwr Commodity						
1	Salaries and Wages	6,388	-	-	6,388	-	-	-	-	-	6,388	
2	Purchased Water (a)	27,654	-	-	-	27,654	-	-	-	-	27,654	
3	Purchased Power (b)	2,516	-	2,516	-	-	-	-	-	-	2,516	
4	Chemicals	14,388	11,511	1,438	-	-	-	1,439	-	-	14,389	
5	Repairs and Maintenance (c)	2,471	-	-	-	-	2,471	-	-	-	2,471	
6	Office Supplies and Expense	46,550	-	-	-	-	46,550	-	-	-	46,550	
7	Outside Services	72,739	54,191	6,183	-	-	10,911	1,455	-	-	72,739	
8	Outside Services - A Quality Water (d)	4,029	3,626	403	-	-	-	-	-	-	4,028	
9	Water Testing	3,600	-	3,600	-	-	-	-	-	-	3,600	
10	Rents	-	-	-	-	-	-	-	-	-	-	
11	Transportation Expenses	8,995	-	-	-	-	8,995	-	-	-	8,995	
12	Insurance - General Liability	-	-	-	-	-	-	-	-	-	-	
13	Insurance - health and Life	20,000	18,000	-	-	-	2,000	-	-	-	20,000	
14	Regulatory Commission Expense - Rate Case	235	-	-	-	-	235	-	-	-	235	
15	Miscellaneous Expense	83,748	78,177	2,851	-	-	949	2,259	-	-	83,748	
16	Depreciation Expense (e)	-	-	-	-	-	317	-	-	-	317	
17	Taxes Other Than Income	11,160	-	-	-	-	-	-	-	-	11,160	
18	Property Taxes, Allocated on Schedules G-1 & G-2	45	-	-	-	-	-	-	-	-	45	
19	Income Tax, Allocated on Schedules G-1 & G-2	-	-	-	-	-	-	-	-	-	-	
20	Total	\$ 314,519	\$ 165,505	\$ 2,851	\$ 21,064	\$ 6,388	\$ 27,654	\$ 317	\$ 72,111	\$ 5,153	\$ 2,272	\$ 303,314

22 (a) Purchased water cost is attributed to ICR customers only.
 23 (b) Golf Course pays 100% of power costs for all three wells and pumping station on the Talking Rock Ranch system.
 24 (c) Included in Study is \$11,315 of additional power costs paid for by Golf Course that is attributed to ICR customers.
 25 (d) Repairs and Maintenance allocation factors computation shown on Schedule G-7, Page 2.1
 26 (e) A Quality Water contract costs, factors and allocation computation shown on Schedule G-7, Page 2.1
 27 (f) Depreciation allocation computed on Schedule G-6, Page 2.

ICR Water Company Users Association
Test Year Ended December 31, 2006
COMMODITY - DEMAND METHOD FUNCTION FACTORS
Plant and Depreciation Expense Allocations Functions

Exhibit
Rebuttal Schedule G-7
Page 2
Witness: Bourassa

<u>Line No.</u>	<u>Description</u>	<u>Total</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>
1					
2					
3	Wells	1.00	0.90	0.10	
4	Pumps & Equipment	1.00	0.90	0.10	
5	Trans. & Dist. Mains	1.00	0.90	0.10	
6	Customer	1.00			1.00
7	Services	1.00			1.00
8	Meters	1.00			1.00
9	Fire Hydrants	1.00			1.00
10	Transportation Equip.	1.00	0.25		0.75
11	Office Furniture	1.00			1.00
12	Communication Equip.	1.00	0.25		0.75
13	Water Treatment Equip.	1.00	0.90	0.10	
14					
15					
16					
17					

ICB Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study, Using Commodity Demand Method
 Development Of Allocation Factors

Exhibit
 Rebuttal Schedule G-7
 Page 2.1
 Witness: Bourassa

Line
No.

1	<u>Repairs and Maintenance Allocation Factors</u>	
2	Repairs and Maintenance Demand	80.00%
3	Repairs and Maintenance Commodity	10.00%
4	Repairs and Maintenance Meters	10.00%
5	Repairs and Maintenance Customer	0.00%
6		<u>100.00%</u>

7

8

9 A Quality Water Contract Allocation Factors

10

11	<u>Scope of Work</u>	<u>Functions</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>	<u>Meter</u>
12	Meter Reading	Customer			100%	
13	Operations	Demand/Commodity	90%	10%		
14	Routine Maintenance	Demand/Commodity/Meter	80%	10%	0%	10%
15	Regulatory Compliance	Customer			100%	

16

17

18	<u>Scope of Work</u>	<u>Functions</u>	<u>Weight</u>	<u>Cost</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>	<u>Meter</u>
19	Meter Reading	Customer	0.10	\$ 7,274	\$ -	\$ -	\$ 7,274	\$ -
20	Operations	Demand/Commodity	0.65	47,280	42,552	4,728	-	-
21	Routine Maintenance	Demand/Commodity/Meter	0.20	14,548	11,638	1,455	-	1,455
22	Regulatory Compliance	Customer	0.05	3,637	-	-	3,637	-
23		Totals	<u>1.00</u>	<u>\$ 72,739</u>	<u>\$ 54,191</u>	<u>\$ 6,183</u>	<u>\$ 10,911</u>	<u>\$ 1,455</u>
24				% of Total	<u>74.50%</u>	<u>8.50%</u>	<u>15.00%</u>	<u>2.00%</u>

25

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study, Using Commodity Demand Method
 Development of Class Allocation Factors

Exhibit
 Rebuttal Schedule G-7
 Page 3
 Witness: Bourassa

COMMODITY ALLOCATION FACTOR

Meter Size	(a)	
	Total Gallons (in 1,000's) In Test Year	Percent of Total
5/8" x 3/4"	28,049	15.61%
3/4"	-	0.00%
1"	2,141	1.19%
1-1/2"	-	0.00%
2"	10,122	5.63%
3"	-	0.00%
4"	-	0.00%
6"	139,361	77.56% (c)
8"	-	0.00%
Totals	179,672	100.00%

DEMAND ALLOCATION FACTOR

Meter Size	Number of Meters and/or Services	Equiv- alent Weight	Equivalent	
			Number of Meters and/or Services	Percent of Total
5/8" x 3/4"	334	1.0	334	64.98%
3/4"	-	1.5	0	0.00%
1"	20	2.5	50	9.73%
1-1/2"	-	5.0	0	0.00%
2"	10	8.0	80	15.56%
3"	-	16.0	0	0.00%
4"	-	25.0	0	0.00%
6"	1	50.0	50	9.73%
8"	-	80.0	0	0.00%
Totals	365		514	100.00%

CUSTOMER ALLOCATION FACTOR

Meter Size	Number of Meters	Percent	
		of Total	of Total
5/8" x 3/4"	334	91.51%	
3/4"	-	0.00%	
1"	20	5.48%	
1-1/2"	-	0.00%	
2"	10	2.74%	
3"	-	0.00%	
4"	-	0.00%	
6"	1	0.27%	
8"	-	0.00%	
10"	-	0.00%	
Totals	365	100.00%	

SERVICES ALLOCATION FACTOR (b)

Meter Size	Number of Services	Install- ation Cost	Weighted	
			Number of Services	Percent of Total
5/8" x 3/4"	334	\$ 385.00	128,590	88.46%
3/4"	0	385.00	0	0.00%
1"	20	435.00	8,700	5.99%
1-1/2"	0	470.00	0	0.00%
2"	10	630.00	6,300	4.33%
3"	0	845.00	0	0.00%
4"	0	1,230.00	0	0.00%
6"	1	1,770.00	1,770	1.22%
8"	0	1,770.00	0	0.00%
10"	0	1,770.00	0	0.00%
Totals	365		145,360	100.00%

METER ALLOCATION FACTOR (b)

Meter Size	Number of Meters	Meter Cost	Weighted Dollars of Meters	Percent	
				Total	of Total
5/8" x 3/4"	334	\$ 135.00	45,090	61.46%	
3/4"	0	215.00	0	0.00%	
1"	20	255.00	5,100	6.95%	
1-1/2"	0	465.00	0	0.00%	
2"	10	1,690.00	16,900	23.03%	
3"	0	2,265.00	0	0.00%	
4"	0	3,245.00	0	0.00%	
6"	1	6,280.00	6,280	8.56%	
8"	0	6,280.00	0	0.00%	
10"	0	6,280.00	0	0.00%	
Totals	365		73,370	100.00%	

(PURCHASED POWER AND WATER ONLY)

COMMODITY ALLOCATION FACTOR

Meter Size	(a)(d)	
	Total Gallons (in 1,000's) In Test Year	Percent of Total
5/8" x 3/4"	28,049	69.58%
3/4"	-	0.00%
1"	2,141	5.31%
1-1/2"	-	0.00%
2"	10,122	25.11%
3"	-	0.00%
4"	-	0.00%
6"	-	0.00%
8"	-	0.00%
Totals	40,311	100.00%

- (a) Includes customer and gallon sold annualization.
- (b) Meter and Service Line cost from Arizona Corporation Commission Memo of June 30, 2004 from Marlin Scott, Jr.. Meter costs based on compound meters. Cost of service line and meter is based on costs allowed for a compound meter installation.
- (c) Actual gallons delivered to Golf Course from ICR owned well (Well #3) was 50,878,610 gallons. 125,026,000 gallons was delivered to Golf Course from all three wells, including the two wells not currently owned by ICR. There was 14,334,700 gallons of unaccounted water. Quantity used for 6 inch meter includes the Golf Course water plus unaccounted water.
- (d) Golf Course pays 100% of power costs for all three wells and pumping stations on the Talking Rock Ranch system. \$11,315 of power costs paid for by Golf Course is attributed to ICR customers and is included in study. Purchased water costs are attributed to ICR customers only.

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study Using Commodity / Demand Method
 Computation of Monthly Minimums for Customer, Service, Meter
 Using Function Costs and Expenses
 Excluding Golf Course

Line No.	Description	Customer	Service	Meter
1	Operating Margin	8,686	225	473
2	Misc. Revenues	5,927		
3	Customer, Services and Meter Expenses (From Sch. G-4, Page 2)	71,913	2,244	4,712
4	Property Taxes	8,636		
5	Income Taxes	23		
6	Total Revenue Requirement / Customer, Meter & Service (Line 13+15+16+17)	95,185	2,470	5,185
7				
8	Customer Charge	4,368		
9	Number of Bills =	364 times		
10				
11	Charge per Bill			
12	(Customer Revenue Requirement divided by Annualized Number of Bills)			
13				
14	Service Line and Meter Charge		5,568	5,568
15	Equivalent 5/8 Meters			
16				
17	Charge per Equivalent Meter		\$ 0.44	\$ 0.93
18				
19				
20	CUSTOMER CHARGE:		\$ 21.79	
21	Monthly Minimum for 5/8 Inch Meter (with no water included in Minimum or Demand Charge)		0.44	
22	Charge per Bill		0.93	
23	Charge per Equivalent Service Line			
24	Charge per Equivalent Meter			
25	(Service and Meter Revenue Requirement divided by Annual Equivalent Meters)			
26	Monthly Minimum for 5/8 Inch Meter, <u>WITHOUT</u> Demand Charge Included		\$ 23.17	

12

12

464 times

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study Using Commodity / Demand Method
 Computation of Monthly Minimums for Demand Charge
 Excluding Golf Course

G-8

Line No.	<u>DEMAND CHARGE:</u>		
1	Operating Margin	9.13% (2 inch meter and smaller operating margin from G-2)	26,366
2	Demand Expenses, from Schedule G-6, Page 1		149,405
3	Totals		<u>175,770</u>
4	Total Revenue Requirement / Demand Component		5,568
5	Equivalent Number of 5/8 Meters billings		<u>\$ 31.57</u>
6	Demand Charge for 5/8 Inch Meter		

5/8" Demand Charge	Meter Ratio	Demand Charge
\$ 31.57	1.0	31.57
\$ 31.57	1.5	47.35
\$ 31.57	2.5	78.92
\$ 31.57	5.0	157.84
\$ 31.57	8.0	252.54
\$ 31.57	16.0	505.09
\$ 31.57	25.0	789.20
\$ 31.57	50.0	1,578.40

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study Using Commodity / Demand Method
 Computation Demand Charge and Commodity
 Excluding Golf Course

Exhibit
 Rebuttal Schedule
 Page 3
 Witness: Bourassa

G-8

Line No.	Description	Commodity	Customer	Service	Meter	Demand
1	Operating Margin	6,841	13,079	396	831	26,366
2	Less: Miscellaneous Revenues		6,459			
3		38,768	71,913	2,244	4,712	149,405
4	Expenses (From Sch. G-6, Page 1)		8,636			
5	Property taxes		23			
6	Income Taxes					
7	Total Revenue Requirement by function	45,609	87,192	2,641	5,543	175,770
8	Gallons Sold (Zero Gallons in Minimum) (G-7, page 3)	40,311				
9	Computed Commodity Rate	\$ 1.1314	4,368			
10	Annualized Number of Bills			5,568	5,568	5,568
11	Equivalent Meters and Service Lines					
12	Customer Charge (line 18 divided by line 21)			\$ 0.47	\$ 1.00	\$ 31.57
13	Meter, Service Line & Demand Charge (Line 18 divided by Line 22)					
14	Total Monthly Minimum Charge for a 5/8 Inch Meter (Sum of Customer Service Line, Meter and Demand Charge on Lines 23 & Line 24)					\$ 53.00

5/8" Monthly Minimum	Meter Ratio	Demand Charge
\$ 53.00	1.0	53.00
\$ 53.00	1.5	79.50
\$ 53.00	2.5	132.50
\$ 53.00	5.0	265.00
\$ 53.00	8.0	423.99
\$ 53.00	16.0	847.99
\$ 53.00	25.0	1,324.98
\$ 53.00	50.0	2,649.96
\$ 53.00	80.0	4,239.94

- 18 Monthly Minimum
- 19 5/8 Inch Meter
- 20 3/4 Inch Meter
- 21 1 Inch Meter
- 22 1 1/2 Inch Meter
- 23 2 Inch Meter
- 24 3 Inch Meter
- 25 4 Inch Meter
- 26 6 Inch Meter
- 27 8 Inch Meter
- 28
- 29
- 30
- 31

Line No.	Single Tier Rate Design with Some Customer and Demand Costs recovered via the Commodity Rate			
1	<u>Revenue Requirements Collected via Commodity Charge</u>			
2				
3		Total	Portion of	
4		Rev. Req.	Rev. Req.	
5		\$ 95,375	\$ 42,919	
6	Customer, Service, and Meter Costs		45%	
7	Demand Costs	\$ 175,770	45%	
8	Commodity Costs	45,609	100%	
9	Total Costs to be Collected via Commodity			\$ 167,625
10	Gallons Sold			40,311
11				
12	Commodity Charge (per 1,000 gallons)			\$ 4.158
13				
14	<u>Revenue Requirement Collected</u>			
15				
16	Monthly Minimum 5/8 Meter			\$ 316,755
17	Total Revenues Requirement			(167,625)
18	Less: Portion of Revenue Requirement Collected via Commodity Charge			\$ 149,130
19	Balance to be Recovered through Monthly Minimum			5,568
20				
21	Number of Equivalent 5/8 Inch Meter Billings			\$ 26.78
22				
23	Computed Monthly Minimum 5/8 Inch Meter			
24				
25				
26				
27	<u>Meter Size</u>	5/8"	Meter Ratio	Monthly Minimum
28	5/8 Inch Meter	26.78	1.0	26.78
29	3/4 Inch Meter	\$ 26.78	1.5	40.18
30	1 Inch Meter	\$ 26.78	2.5	66.96
31	1 1/2 Inch Meter	\$ 26.78	5.0	133.92
32	2 Inch Meter	\$ 26.78	8.0	214.27
33	3 Inch Meter	\$ 26.78	16.0	428.54
34	4 Inch Meter	\$ 26.78	25.0	669.59
35	6 Inch Meter	\$ 26.78	50.0	1,339.17
36	8 Inch Meter	\$ 26.78	80.0	2,142.68
37	10 Inch Meter	\$ 26.78		
38				

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study Using Commodity / Demand Method
 Computation of Monthly Minimums for Customer, Service, Meter
 Using Function Costs and Expenses
 Golf Course Only

Line No.	Customer	Service	Meter
1	1,454	19	297
2	198	28	441
3	1,940		
4	22		
5	3,614	46	738
6			
7			
8	12		
9			
10	\$ 301.13		
11			
12		12	12
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			

Operating Margin 40.24% (6 inch meter operating margin from G-2)

Misc. Revenues

Customer, Services and Meter Expenses (From Sch. G-6, Page 1)

Property Taxes

Income Taxes

Total Revenue Requirement / Customer, Meter & Service (Line 13+15+16+17)

Customer Charge 1 times

Number of Bills =

Charge per Bill

(Customer Revenue Requirement divided by Annualized Number of Bills)

Service Line and Meter Charge 1 times

Equivalent 6 Inch Meter (Golf Course) 12

Charge per Equivalent Meter \$ 3.86 \$ 61.50

CUSTOMER CHARGE:

Monthly Minimum for 6 Inch Meter (with no water included in Minimum or Demand Charge) \$ 301.13

Charge per Bill 3.86

Charge per Equivalent Service Line 61.50

Charge per Equivalent Meter

(Service and Meter Revenue Requirement divided by Annual Equivalent Meters)

Monthly Minimum for 6 Inch Meter, WITHOUT Demand Charge Included \$ 366.48

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study Using Commodity / Demand Method
 Computation of Monthly Minimums for Demand Charge
 Golf Course Only

Line No.	DEMAND CHARGE:	
1		
2	Operating Margin	12,761
3		
4	Demand Expenses, from Schedule G-6, Page 1	18,951
5		<u>31,712</u>
6	Totals	
7	Total Revenue Requirement / Demand Component	12
8	Equivalent Number of 6 Inch Meter (Golf Course) billing	<u>\$ 2,642.64</u>
9	Demand Charge for 6 Inch Meter (Golf Course)	
10		
11		
12		
13		
14		
15		

40.24% (6 inch meter operating margin from G-2)

Line No.	Commodity	Customer	Service	Meter	Demand
1	11,215	1,454	19	297	12,761
2					
3	16,655	198	28	441	18,951
4		1,940			
5		22			
6	27,870	3,614	46	738	31,712
7	139,361				
8	\$ 0.2000				
9	\$ 65.17				
10					
11		12			12
12			12		12
13		\$ 301.13			
14			\$ 3.86	\$ 61.50	\$ 2,642.64
15					
16					\$ 3,009.12
17					

40.24% (6 inch meter operating margin from G-2)

Operating Margin

Less: Miscellaneous Revenues

Expenses (From Sch. G-6, Page 1)

Property taxes

Income Taxes

Total Revenue Requirement by function

Gallons Sold (Zero Gallons in Minimum) (G-7, page 3)

Computed Commodity Rate (per 1,000 gallons)

Computed Commodity Rate (per acre foot)

Annualized Number of Bills

Equivalent Meters and Service Lines

Customer Charge (line 18 divided by line 21)

Meter, Service Line & Demand Charge (Line 18 divided by Line 22)

Total Monthly Minimum Charge for a 6 Inch Meter (Sum of Customer

Service Line, Meter and Demand Charge on Lines 23 & Line 24)

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study Using Commodity / Demand Method
 Computation Demand Charge and Commodity
 Excluding Golf Course

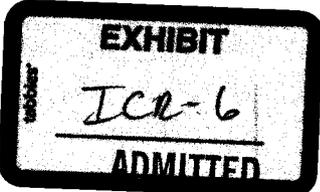
Line No.	Description	Total Rev. Req.	% of Costs	Portion of Rev. Req.
1	Single Tier Rate Design with Some Customer and Demand Costs recovered via the Commodity Rate			
2				
3	<u>Revenue Requirements Collected via Commodity Charge¹</u>	4,398	45%	\$ 1,979
4				
5	Customer, Service, and Meter Costs	31,712	45%	14,270
6	Demand Costs	27,870	100%	27,870
7	Commodity Costs			\$ 44,119
8	Total Costs to be Collected via Commodity			<u>139,361</u>
9	Gallons Sold			
10				\$ 0.317
11	Commodity Charge (per 1,000 gallons)			
12				\$ 103.29
13	Commodity Charge (per acre foot)			
14				
15	<u>Revenue Requirement Collected via Monthly Minimum</u>			\$ 63,979
16				(44,119)
17	Total Revenues Requirement			<u>\$ 19,860</u>
18	Less: Portion of Revenue Requirement Collected via Commodity Charge			
19	Balance to be Recovered through Monthly Minimum			12
20				<u>\$ 1,655.02</u>
21	Number of Equivalent 5/8 Inch Meter Billings			
22	Computed Monthly Minimum 6 Inch Meter			
23				
24				
25				
26				
27				
28	¹ Assumes golf course continues to pay its share of power costs form wells and pumping related to the water delivered to it.			
29				
30				
31				
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ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Comparison of Proposed Rates to Computed Costs
 For a 5/8 Inch Meter (With Required Operating Margin)

Line No.	Water Usage	Revenues		Demand Charges	Customer Charges	Service Line Charges	Meter Charges	Commodity Charges	Total Charges & Costs	Total Revenues minus Total Charges & Costs
		Monthly Minimum	Commodity							
1	0	\$ 26.20	\$ -	\$ 31.57	\$ 19.96	\$ 0.47	\$ 1.00	0	\$ 53.00	\$ (26.80)
2	1,000	26.20	2.98	31.57	19.96	0.47	1.00	1.131	54.13	(24.95)
3	2,000	26.20	5.97	31.57	19.96	0.47	1.00	2.263	55.26	(23.09)
4	3,000	26.20	8.95	31.57	19.96	0.47	1.00	3.394	56.39	(21.24)
5	4,000	26.20	11.94	31.57	19.96	0.47	1.00	4.526	57.52	(19.39)
6	5,000	26.20	15.77	31.57	19.96	0.47	1.00	5.657	58.66	(16.69)
7	6,000	26.20	19.60	31.57	19.96	0.47	1.00	6.789	59.79	(13.98)
8	7,000	26.20	23.44	31.57	19.96	0.47	1.00	7.920	60.92	(11.28)
9	8,000	26.20	27.27	31.57	19.96	0.47	1.00	9.051	62.05	(8.58)
10	9,000	26.20	31.11	31.57	19.96	0.47	1.00	10.183	63.18	(5.88)
11	10,000	26.20	35.56	31.57	19.96	0.47	1.00	11.314	64.31	(2.55)
12	12,000	26.20	44.47	31.57	19.96	0.47	1.00	13.577	66.58	4.09
13	14,000	26.20	53.38	31.57	19.96	0.47	1.00	15.840	68.84	10.74
14	16,000	26.20	62.28	31.57	19.96	0.47	1.00	18.103	71.10	17.38
15	18,000	26.20	71.19	31.57	19.96	0.47	1.00	20.366	73.36	24.03
16	20,000	26.20	80.10	31.57	19.96	0.47	1.00	22.628	75.63	30.67
17	25,000	26.20	102.37	31.57	19.96	0.47	1.00	28.286	81.28	47.29
18	30,000	26.20	124.64	31.57	19.96	0.47	1.00	33.943	86.94	63.90
19	35,000	26.20	146.91	31.57	19.96	0.47	1.00	39.600	92.60	80.51
20	40,000	26.20	169.18	31.57	19.96	0.47	1.00	45.257	98.26	97.12
21	45,000	26.20	191.45	31.57	19.96	0.47	1.00	50.914	103.91	113.74
22	50,000	26.20	213.72	31.57	19.96	0.47	1.00	56.571	109.57	130.35
23	60,000	26.20	258.26	31.57	19.96	0.47	1.00	67.885	120.88	163.58
24	70,000	26.20	302.80	31.57	19.96	0.47	1.00	79.200	132.20	196.80
25	80,000	26.20	347.34	31.57	19.96	0.47	1.00	90.514	143.51	230.03
26	90,000	26.20	391.88	31.57	19.96	0.47	1.00	101.828	154.83	263.25
27	100,000	26.20	436.42	31.57	19.96	0.47	1.00	113.142	166.14	296.48

Column Number-->

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

DOCKET NO: W-02824A-07-0388

**ADDITIONAL SUPPLEMENTAL TESTIMONY OF

THOMAS J. BOURASSA

IN SUPPORT OF WATER SERVICE AGREEMENT
ON BEHALF OF ICR WATER USERS ASSOCIATION, INC.**

OCTOBER 15, 2008

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THE INSTANT**
6 **CASE?**

7 A. Yes, my direct and rebuttal testimony has already been submitted in support of the
8 ICRWUA Water Users Association ("ICRWUA").

9 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

10 A. I will testify on behalf of ICRWUA in support of ICRWUA's request for approval
11 of the Water Service Agreement ("WSA") entered into on September 12, 2008
12 between ICRWUA, intervener Talking Rock Golf Club, LLC ("TRG"), and some
13 of TRG's affiliates. In addition, I will address the financial impact to ICRWUA's
14 ratepayers if the WSA is not approved.

15 **Q. DID YOU PARTICIPATE IN PREPARATION OF THE WSA?**

16 A. Yes, I assisted ICRWUA by helping to develop a special contract rate for the
17 provision of non-potable (landscape irrigation, lake fill, contraction, etc.) to the
18 Talking Rock development by ICRWUA.

19 **II. SUMMARY OF ASSOCIATION'S SUPPLEMENTAL POSITION**

20 **Q. PLEASE SUMMARIZE THE POSITION OF ICRWUA.**

21 A. ICRWUA has changed its position since its rebuttal filing based on the WSA. It
22 has been suggested that TRG be charged the residential tariff rate for water used on
23 the golf course. Although I will not address the legal implications surrounding this
24 scenario, such a result would likely result in costs that TRG views as prohibitive.
25 In response, I have to believe TRG would be forced to use its own water supply to
26 serve itself. This would result in a significant revenue loss for the water company,
27 which would negatively impact ICRWUA's ratepayers as described below.
28

1 By approving the WSA, the Commission can keep the golf course on
2 ICRWUA's system as a special contract customer allowing ICRWUA to include
3 the revenues contemplated by the WSA in the ratemaking equation. The benefits
4 to ratepayers for having TRG stay on the system and contribute revenue under the
5 WSA are significant. For example, the WSA initially provides for approximately
6 \$175,000 of water service revenues to ICRWUA for the test year, which would
7 replace the \$51,123 of revenue reimbursement paid to ICRWUA and attributed to
8 the test year. This amount does not include approximately \$11,000 of power costs
9 paid annually by TRG but attributable to ICRWUA customers. After accounting
10 for all expenses and revenues contemplated by the WSA, ICRWUA now proposes
11 a total revenue requirement in this case of \$445,855, which includes an 11 percent
12 operating margin. The proposed revenue requirement constitutes an increase in
13 revenues of \$53,905, or 13.75 percent over adjusted Test Year revenues.

14
15 **III. IMPACT OF WSA ON ICRWUA'S REQUEST FOR RATE RELIEF.**

16 **A. Special Contract Rates.**

17 **Q. PLEASE EXPLAIN THE SPECIAL CONTRACT RATES IN THE WSA.**

18 **A.** Under the WSA, TRG will pay both a System Reservation Charge and a
19 Commodity Charge. The System Reservation Charge will be paid annually for 10
20 years and ICRWUA will receive a total of \$340,000 from this charge over that
21 period. The initial Commodity Charge was calculated at \$1.00 per 1000 gallons of
22 water delivered by ICRWUA to TRG under the WSA; however, the Commodity
23 Charge is subject to an annual adjustment in order to keep pace with cost increases.

24 **Q. WHY DOES THE SYSTEM RESERVATION CHARGE STOP AFTER 10**
25 **YEARS?**

26 **A.** The System Reservation Charge is intended to help reverse ICRWUA's deplorable,
27 current financial condition and stabilize its revenues. Unlike the Commodity
28 Charge, the System Reservations Charge will be paid annually even if ICRWUA

1 does not deliver any water to TRG under the WSA.

2 **Q. HOW WAS THE COMMODITY CHARGE DETERMINED?**

3 A. The Commodity Charge was developed to allow ICRWUA to recover its cost of
4 service as well as a reasonable reserve margin. To determine the cost of service, I
5 used the cost of service study ("COSS") prepared and submitted with the
6 ICRWUA's rebuttal filing, the power costs paid by TRG during the test year and
7 2007, the amount of water delivered to TRG in the 2006 test year, as well as the
8 water delivered in 2007. From there, I estimated the total costs of service and
9 divided the gallons delivered by the cost of service. With a little rounding, we
10 settled on a \$1.00 per thousand gallons.

11 **Q. CAN YOU DEMONSTRATE THAT THE COMMODITY RATE IS**
12 **DESIGNED TO COVER THE COST OF SERVICE PLUS A RESERVE**
13 **MARGIN?**

14 A. Yes. I prepared a supplemental cost of service study ("Supp. COSS")
15 demonstrating the cost of service for TRG and the operating margin provided by
16 the \$1.00 commodity rate. I will discuss the Supp. COSS later in my testimony.
17 For now, based on the Supp. COSS, the commodity rate alone covers ICRWUA's
18 cost of service for delivering irrigation water to TRG, plus an operating margin of
19 about 11.3 percent. This excludes any consideration of the System Reservation
20 Charge.

21 **Q. YOU TESTIFIED THAT THE COMMODITY CHARGE IS SUBJECT TO**
22 **ADJUSTMENT. PLEASE EXPLAIN.**

23 A. There are three provisions in the WSA for an adjustment. First, the Commodity
24 Charge will be adjusted each year based on the Consumer Price Index or CPI. This
25 adjustment will help to ensure that the charge keeps up with general increases in
26 costs due to inflation. Second, the Commodity Charge is subject to adjustment in
27 the event that new treatment requirements increase ICRWUA's cost of service or in
28 the event treatment costs are necessary to address groundwater contamination.

1 Third, after the 7th year, either party may request that a new cost of service study be
2 conducted and that adjustments to the Commodity Charge be made based on the
3 results of that study.

4 **Q. IF THE COMMODITY CHARGE COVERS IRCWUA'S COST OF**
5 **SERVICE AND IS SUBJECT TO ADJUSTMENT, ISN'T THE SYSTEM**
6 **RESERVATION CHARGE JUST ADDITIONAL REVENUE FOR**
7 **ICRWUA?**

8 A. Yes, as I testified above, the System Reservation Charge is intended to address
9 ICRWUA's poor financial condition by providing it a stable source of additional
10 revenue. As I previously testified in this case, TRG has been subsidizing
11 ICRWUA's service to its residential customers, and by agreeing to this charge, it
12 has agreed to continue the subsidization for another 10 years.

13 **B. Impact on Rate Case.**

14 **Q. HOW DOES THE WSA IMPACT ICRWUA'S REVENUE REQUIREMENT**
15 **IN THIS RATE CASE?**

16 A. Adjusting the Test Year to account for the revenue to be received under the WSA, I
17 determined that ICRWUA would receive \$175,026 of revenues for the test year.
18 The \$175,026 is comprised of the \$50,000 System Reservation Charge and
19 \$125,026 in Commodity Charge based on the Test Year water deliveries to TRG.
20 This revenue replaces the \$51,123 of reimbursement revenue in my prior
21 calculations.

22 **Q. WHY DID YOU ELIMINATE THE REIMBURSEMENT REVENUES**
23 **THAT TRG PAID ICRWUA DURING THE TEST YEAR?**

24 A. Because under the WSA, ICRWUA will take ownership of all three wells and pay
25 all costs, including purchased power. This is further reason for the special contract
26 rate to include a Commodity Charge that recovers ICRWUA's cost of service.

27 **Q. HAVE YOU PREPARED SCHEDULES TO REFLECT THE IMPACT OF**
28 **THE WSA?**

1 A. Yes, I have included several supplemental schedules with this testimony attached
2 hereto as Supplemental Exhibit 1.

3 Q. PLEASE SUMMARIZE ICRWUA'S SUPPLEMENTAL SCHEDULES.

4 A. ICRWUA is proposing a revenue requirement of \$445,855 which constitutes a
5 revenue increase of \$43,905, or 13.75 percent, over adjusted test year revenues.
6 The proposed revenue requirement will provide an operating margin of 11 percent.

7 Q. PLEASE EXPLAIN THE COMPANY'S SUPPLEMENTAL SCHEDULES.

8 A. Starting with the A-1 schedule, it shows the revised computation of the revenue
9 requirement. Schedule A-1 starts with the adjusted operating income and shows
10 the required revenue increase based on the required operating income.

11 The C-1 schedule shows the adjusted operating results and starts with
12 ICRWUA's rebuttal adjusted revenues and expenses.

13 Q. PLEASE CONTINUE WITH YOUR EXPLANATION OF C-1 SCHEDULE.

14 A. The C-1 schedule shows the adjustments to operating expenses. The details of the
15 adjustments are shown on the C-2 schedules, pages 1 through 4. The adjustments
16 are as follows:

17 Adjustment number 1 removes golf course expense reimbursement revenues
18 of \$51,123 from miscellaneous revenues. I explained this above in my testimony.

19 Adjustment number 2 increases purchased power costs to reflect the
20 additional purchased power associated with the Talking Rock system which was
21 paid by the golf course during the test year and not previously included in
22 operating expenses.

23 Adjustment number 3 increases property taxes to reflect proposed rates.

24 Adjustment number 4 increases revenues to reflect the increased Test Year
25 revenues associated with the WSA.

26 Adjustment number 5 increases rate case expense. ICRWUA is now
27 requesting an increase in rate case expense of \$150,000 amortized over 5 years, or
28 \$30,000 annually. In its initial filing, ICRWUA requested rate case expense of

1 \$60,000 amortized over 3 years, or \$20,000 annually.

2 **Q. WHY IS ICRWUA REQUESTING AN INCREASE IN RATE CASE**
3 **EXPENSE AT THIS TIME?**

4 A. Because the cost of this case have far exceeded the initial request. As of
5 September 2008, ICRWUA had expended nearly \$250,000. With more rounds of
6 testimony, a hearing, briefs, and an open meeting before the Commission yet to be
7 completed, ICRWUA estimates to expend nearly \$300,000. Even with TRG's
8 reimbursement of \$30,000 upon execution of the WSA, and the potential for
9 further reimbursement of \$50,000 from TRG if the WSA is approved, , ICRWUA's
10 request is far less than it will actually spend. Frankly, ICRWUA cannot afford to
11 absorb the additional rate case expense it has incurred without recovery.

12 **Q. THEN WHY DOESN'T ICRWUA PROPOSE RECOVERY OF THE TOTAL**
13 **RATE CASE EXPENSE LESS THE AMOUNT REIMBURSED BY TRG**
14 **AND ITS AFFILIATES?**

15 A. It certainly could. The proposal of \$150,000 (rather than \$200,000+) and an
16 amortization period of 5 years (rather than 3 years) were chosen to minimize the
17 impact on rates at this time to the greatest extent possible.

18 **A. Supplemental Cost of Service Study.**

19 **Q. PLEASE DISCUSS THE SUPPLEMENTAL COST OF SERVICE STUDY**
20 **YOU TESTIFIED THAT YOU HAVE PREPARED BASED ON THE NEW**
21 **WSA FOR ICRWUA'S SUPPLEMENTAL FILING?**

22 A. The G schedules reflect a cost of service study based on ICRWUA's A-1 and C-1
23 schedules. The G-1 and the G-2 schedules provide the revenues, expenses, and
24 operating margin for each meter class (size).

25 **Q. DOES THE SUPPLEMENTAL COST OF SERVICE STUDY USE THE**
26 **SAME METHODOLOGY AS THE ONE YOU PREPARED FOR**
27 **ICRWUA'S REBUTTAL FILING?**

28 A. Yes. The difference between ICRWUA's rebuttal COSS and the Supp. COSS is

1 that the revenues and expenses are updated to those reflected in the supplemental
2 C-1 schedule. For a full discussion on the nature and purpose of a cost of service
3 study and how it was prepared in the instant case, please see my supplemental
4 rebuttal testimony at pages 9 through 29.

5 **Q. WHAT CONCLUSIONS HAVE YOU MADE BASED ON THE**
6 **SUPPLEMENTAL COST OF SERVICE STUDY?**

7 A. I have made two primary conclusions. First, the initial commodity rate of \$1.00
8 covers the cost of service for TRG for irrigation and lake fill during the test year
9 plus a reserve margin of about 11.3 percent. Second, from a cost of service
10 perspective and considering the System Reservation Charge, TRG is still
11 subsidizing the 5/8 inch metered customers. In fact, the 5/8 inch metered
12 customers are paying far less than their cost of service under both present and
13 proposed rates.

14 **Q. ON WHAT BASIS DO YOU CONCLUDE THE COMMODITY CHARGE**
15 **COVERS THE COST OF SERVICE PLUS A RESERVE MARGIN?**

16 A. As shown on supplemental Schedule G-2 at line 12, TRG's total cost of service is
17 \$110,543. During the test year, TRG water deliveries totaled 125,026 gallons (in
18 1,000's). Using a commodity rate of \$1.00 per 1,000 gallons, the commodity
19 revenues would total \$125,026. The excess of revenue over expenses is \$14,169
20 (\$125,026 minus \$110,857 as shown on Schedule G-2, page 1). As a result, the
21 operating margin is approximately 11.3 percent (\$14,169 divided by \$125,026).

22 **Q. PLEASE EXPLAIN THE BASIS FOR YOUR CONCLUSION THAT TRG IS**
23 **SUBSIDIZING THE 5/8 INCH METER CUSTOMER CLASS.**

24 A. The overall operating margin requested in ICRWUA'S supplemental filing is 11
25 percent. From a cost of service perspective, in order to achieve the overall
26 operating margin 11 percent, ideally each customer classe should provide about an
27 11 percent operating margin. In the instant case, that is not so. Under the proposed
28 rates, some customer classes provide an operating margin far less than 11 percent

1 and other customer classes provide for an operating margin far more than 11
2 percent. This results in subsidization of one or more customer classes. As shown
3 on G-2, the operating margins provided by TRG under present and proposed rates
4 are 38.46 percent and 36.94 percent, respectively. The operating margins provided
5 by the 5/8 inch metered customers under present and proposed rates are -44.75
6 percent and -18.15 percent, respectively.

7 **Q. IS THE COST OF SERVICE STUDY DEFFICIENT BECAUSE IT DOES**
8 **NOT CAPTURE ALL THE COSTS FOR THE TALKING ROCK SYSTEM?**

9 A. No. Based upon my inquiries with ICRWUA, all the relevant costs for operating
10 the Talking Rock System for the test year were recorded during the test year and
11 thus, have been captured in my COSS. Additional plant to serve future customers
12 that was not recorded to plant-in-service by the end of the test year would impact
13 the COSS. On the other hand, if the cost of the wells transferred to ICRWUA
14 under the WSA is treated as advances in-aid-of construction ("AIAC"), then
15 depreciation will be impacted. However, depreciation is primarily allocated based
16 on demand and the cost of service for TRG would see less than 10 percent of the
17 depreciation impact. If the cost of the wells is treated as contribution-in-aid of
18 construction ("CIAC"), there would be no impact on depreciation expense. In
19 either case, how the well costs are treated would not change my conclusions based
20 on the Supp. COSS with respect to subsidization by TRG of ICRWUA customers.

21 Operating expenses will change over time. However, the WSA has a
22 provision to adjust the commodity rate in the future based on a COSS. In the
23 meantime, the WSA has a provision to increase the commodity rate annually based
24 upon changes to the CPI. This, and the fact that TRG is providing a very high
25 operating margin now, (nearly 37 percent including the system reservation charge)
26 provides a reasonable expectation that the level of revenues from TRG will exceed
27 its cost of service for sometime into the future -- at least until another COSS is
28 prepared and the commodity rate reset.

1 Q. WHAT IF NEW PLANT IS ADDED TO SERVE CUSTOMERS IN THE
2 FUTURE, WOULDN'T DEPRECIATION BE IMPACTED?

3 A. Yes, if the plant were funded by ICRWUA or funded by refundable AIAC.
4 However, if none of the additional plant is used to serve TRG, then there would be
5 no impact on TRG's cost of service, but rather on the customer classes for which
6 the new plant is used to provide service. It is my understanding that no additional
7 plant, other than the wells, is necessary to serve TRG – at least for the foreseeable
8 future. Thus, as I testified above, the cost of service for TRG should not change
9 significantly, if at all, with respect to depreciation. If new plant is added to serve
10 TRG between now and another COSS, the impact on the cost of service will be
11 captured in that study.

12 Q. WHY NOT HAVE THE COMMODITY RATE BASED ON ANNUAL
13 ACTUAL OPERATING COSTS AND ADJUSTED EACH YEAR UNDER
14 THE WSA?

15 A. For three reasons. First and foremost, the intent was to keep the computation
16 simple and easy to understand so as to allow for timely adjustment of the
17 Commodity Rate, timely recovery of revenues, and to avoid disputes on the annual
18 computation. Second, it would be costly to prepare a COSS annually. The
19 preparation costs would likely outweigh the benefits. Third, the additional record
20 keeping with respect to "shared" costs would place additional administrative
21 burden on ICRWUA – both in cost and in time. Again, the higher costs and
22 additional time spent would potentially outweigh the benefits.

23 Q. IS THE \$1.00 COMMODITY RATE STALE BECAUSE IT IS BASED ON
24 2006 COSTS?

25 A. That is a potential problem if we get too far outside the test year before the WSA is
26 approved by the Commission and implemented. This is because the base year for
27 the CPI would be further removed from the test year. A similar problem exists
28 with the proposed rates in the instant case. The proposed rates (either from Staff or

1 ICRWUA) are based on a 2006 test year. However, this concern with respect to
2 the commodity rate is mitigated by the fact that the \$1.00 will be adjusted for
3 changes to the CPI. So in the future, the commodity rate will be adjusted upward.
4 The advantage of the WSA is that ICRWUA does not have to wait for another
5 lengthy rate case for the commodity rate to be adjusted upward. In fact, it will be
6 adjusted annually, unlike typical tariffed rates which means there is no regulatory
7 lag.

8 **IV. IMPACT OF ICRWUA LOSING REVENUES FROM TRG**

9 **Q. WHAT WOULD BE THE FINANCIAL IMPACT TO RATEPAYERS IF**
10 **TRG WAS FORCED TO LEAVE ICRWUA'S WATER SYSTEM?**

11 **A.** To achieve the same operating income as ICRWUA has proposed as of this
12 supplemental filing, or \$49,044, a 13.14 percent operating margin is required and a
13 revenue increase of \$156,043 is necessary. The revenue increase over the
14 proforma adjusted revenues is nearly 72 percent compared to the 13.75 percent
15 proposed by the ICRWUA. To illustrate, I have prepared supplemental proforma
16 Schedules A-1, C-1 and C-2, attached hereto as Supplemental Exhibit 2.

17 **Q. PLEASE EXPLAIN YOUR ANALYSIS.**

18 **A.** My proforma analysis assumes the revenues provided by TRG (for golf course
19 water) to ICRWUA are eliminated from revenues, and power costs currently paid
20 for by TRG on behalf of ICRWUA customers are included in operating expenses.
21 It also assumes that the revenue increase required would be necessary to achieve a
22 required operating income equal to the required operating income of \$49,044 on
23 Supplemental Schedule A-1.

24 **Q. PLEASE EXPLAIN THE PROFORMA SCHEDULE C-1 AND THE**
25 **ADJUSTMENTS MADE TO DETERMINE THAT THE OPERATING**
26 **INCOME WITHOUT THE GOLF COURSE REVENUE IS A NEGATIVE**
27 **\$107,017.**

28 **A.** The proforma Schedule C-1 shows the adjusted revenues and expenses without

1 TRG. The proforma C-1 schedule starts with the adjusted test year revenues and
2 expenses per ICRWUA's Supplemental Schedule C-1. The supplemental adjusted
3 revenues, operating expenses, and operating income are \$391,950, \$396,811, and
4 \$(4,861), respectively.

5 Next, proforma revenue and expense adjustments to reflect the revenues and
6 operating expenses without TRG are shown. The resulting proforma adjusted
7 revenues, operating expenses, and operating income are \$216,924, \$323,941, and
8 \$(107,017), respectively. The details of the adjustments are shown on the
9 proforma Schedule C-2, pages 1 through 3 and are as follows:

- 10 1. Adjustment number 1 removes the proposed WSA revenues under
11 the WSA.
- 12 2. Adjustment number 2 removes purchased power costs attributed to
13 TRG.
- 14 3. Adjustment number 3 adjusts property taxes based on proforma
15 revenues.

16
17 **V. RATE DESIGN (H SCHEDULES)**

18 **Q. WHAT ARE ICRWUA'S PROPOSED RATES AT THIS STAGE OF THE**
19 **PROCEEDING?**

20 **A. The Company's proposed monthly minimums (all customer classes) are:**

21	<u>Meter</u>	<u>Monthly</u>	<u>Gallons included</u>
22	<u>Size</u>	<u>Minimum</u>	<u>in Monthly Minimum</u>
23	5/8	\$ 21.50	0
24	3/4	\$ 32.25	0
25	1	\$ 53.75	0
26	1 1/2	\$ 107.50	0
27	2	\$ 172.00	0
28	3	\$ 344.00	0

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4	\$ 537.50	0
6	\$1,075.00	0

The commodity charges and tiers by meter size (all customer classes) are:

<u>Meter Size</u>	<u>Tier (gallons)</u>	<u>Charge per 1,000 gallons</u>
5/8 and 3/4	1 to 4,000	\$ 2.66
	4,001 to 9,000	\$ 3.41
	Over 9,000	\$ 4.41
1	1 to 22,500	\$ 3.41
	Over 22,500	\$ 4.41
1 1/2	1 to 45,000	\$ 3.41
	Over 45,000	\$ 4.41
2	1 to 72,000	\$ 3.41
	Over 72,000	\$ 4.41
3	1 to 144,000	\$ 3.41
	Over 144,000	\$ 4.41
4	1 to 225,000	\$ 3.41
	Over 225,000	\$ 4.41
6	1 to 450,000	\$ 3.41
	Over 450,000	\$ 4.41

The proposed standpipe rate and bulk water rate is \$4.41 per 1,000 gallons.

Q. WHAT IS THE RATE IMPACT ON RESIDENTIAL CUSTOMERS USING THE MONTHLY AVERAGE WATER USAGE?

A. As shown on Schedule H-4, page 1, customers on 5/8 meters who consume the average quantity of water (7,085 gallons per month) will experience a rate increase of \$5.62 per month, or an increase of approximately 15.18 percent.

1 **VI. CRITICISM OF STAFF'S APPROACH, REVENUE REQUIREMENT, AND**
2 **REQUIRED RATE INCREASE**

3 **Q. PLEASE BRIEFLY DESCRIBE STAFF'S APPROACH, REVENUE**
4 **REQUIREMENT AND PROPOSED RATE INCREASE SET FORTH IN**
5 **STAFF'S AMENDED DIRECT TESTIMONY?**

6 **A.** Under the approach, as set forth in Staff's amended testimony, Staff imputes
7 revenues based their proposed rates totaling \$114,290 for the gallons delivered to
8 the golf course from the well the ICRWUA owned during the test year. For water
9 pumped and delivered from the wells the golf course owned during the test year,
10 Staff effectively imputes \$30,386 of reimbursement revenues. To accomplish this,
11 Staff leaves the \$51,123 of reimbursement revenues for the test year in
12 miscellaneous revenues and increases operating expenses by \$20,737. Again, this
13 approach effectively imputes \$30,386 of reimbursement revenues (\$51,123 minus
14 \$20,737).

15 Staff is proposing a revenue requirement of \$382,389 and operating income
16 of \$35,605 based on a required operating margin of 9.31% (See Staff Amended
17 Schedule CRM-1) and no overall rate increase in revenues.

18 **Q. DIDN'T STAFF PREVIOUSLY AGREE ON THE REQUIRED**
19 **OPERATING MARGIN OF 15 PERCENT PRODUCING AN OPERATING**
20 **INCOME OF APPROXIMATELY \$53,500?**

21 **A.** Yes. Both Staff and ICRWUA were essentially in agreement on a 15 percent
22 operating margin and operating income of approximately \$53,500. (Compare the
23 15.01% operating margin and \$53,540 as shown on Staff direct schedule CRM-1
24 and the 15.00% operating margin and operating income of \$53,489 on the
25 Company's rebuttal schedule A-1.) Staff previously found a 15% operating margin
26 in this case was appropriate but now recommends less than 10%. See Direct
27 Testimony of Charles R. Myhlhousen ("Myhlhousen Dt.") at 7 and Amended
28 Testimony of Charles R. Myhlhousen ("Myhlhousen Amd. Dt.") at 6.

1 Q. **WHY HAS STAFF LOWERED THE REQUIRED OPERATING INCOME**
2 **TO \$35,605 OR A 9.31 PERCENT OPERATING MARGIN?**

3 A. I can only speculate. Staff did not explain its reasoning. Staff only stated that an
4 operating margin between 9 and 14 percent was appropriate. Myhlhousen Amd.
5 Dt. at 6. In my experience a minimum of 10% operating margin is used for small
6 non-profit utilities. Putting that aside, in my opinion, the reason for the lower
7 operating income was to achieve a specific result – no revenue increase. In other
8 words, it is result driven.

9 Q. **WHAT CRITICISMS DO YOU HAVE OF STAFF'S AMENDED FILING**
10 **APPROACH?**

11 A. I have two primary criticisms. First, I disagree with Staff on imputed
12 reimbursement expenses of \$30,378 primarily because this level of revenues
13 assumes that the reimbursement provisions would apply if TRG paid tariff rates.
14 The reimbursement provisions of the agreement in place during the test year
15 contemplated reimbursement based on water used from ICR owned wells. All
16 other water was subject to a wheeling fee. If TRG uses no water from the ICR
17 owned well, there would be zero expense reimbursement. Under an assumption
18 that TRG pays tariff rates for water from the ICR owned well, I believe those
19 provisions would no longer apply. After all, paying a tariff rate implies that the
20 tariff charge includes all costs of delivery of water. Consequently, in my opinion,
21 TRG would merely pay a wheeling fee for water pumped from the golf course
22 owned wells and delivered to TRG. Based on the wheeling fee in effect during the
23 test year of \$11.35 per acre foot and 271.5 acre feet delivered (88,482 gallons (in
24 1,000's) or 125,026 gallons (in 1,000's) delivered to TRG less 36,544 gallons (in
25 1,000's) subject to tariff rates, as shown on Staff schedule CRM-24), the revenue
26 that should be imputed to ICR would be \$3,082 (\$11.35 per acre foot times 271.5
27 acre feet), not \$30,378.

28 The second criticism I have is that Staff ignores purchased power costs paid

1 for by TRG during the test year which included power costs for water pumped
2 from the well owned by ICRWUA during the test year. If the golf course is
3 assumed to pay tariff rates for the water supplied by the Company owned well,
4 then those costs should be included in operating expenses. Further, all pumping
5 power costs associated with water delivery to other ICRWUA customers should
6 also be included in operating expenses. During the test year, TRG paid
7 approximately \$79,492 of pumping power costs for the well field and pump
8 stations on the Talking Rock side of the water system (including \$6,771 for the
9 Adobe pump station which does not serve the golf course). None of these costs
10 were reflected in the operating expenses of ICRWUA. Using the gallons shown on
11 Staff amended filing schedule CRM-23 and CRM-24 for the gallons pumped from
12 the well owned by the ICRWUA during the test year of 60,385 thousand gallons
13 and total gallons pumped from all three wells of 148,867 thousand gallons, the
14 pumping power costs (including the Adobe pump station) which should be
15 included in operating expenses is \$36,273 ($\$72,271$ divided by 148,867 thousand
16 gallons times 60,385 thousand gallons plus \$6,771 for the Adobe pump station).

17 **Q. HAVE YOU PREPARED AN EXHIBIT ILLUSTRATING THE APPROACH**
18 **YOU WOULD HAVE TAKEN BASED ON YOUR CRITICISMS OF**
19 **STAFF'S APPROACH?**

20 **A.** Yes. Attached hereto as Supplemental Exhibit 3 are proforma A-1, C-1, and C-2
21 schedules illustrating what I believe is the correct approach, as described above.
22 Assuming a 9.83% operating margin, \$114,290 of imputed tariff revenues, \$3,082
23 of wheel fee revenues rather than the implied \$30,378 of reimbursement revenues,
24 \$36,273 of additional power costs, and the change to property taxes, the required
25 revenue increase would have been \$44,216, or 13.23% over adjusted test year
26 revenues. Compare this to Staff's recommendation of no rate increase.
27
28

1 Q. DOES THAT CONCLUDE YOUR ADDITIONAL SUPPLEMENTAL
2 TESTIMONY?

3 A. Yes

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SUPPLEMENTAL EXHIBIT 1

ICR Water Users Association
 Test Year Ended December 31, 2006
 Computation of Increase in Gross Revenue
 Requirements As Adjusted

Supplemental Exhibit 1
 Schedule A-1
 Page 1
 Witness: Bourassa

Line No.				
1	Fair Value Rate Base	\$		(576,986)
2				
3	Adjusted Operating Income			(4,861)
4				
5	Current Rate of Return			N/A
6				
7	Required Operating Income Operating Margin =		11.00%	\$ 49,044
8				
9	Required Rate of Return on Fair Value Rate Base			N/A
10				
11	Operating Income Deficiency	\$		53,905
12				
13	Gross Revenue Conversion Factor			1.0000
14				
15	Increase in Gross Revenue Requirement	\$		53,905
16				
17	% Increase over Adjusted Revenues			13.75%
18				
19				
20				
21	Customer	Present	Proposed	Dollar
22	Classification	Rates	Rates	Increase
23	(Residential Commercial, Irrigation)			Percent
24	5/8 x 3/4 Inch Residential	\$ 148,282	\$ 182,257	\$ 33,975 22.91%
25	3/4 Inch Residential	-	-	- 0.00%
26	1 Inch Residential	15,942	19,286	3,344 20.98%
27	2 Inch Residential	39,929	53,594	13,665 34.22%
28	Construction Water	417	829	412 98.73%
29				- 0.00%
30	Revenue Annualization	9,738	12,503	2,766 28.40%
31				
32	Subtotal	\$ 214,308	\$ 268,470	\$ 54,161 25.27%
33				
34	Other Water Revenues	177,306	177,306	- 0.00%
35	Reconciling Amount to C-1	335	79	(256) -76.42%
36				
37	Total of Water Revenues (a)	\$ 391,960	\$ 445,855	\$ 53,905 13.75%
38				
39				
40	SUPPORTING SCHEDULES:			
41	Rebuttal B-1			
42	Supplemental Schedule C-1			
43				

ICR Water Users Association
 Test Year Ended December 31, 2006
 Income Statement

Supplemental Exhibit 1
 Schedule C-1
 Page 1
 Witness: Bourassa

Line No.	ADJUSTMENT LABEL-->	1	2	3	4	5	6
		Rebuttal Adjusted Results	Remove Golf Course Revenues	Pumping Power Costs	Property Taxes	Revenues from New Water Services Agreement	Rate Case Expense
		Supplemental Adjusted Results	Required Rate Increase	Supplemental Adjusted Results	Required Rate Increase	Required with Rate Increase	
1	Revenues	\$ 214,643					\$ 214,643
2	Metered Water Revenues						\$ 53,905
3	Unmetered Water Revenues	53,403	(51,123)			177,306	177,306
4	Other Water Revenues	268,047	(51,123)			391,950	445,855
5							
6	Operating Expenses						
7	Salaries and Wages - Employees						\$ -
8	Purchased Water	6,388					6,388
9	Purchased Power	16,239	79,492				95,731
10	Fuel for Power Production						
11	Chemicals	2,516					2,516
12	Water Testing	4,029					4,029
13	Repairs and Maintenance	14,389					14,389
14	Office Expense	1,720					1,720
15	Contractual Services - Accounting	32,549					32,549
16	Contractual Services - Legal	513					513
17	Contractual Services - Operations	86,227					86,227
18	Contractual Services - Other						
19	Rental of Building/Real Property	3,600					3,600
20	Rental of Equipment						
21	Transportation Expenses						
22	Telephone	751					751
23	Insurance	8,995					8,995
24	Reg. Comm. Exp.	20,000				10,000	30,000
25	Bad Debt Expense						
26	Miscellaneous Expenses	235					235
27	Depreciation Expenses	93,748					93,748
28	Property Taxes	11,160		4,214			15,374
29	Payroll Taxes						
30	Sales Tax Expense						
31	Income Tax	45					45
32	Total Operating Expenses	\$ 303,105	\$ 79,492	\$ 4,214	\$ 10,000	\$ 396,811	\$ 396,811
33	Operating Income	\$ (35,058)	\$ (51,123)	\$ (4,214)	\$ (10,000)	\$ 175,026	\$ 49,044
34	Other Income (Expense)						
35	Interest Income	180					180
36	Other Income	779					779
37	Interest Expense						
38	Other Expense						
39							
40	Total Other Income (Expense)	\$ 959	\$ -	\$ -	\$ -	\$ 959	\$ 959
41	Net Profit (Loss)	\$ (34,099)	\$ (51,123)	\$ (4,214)	\$ (10,000)	\$ 175,026	\$ 50,003

RECAP SCHEDULES:
 Supplemental A-1

SUPPORTING SCHEDULES:
 Rebuttal C-1

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 1

Supplemental Exhibit 1
Schedule C-2
Page 1
Witness: Bourassa

Line No.		
1	<u>Remove Golf Course Revenues (replaced by new Water Service Agreement)</u>	
2		
3		
4	Golf Course Reimbursement Revenues	\$ 51,123
5		
6		
7	Adjustment to Revenues/Expenses	<u>\$ (51,123)</u>
8		
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ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Supplemental Exhibit 1
Schedule C-2
Page 2
Witness: Bourassa

Line

No.

1	<u>Purchased Power Costs Paid By Talking Rock Golf Course and to be paid by ICR</u>	
2	<u>under new Water Service Agreement</u>	
3		
4	TRR Pumping Station	\$ 34,241
5	TRR Well Field	38,480
6	Double Adobe Station	6,771
7		
8	Total Power Costs Paid By Golf Course	<u>\$ 79,492</u>
9		
10		
11		
12		
13	Adjustment to Revenues/Expenses	<u>\$ 79,492</u>
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ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 3

Supplemental Exhibit 1
Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>		
2			
3	Adjusted Revenues in year ended 12/31/2006	\$	391,950
4	Adjusted Revenues in year ended 12/31/2006		391,950
5	Proposed Revenues		445,855
6			
7	Average of three year's of revenue	\$	409,918
8	Average of three year's of revenue, times 2	\$	819,836
9	Add:		
10	Construction Work in Progress at 10%	\$	-
11	Deduct:		
12	Book Value of Transportation Equipment		-
13			
14	Full Cash Value	\$	819,836
15	Assessment Ratio		23.50%
16	Assessed Value		192,661
17	Property Tax Rate		7.9800%
18			
19	Property Tax		15,374
20	Tax on Parcels		0
21			
22	Total Property Tax at Proposed Rates Rebuttal	\$	15,374
23	Property Taxes per Direct Filing		11,160
24	Change in Property Taxes	\$	4,214
25			
26			
27	Adjustment to Revenues and/or Expenses	\$	4,214
28			

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 4

Supplemental Exhibit 1
Schedule C-2
Page 4
Witness: Bourassa

Line
No.

1	<u>Proposed Misc. Revenues from Golf Course under new Water Service Agreement</u>	
2		
3	Annual Base Charge	\$ 50,000
4	Annual Commodity Charge	125,026
5	Total	<u>\$ 175,026</u>
6		
7		
8		
9	Adjustment to Revenues and/or Expenses	<u>\$ 175,026</u>
10		
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ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 5

Supplemental Exhibit 1
Schedule C-2
Page 5
Witness: Bourassa

Line No.		
1	<u>Rate Case Expense</u>	
2		
3	Proposed Rate Case Expense	\$ 150,000
4	Amortization Period (years)	5
5	Annual Amortization	\$ 30,000
6		
7	Rebuttal Proposed Amortization Expense	<u>\$ 20,000</u>
8		
9	Increase in Rate case Amortization Expense	\$ 10,000
10		
11		
12	Adjustment to Revenues and/or Expenses	<u>\$ 10,000</u>
13		
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ICR Water Users Association
 Revenue Summary
 Test Year Ended December 31, 2006

Line No.	Customer Classification and/or Meter Size	Total Revenues at Present Rates	Total Revenues at Proposed Rates	Dollar Change	Percent Change	Additional Bills	Addition Gallons
1	5/8 x 3/4 Inch Residential	\$ 148,282	\$ 182,257	\$ 33,975	22.91%	51	15,439
2	3/4 Inch Residential	-	19,286	3,344	0.00%	-	-
3	1 Inch Residential	15,942	19,286	3,344	20.98%	-	-
4	2 Inch Residential	39,929	53,594	13,665	34.22%	26	113,976
5	Construction Water	417	829	412	98.73%	17	1,508,161
6							
7	Subtotals of Revenues	\$ 204,571	\$ 255,966	\$ 51,396	25.12%		
8							
9	Other Water Revenues	177,306	177,306	-	0.00%		
10							
11							
12	Subtotals of Revenues	\$ 381,877	\$ 433,273	\$ 51,396	13.46%		
13	Revenue Annualizations:						
14	5/8 Inch residential	\$ 1,547	\$ 1,767	\$ 220	14.21%		
15	3/4 Inch Residential	-	-	-	0.00%		
16	1 Inch Residential	1,344	1,539	196	14.56%		
17	2 Inch Residential	6,847	9,197	2,350	34.32%		
18	Construction Water	-	-	-	0.00%		
19							
20	Subtotal Revenue Annualization	9,738	12,503	2,766	28.40%	94	1,637,576
21							
22	Reconciling Amt to C-1	335	79	(256)	-76.42%		
23							
24	Total Revenues Per Bill Count	\$ 391,950	\$ 445,855	\$ 53,905	13.75%		
25	With Annualization						

ICR Water Users Association
Test Year Ended December 31, 2006
Present and Proposed Rates

Exhibit
 Supplemental Schedule H-3
 Page 2
 Witness: Bourassa

Line No.	Commodity Rates (Residential, Commercial, Industrial)	Block	Present Rate (Per 1,000 gallons)	Proposed Rate
1				
2				
3				
4				
5	1 Inch Meter	0 gallons to 22,500 gallons over 22,500 gallons	N/A	\$ 3.41
6			N/A	\$ 4.41
7				
8	1.5 Inch	0 gallons to 45,000 gallons over 45,000 gallons	N/A	\$ 3.41
9			N/A	\$ 4.41
10				
11	2 Inch Meter	0 gallons to 72,000 gallons over 72,000 gallons	N/A	\$ 3.41
12			N/A	\$ 4.41
13				
14	3 Inch Meter	0 gallons to 144,000 gallons over 144,000 gallons	N/A	\$ 3.41
15			N/A	\$ 4.41
16				
17	4 Inch Meter	0 gallons to 225,000 gallons over 225,000 gallons	N/A	\$ 3.41
18			N/A	\$ 4.41
19				
20	6 Inch Meter	0 gallons to 450,000 gallons over 450,000 gallons	N/A	\$ 3.41
21			N/A	\$ 4.41
22				
23				
24				
25				
26				
27	Standpipe (Bulk, Construction)	All gallons	N/A	\$ 4.41
28				
29				
30				
31				
32				

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 5/8 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Supplemental Exhibit 1
 Schedule H-4
 Page 1
 Witness: Bourassa

<u>Usage</u>	<u>Present</u> <u>Bill</u>	<u>Proposed</u> <u>Bill</u>	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
-	\$ 20.00	\$ 21.50	\$ 1.50	7.50%
1,000	20.00	24.16	\$ 4.16	20.80%
2,000	22.80	26.82	\$ 4.02	17.63%
3,000	25.60	29.48	\$ 3.88	15.16%
4,000	28.40	32.14	\$ 3.74	13.17%
5,000	31.20	35.55	\$ 4.35	13.94%
6,000	34.00	38.96	\$ 4.96	14.59%
7,000	36.80	42.37	\$ 5.57	15.14%
8,000	39.60	45.78	\$ 6.18	15.61%
9,000	42.40	49.19	\$ 6.79	16.01%
10,000	45.20	53.60	\$ 8.40	18.58%
12,000	50.80	62.42	\$ 11.62	22.87%
14,000	56.40	71.24	\$ 14.84	26.31%
16,000	62.00	80.06	\$ 18.06	29.13%
18,000	67.60	88.88	\$ 21.28	31.48%
20,000	73.20	97.70	\$ 24.50	33.47%
25,000	87.20	119.75	\$ 32.55	37.33%
30,000	101.20	141.80	\$ 40.60	40.12%
35,000	115.20	163.85	\$ 48.65	42.23%
40,000	129.20	185.90	\$ 56.70	43.89%
45,000	143.20	207.95	\$ 64.75	45.22%
50,000	157.20	230.00	\$ 72.80	46.31%
60,000	185.20	274.10	\$ 88.90	48.00%
70,000	213.20	318.20	\$ 105.00	49.25%
80,000	241.20	362.30	\$ 121.10	50.21%
90,000	269.20	406.40	\$ 137.20	50.97%
100,000	297.20	450.50	\$ 153.30	51.58%

Present Rates:
 Monthly Minimum: \$ 20.00
 Gallons in Minimum 1,000
 Charge Per 1,000 Gallons \$ 2.80

Proposed Rates:
 Monthly Minimum: \$ 21.50
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 4,000 \$ 2.660
 Up to 9,000 \$ 3.410
 Over 9,000 \$ 4.410

Average Usage					
7,085	\$ 37.04	\$ 42.66	\$ 5.62	15.18%	
Median Usage					
4,500	\$ 29.80	\$ 33.85	\$ 4.05	13.57%	

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 1 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Supplemental Exhibit 1
 Schedule H-4
 Page 2
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 50.00	\$ 53.75	\$ 3.75	7.50%
1,000	50.00	57.16	\$ 7.16	14.32%
2,000	52.80	60.57	\$ 7.77	14.72%
3,000	55.60	63.98	\$ 8.38	15.07%
4,000	58.40	67.39	\$ 8.99	15.39%
5,000	61.20	70.80	\$ 9.60	15.69%
6,000	64.00	74.21	\$ 10.21	15.95%
7,000	66.80	77.62	\$ 10.82	16.20%
8,000	69.60	81.03	\$ 11.43	16.42%
9,000	72.40	84.44	\$ 12.04	16.63%
10,000	75.20	87.85	\$ 12.65	16.82%
12,000	80.80	94.67	\$ 13.87	17.17%
14,000	86.40	101.49	\$ 15.09	17.47%
16,000	92.00	108.31	\$ 16.31	17.73%
18,000	97.60	115.13	\$ 17.53	17.96%
20,000	103.20	121.95	\$ 18.75	18.17%
25,000	117.20	141.50	\$ 24.30	20.73%
30,000	131.20	163.55	\$ 32.35	24.66%
35,000	145.20	185.60	\$ 40.40	27.82%
40,000	159.20	207.65	\$ 48.45	30.43%
45,000	173.20	229.70	\$ 56.50	32.62%
50,000	187.20	251.75	\$ 64.55	34.48%
60,000	215.20	295.85	\$ 80.65	37.48%
70,000	243.20	339.95	\$ 96.75	39.78%
80,000	271.20	384.05	\$ 112.85	41.61%
90,000	299.20	428.15	\$ 128.95	43.10%
100,000	327.20	472.25	\$ 145.05	44.33%

Present Rates:
 Monthly Minimum: \$ 50.00
 Gallons in Minimum 1,000
 Charge Per 1,000 Gallons
 All gallons \$ 2.80

Proposed Rates:
 Monthly Minimum: \$ 53.75
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 22,500 \$ 3.410
 Over 22,500 \$ 4.410

Average Usage	9,470	\$ 73.72	\$ 86.04	\$ 12.33	16.72%
Median Usage	1,500	\$ 51.40	\$ 58.87	\$ 7.47	14.52%

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification 2 Inch Meter
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Supplemental Exhibit 1
 Schedule H-4
 Page 3
 Witness: Bourassa

Usage	Present Bill	Proposed Bill	Dollar Increase	Percent Increase
-	\$ 160.00	\$ 172.00	\$ 12.00	7.50%
1,000	160.00	175.41	\$ 15.41	9.63%
2,000	162.80	178.82	\$ 16.02	9.84%
3,000	165.60	182.23	\$ 16.63	10.04%
4,000	168.40	185.64	\$ 17.24	10.24%
5,000	171.20	189.05	\$ 17.85	10.43%
6,000	174.00	192.46	\$ 18.46	10.61%
7,000	176.80	195.87	\$ 19.07	10.79%
8,000	179.60	199.28	\$ 19.68	10.96%
9,000	182.40	202.69	\$ 20.29	11.12%
10,000	185.20	206.10	\$ 20.90	11.29%
12,000	190.80	212.92	\$ 22.12	11.59%
14,000	196.40	219.74	\$ 23.34	11.88%
16,000	202.00	226.56	\$ 24.56	12.16%
18,000	207.60	233.38	\$ 25.78	12.42%
20,000	213.20	240.20	\$ 27.00	12.66%
25,000	227.20	259.75	\$ 32.55	14.33%
30,000	241.20	281.80	\$ 40.60	16.83%
35,000	255.20	303.85	\$ 48.65	19.06%
40,000	269.20	325.90	\$ 56.70	21.06%
45,000	283.20	347.95	\$ 64.75	22.86%
50,000	297.20	370.00	\$ 72.80	24.50%
60,000	325.20	414.10	\$ 88.90	27.34%
70,000	353.20	458.20	\$ 105.00	29.73%
80,000	381.20	502.30	\$ 121.10	31.77%
90,000	409.20	546.40	\$ 137.20	33.53%
100,000	437.20	590.50	\$ 153.30	35.06%
150,000	577.20	811.00	\$ 233.80	40.51%
200,000	717.20	1,031.50	\$ 314.30	43.82%
250,000	857.20	1,252.00	\$ 394.80	46.06%
300,000	997.20	1,472.50	\$ 475.30	47.66%
350,000	1,137.20	1,693.00	\$ 555.80	48.87%
400,000	1,277.20	1,913.50	\$ 636.30	49.82%
450,000	1,417.20	2,134.00	\$ 716.80	50.58%
500,000	1,557.20	2,354.50	\$ 797.30	51.20%

Present Rates:
 Monthly Minimum \$ 160.00
 Gallons in Minimum 1,000
 Charge Per 1,000 Gallons
 All Gallons \$ 2.80

Proposed Rates:
 Monthly Minimum \$ 172.00
 Gallons in Minimum -
 Charge Per 1,000 Gallons
 Up to 22,500 \$ 3.410
 Over 22,500 \$ 4.410

Average Usage	82,182	\$ 387.31	\$ 511.92	\$ 124.61	32.17%
Median Usage	22,500	\$ 220.20	\$ 248.73	\$ 28.53	12.95%

ICR Water Users Association
 Bill Comparison of Present and Proposed Rates
 Customer Classification Construction Water
 Test Year Ended December 31, 2006
 (Excludes all Revenue Related Taxes)

Supplemental Exhibit 1
 Schedule H-4
 Page 4
 Witness: Bourassa

<u>Usage</u>	<u>Present Bill</u>	<u>Proposed Bill</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
-	\$ -	\$ 172.00	\$ 172.00	0.00%
1,000	2.80	176.41	173.61	6200.36%
2,000	5.60	180.82	175.22	3128.93%
3,000	8.40	185.23	176.83	2105.12%
4,000	11.20	189.64	178.44	1593.21%
5,000	14.00	194.05	180.05	1286.07%
6,000	16.80	198.46	181.66	1081.31%
7,000	19.60	202.87	183.27	935.05%
8,000	22.40	207.28	184.88	825.36%
9,000	25.20	211.69	186.49	740.04%
10,000	28.00	216.10	188.10	671.79%
12,000	33.60	224.92	191.32	569.40%
14,000	39.20	233.74	194.54	496.28%
16,000	44.80	242.56	197.76	441.43%
18,000	50.40	251.38	200.98	398.77%
20,000	56.00	260.20	204.20	364.64%
25,000	70.00	282.25	212.25	303.21%
30,000	84.00	304.30	220.30	262.28%
35,000	98.00	326.35	228.35	233.01%
40,000	112.00	348.40	236.40	211.07%
45,000	126.00	370.45	244.45	194.01%
50,000	140.00	392.50	252.50	180.36%
60,000	168.00	436.60	268.60	159.88%
70,000	196.00	480.70	284.70	145.26%
80,000	224.00	524.80	300.80	134.29%
90,000	252.00	568.90	316.90	125.75%
100,000	280.00	613.00	333.00	118.93%

Present Rates:
 Monthly Minimum: \$ -
 Gallons in Minimum
 Charge Per 1,000 Gallons \$ 2.80

Proposed Rates:
 Monthly Minimum: \$ 172.00
 Gallons in Minimum -
 Charge Per 1,000 Gallons \$ 4.410

Average Usage					
149,000	\$ 417.20	\$ 829.09	\$ 411.89	98.73%	
Median Usage					
74,500	\$ 208.60	\$ 500.55	\$ 291.95	139.95%	

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study, Using Commodity Demand Method
 Operating Margins at Present Rates

Line No.	Meter Size->	Totals	5/8" x 3/4"	3/4"	1"	1 1/2"	2"	3"	4"	6"	Const. & Golf Course
1	Water Revenues and Revenue Annualizations	\$ 204,571	\$ 148,282		\$ 15,942		\$ 35,492			\$ 4,854	
2	Reconciliation BC to C-1	9,738	1,547		1,344		6,847				
3	Misc. Revenue (a)	335	335		83		41				
4	Total Revenues	\$ 177,306	\$ 1,378		\$ 17,368		\$ 42,381			\$ 175,804	
5	Operating Expenses (b)	\$ 287,643	\$ 156,643		\$ 15,528		\$ 27,104			\$ 88,368	
6	Depreciation and Amortization (b)	93,748	56,147		8,032		13,202			16,366	
7	Property Tax (c)	15,374	5,944		681		1,662			7,086	
8	Income Tax (d)	45	628		64		(4)			(643)	
9	Total Operating Expenses	\$ 396,811	\$ 219,362		\$ 24,306		\$ 41,965			\$ 111,178	
10	Operating Income	\$ (4,861)	\$ (67,820)		\$ (6,938)		\$ 416			\$ 69,480	
11	Interest Expense (e)										
12	Net Income	\$ (4,861)	\$ (67,820)		\$ (6,938)		\$ 416			\$ 69,480	
13	Rate Base (f)	\$ (576,987)	\$ (307,668)		\$ (50,757)		\$ (87,021)			\$ (131,542)	
14	Operating margin (g)	-1.24%	-44.75%	0.00%	-39.94%	0.00%	0.98%	0.00%	0.00%	38.46%	

- 21 (a) Miscellaneous Revenue includes \$175,026 of golf course revenues based on new WSA.
- 22 (b) Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.
- 23 (c) Property Taxes allocation based on Revenues
- 24 (d) Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income
- 25 (e) Interest Expense allocation based on Rate Base, Please see Schedule G-3, Page 1
- 26 (f) Rate Base computations are shown on Schedule G-3, Page 1
- 27 (g) Operating Income Divided by Total Revenues

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study, Using Commodity Demand Method
 Operating Margins at Proposed Rates

Const. &
 Golf Course

Line No.	Meter Size->	1"	1 1/2"	2"	3"	4"	6"
	Totals	\$ 19,286	\$ -	\$ 54,423	\$ -	\$ -	\$ -
1	Water Revenues	1,539	-	9,197	-	-	-
2	Revenue Annualizations	-	-	-	-	-	-
3	Reconciliation BC to C-1	79	-	-	-	-	-
4	Misc. Revenue (a)	83	-	41	-	-	-
5	Total Revenues	\$ 20,908	\$ -	\$ 63,662	\$ -	\$ -	\$ 175,804
6	Operating Expenses (b)	\$ 15,528	\$ -	\$ 27,104	\$ -	\$ -	\$ 88,368
7	Depreciation and	-	-	-	-	-	-
8	Amortization (b)	8,032	-	13,202	-	-	16,366
9	Property Tax (c)	721	-	2,195	-	-	6,062
10	Income Tax (d)	(3)	-	19	-	-	60
11	Total Operating Expenses	\$ 24,278	\$ -	\$ 42,521	\$ -	\$ -	\$ 110,857
12	Operating Income	\$ (3,370)	\$ -	\$ 21,140	\$ -	\$ -	\$ 64,948
13	Interest Expense (e)	-	-	-	-	-	-
14	Net Income	\$ (3,370)	\$ -	\$ 21,140	\$ -	\$ -	\$ 64,948
15	Rate Base (f)	\$ (50,757)	\$ -	\$ (87,021)	\$ -	\$ -	\$ (131,542)
16	Operating Margin (g)	-16.12%	0.00%	33.21%	0.00%	0.00%	36.94%
17	Percent of Total Customers	5.479%	0.000%	2.740%	0.000%	0.000%	0.274%
18		91.507%	0.000%	0.000%	0.000%	0.000%	0.274%

(a) Miscellaneous Revenue includes \$175,026 of golf course revenues based on new WSA.

(b) Operating Expenses and Depreciation computations are shown on Schedule G-4, Page 1.

(c) Property Taxes allocation based on Revenues

(d) Income Tax from Schedule C-1, at Proposed Rates. Income Taxes allocated based on taxable income

(e) Interest Expense allocation based on Rate Base, Please see Schedule G-3, Page 1

(f) Rate Base computations are shown on Schedule G-3, Page 1

(g) Operating Income Divided by Total Revenues

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study, Using Commodity Demand Method
 Allocation of Rate Base by Function

Line No.	Adjusted	Demand	Commodity	Customer	Meter	Service	Totals
1	\$ (576,987)	\$ (563,492)	\$ (101,483)	\$ 31,378	\$ 16,503	\$ 40,107	\$ (576,987)
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
15							
16							
17							
18							
19							
20							
21							
	(576,987)	(563,492)	(101,483)	31,378	16,503	40,107	(576,987)

Line No.	Account No.	Description	Original Cost Plant	Accumulated Depreciation	Total Net Plant Values	Demand	Commodity	Customer	Meter	Service
1		General Plant Continued								
2	347	Miscellaneous Equipment	1,485	56	1,439			1,439		
3	348	Other Tangible Plant	23,458	3,722	19,736			19,736		
4		Subtotal General Plant	\$ 35,627	\$ 4,248	\$ 31,378	\$ -	\$ -	\$ 31,378	\$ -	\$ -
5		Total Plant	\$ 5,331,977	\$ 625,662	\$ 4,706,295	\$ 4,172,967	\$ 424,790	\$ 31,378	\$ 26,778	\$ 50,382
6		Contributions in Aid of Construction	(1,330,469)		(1,330,469)	(1,197,422)	(133,047)			
7		Advances in Aid of Construction	(3,932,263)		(3,932,263)	(3,539,037)	(393,226)			
8		Meter Deposits	(20,550)		(20,550)				(10,275)	(10,275)
9		Deferred Income Tax								
10										
11										
12		Totals	\$ 48,695	\$ 625,662	\$ (576,987)	\$ (563,492)	\$ (101,483)	\$ 31,378	\$ 16,503	\$ 40,107
13		Rate Bases (Plant - (AIAC, CIAC, Meter Deposits & Accum. Depr.))	\$ (576,987)		\$ (576,987)	\$ (563,492)	\$ (101,483)	\$ 31,378	\$ 16,503	\$ 40,107

ICR Water Company Users Association
Test Year Ended December 31, 2006
Cost of Service Study, Using Commodity Demand Method
Allocation of Expenses to Functions

Line No.	Description	Adjusted \$	Golf Course Demand		ICR Customers Only		Golf Course Commodity		Customer \$	Meter \$	Service \$	Totals
			Demand	Over-sizing	Purchased W/ Commodity	Purchased Pwr Commodity	Purchased Pwr Commodity	Golf Course Commodity				
1	Salaries and Wages	6,388			6,388							6,388
2	Purchased Water (a)	95,731				28,146		67,585				95,731
3	Purchased Power (b)	2,516			2,516							2,516
4	Chemicals	14,389			1,439				1,439			14,389
5	Repairs and Maintenance (c)	2,471	11,511									2,471
6	Office Supplies and Expense	46,550							2,471			46,550
7	Outside Services	72,739	54,191		6,183				46,550			72,739
8	Outside Services - A Quality Water (d)	4,029	3,626		403				10,911			4,029
9	Water Testing	3,600			3,600							3,600
10	Rents											
11	Transportation Expenses	8,995							8,995			8,995
12	Insurance - General Liability											
13	Insurance - health and Life											
14	Regulatory Commission Expense - Rate Case	30,000	27,000						3,000			30,000
15	Miscellaneous Expense	235							235			235
16	Depreciation Expense (e)	93,748	78,177	2,851	6,924				949	2,259	2,272	93,748
17	Taxes Other Than Income											
18	Property Taxes, Allocated on Schedules G-1 & G-2	15,374							317			15,374
19	Income Tax, Allocated on Schedules G-1 & G-2	45										45
20												
21	Total	\$ 396,811	\$ 174,505	\$ 2,851	\$ 21,064	\$ 6,388	\$ 28,146	\$ 67,585	\$ 73,111	\$ 5,153	\$ 2,272	\$ 381,392

22 (a) Purchased water cost is attributed to ICR customers only.
 23 (b) Golf Course pays 100% of power costs for all three wells and pumping station on the Talking Rock Ranch system.
 24 Included in Study is approx. \$11,900 of additional power costs paid for by Golf Course that is attributed to ICR customers.
 25 (c) Repairs and Maintenance allocation factors computation shown on Schedule G-7, Page 2.1
 26 (d) A Quality Water contract costs, factors and allocation computation shown on Schedule G-7, Page 2.1
 27 (e) Depreciation allocation computed on Schedule G-6, Page 2.

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Allocation of Depreciation Expense to Functions

Supplemental Exhibit 1
 Schedule G-6
 Page 2
 Witness: Bourassa

Line No.	Account No.	Description	Original Cost	Depreciation Rate	Depreciation Expense	Total Depr. Expense	Demand	Commodity	Customer	Meter	Service
1		Intangible									
2	301.00	Organization	\$ -	-	-	-	-	-	-	-	-
3	302.00	Franchises	-	-	-	-	-	-	-	-	-
4			\$ -								
5		Subtotal Intangible									
6											
7		Source of Supply & Pumping Plant									
8	303	Land and Land Rights	\$ -	0.000%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9	304	Structures and Improvements	398,048	3.330%	13,255	13,255	13,255	-	-	-	-
10	305	Collecting and Impounding Res.	-	2.500%	-	-	-	-	-	-	-
11	306	Lakes, Rivers, Other Intakes	-	2.500%	-	-	-	-	-	-	-
12	307	Wells and Springs	656,998	3.330%	21,878	21,878	19,690	2,188	-	-	-
13	308	Infiltration Galleries and Tunnels	-	6.670%	-	-	-	-	-	-	-
14	309	Supply Mains	-	2.000%	-	-	-	-	-	-	-
15	310	Power Generation Equipment	-	5.000%	-	-	-	-	-	-	-
16	311	Electric Pumping Equipment	1,808	12.500%	226	226	203	23	-	-	-
17		Subtotal Source of Supply & Pumping Plant	\$ 1,056,854		\$ 35,359	\$ 35,359	\$ 33,149	\$ 2,210	\$ -	\$ -	\$ -
18											
19		Water Treatment									
20	320	Water Treatment Equipment	106,689	3.330%	3,553	3,553	3,197	355	-	-	-
21		Subtotal Water Treatment	\$ 106,689		\$ 3,553	\$ 3,553	\$ 3,197	\$ 355	\$ -	\$ -	\$ -
22											
23		Transmission and Distribution Plant									
24	330	Distribution Reservoirs & Standpipe	\$ -	2.220%	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
25	331	Transmission and Distribution Mains	3,879,062	2.000%	77,581	77,581	69,823	7,758	-	-	-
26	331	Transmission and Distribution Mains - Over-sizing (a)	158,395	2.000%	3,168	3,168	2,851	317	-	-	-
27	333	Services	68,233	3.330%	2,272	2,272	2,272	-	-	-	2,272
28	334	Meters	27,117	8.330%	2,259	2,259	-	-	-	2,259	-
29	335	Hydrants	-	2.000%	-	-	-	-	-	-	-
30	336	Backflow Prevention Devices	-	6.670%	-	-	-	-	-	-	-
31	339	Other Plant and Miscellaneous Equipment	-	6.670%	-	-	-	-	-	-	-
32		Subtotal Transmission and Distribution Plant	\$ 4,132,807		\$ 85,280	\$ 85,280	\$ 72,674	\$ 8,075	\$ -	\$ 2,259	\$ 2,272
33											
34		General Plant									
35	340	Office Furniture and Fixtures	\$ 141	6.670%	\$ 9	\$ 9	\$ -	\$ -	\$ -	\$ 9	\$ -
36	341	Transportation Equipment	-	20.000%	-	-	-	-	-	-	-
37	342	Stores Equipment	-	4.000%	-	-	-	-	-	-	-
38	343	Tools and Work Equipment	-	5.000%	-	-	-	-	-	-	-
39	344	Laboratory Equipment	-	10.000%	-	-	-	-	-	-	-
40	345	Power Operated Equipment	-	5.000%	-	-	-	-	-	-	-
41	346	Communications Equipment	10,533	10.000%	1,053	1,053	263	-	-	790	-

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Allocation of Depreciation Expense to Functions

Exhibit
 Rebuttal Schedule G-6
 Page 2.1
 Witness: Bourassa

Line No.	Account No.	Description	Original Cost	Depreciation Rate	Depreciation Expense	Total Depr. Expense	Demand	Commodity	Customer	Meter	Service
1		General Plant Continued									
2	347	Miscellaneous Equipment	1,495	10.00%	150	150			150		
3	348	Other Tangible Plant	23,458	10.00%	2,346	2,346	2,346				
4		Subtotal General Plant	\$ 35,627		\$ 3,558	\$ 2,609	\$ -	\$ -	\$ 949	\$ -	\$ -
5		Total Plant	\$ 5,331,977		\$ 127,750	\$ 127,750	\$ 111,629	\$ 10,641	\$ 949	\$ 2,259	\$ 2,272
6											
7											
8		Less: Amortization of Contributions	\$ (1,419,166)	2.3959%	\$ (34,002)	\$ (34,002)	\$ (30,602)	\$ (3,400)			
9											
10		Total Depreciation Expense			\$ 93,748	\$ 81,028	\$ 7,240	\$ 949	\$ 2,259	\$ 2,272	
11											
12		Portion of Depreciation Attributed to Oversizing			\$ 3,168	\$ 3,168	\$ 2,851	\$ 317	\$ -	\$ -	\$ -
13											
14		Depreciation, Net of Oversizing Impact			\$ 90,580	\$ 90,580	\$ 78,177	\$ 6,924	\$ 949	\$ 2,259	\$ 2,272
15											
16											
17											
18											
19											
20											

(a) See G-6, page 3.

ICR Water Company Users Association
 Test Year Ended December 31, 2006
COMMODITY - DEMAND METHOD FUNCTION FACTORS
 Plant and Depreciation Expense Allocations Functions

Supplemental Exhibit 1
 Schedule G-7
 Page 2
 Witness: Bourassa

<u>Line No.</u>	<u>Description</u>	<u>Total</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>
1					
2					
3	Wells	1.00	0.90	0.10	
4	Pumps & Equipment	1.00	0.90	0.10	
5	Trans. & Dist. Mains	1.00	0.90	0.10	
6	Customer	1.00			1.00
7	Services	1.00			1.00
8	Meters	1.00			1.00
9	Fire Hydrants	1.00			1.00
10	Transportation Equip.	1.00	0.25		0.75
11	Office Furniture	1.00			1.00
12	Communication Equip.	1.00	0.25		0.75
13	Water Treatment Equip.	1.00	0.90	0.10	
14					
15					
16					
17					

ICR Water Company Users Association
 Test Year Ended December 31, 2006
 Cost of Service Study, Using Commodity Demand Method
 Development Of Allocation Factors

Supplemental Exhibit 1
 Schedule G-7
 Page 2.1
 Witness: Bourassa

Line
No.

1	<u>Repairs and Maintenance Allocation Factors</u>	
2	Repairs and Maintenance Demand	80.00%
3	Repairs and Maintenance Commodity	10.00%
4	Repairs and Maintenance Meters	10.00%
5	Repairs and Maintenance Customer	0.00%
6		<u>100.00%</u>

9 A Quality Water Contract Allocation Factors

11	<u>Scope of Work</u>	<u>Functions</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>	<u>Meter</u>
12	Meter Reading	Customer			100%	
13	Operations	Demand/Commodity	90%	10%		
14	Routine Maintenance	Demand/Commodity/Meter	80%	10%	0%	10%
15	Regulatory Compliance	Customer			100%	

18	<u>Scope of Work</u>	<u>Functions</u>	<u>Weight</u>	<u>Cost</u>	<u>Demand</u>	<u>Commodity</u>	<u>Customer</u>	<u>Meter</u>
19	Meter Reading	Customer	0.10	\$ 7,274	\$ -	\$ -	\$ 7,274	\$ -
20	Operations	Demand/Commodity	0.65	47,280	42,552	4,728	-	-
21	Routine Maintenance	Demand/Commodity/Meter	0.20	14,548	11,638	1,455	-	1,455
22	Regulatory Compliance	Customer	0.05	3,637	-	-	3,637	-
23		Totals	<u>1.00</u>	<u>\$ 72,739</u>	<u>\$ 54,191</u>	<u>\$ 6,183</u>	<u>\$ 10,911</u>	<u>\$ 1,455</u>
24				% of Total	<u>74.50%</u>	<u>8.50%</u>	<u>15.00%</u>	<u>2.00%</u>

25

ICR Water Company Users Association
Test Year Ended December 31, 2006
Cost of Service Study, Using Commodity Demand Method
Development of Class Allocation Factors

Supplemental Exhibit 1
 Schedule G-7
 Page 3
 Witness: Bourassa

COMMODITY ALLOCATION FACTOR

Meter Size	(a)	
	Total Gallons (in 1,000's) In Test Year	Percent of Total
5/8" x 3/4"	28,049	15.61%
3/4"	-	0.00%
1"	2,141	1.19%
1-1/2"	-	0.00%
2"	10,122	5.63%
3"	-	0.00%
4"	-	0.00%
6"	139,361	77.56% (c)
8"	-	0.000%
Totals	179,672	100.00%

DEMAND ALLOCATION FACTOR

Meter Size	Number of Meters and/or Services	Equiv- alent Weight	Equivalent	
			Number of Meters and/or Services	Percent of Total
5/8" x 3/4"	334	1.0	334	64.98%
3/4"	-	1.5	0	0.00%
1"	20	2.5	50	9.73%
1-1/2"	-	5.0	0	0.00%
2"	10	8.0	80	15.56%
3"	-	16.0	0	0.00%
4"	-	25.0	0	0.00%
6"	1	50.0	50	9.73%
8"	-	80.0	0	0.00%
Totals	365		514	100.00%

CUSTOMER ALLOCATION FACTOR

Meter Size	Number of Meters	Percent of Total	
		Number	Percent
5/8" x 3/4"	334	91.51%	
3/4"	-	0.00%	
1"	20	5.48%	
1-1/2"	-	0.00%	
2"	10	2.74%	
3"	-	0.00%	
4"	-	0.00%	
6"	1	0.27%	
8"	-	0.00%	
10"	-	0.00%	
Totals	365	100.00%	

SERVICES ALLOCATION FACTOR (b)

Meter Size	Number of Services	Install- ation Cost	Weighted Number of Services	
			Number	Percent of Total
5/8" x 3/4"	334	\$ 385.00	128,590	88.46%
3/4"	0	385.00	0	0.00%
1"	20	435.00	8,700	5.99%
1-1/2"	0	470.00	0	0.00%
2"	10	630.00	6,300	4.33%
3"	0	845.00	0	0.00%
4"	0	1,230.00	0	0.00%
6"	1	1,770.00	1,770	1.22%
8"	0	1,770.00	0	0.00%
10"	0	1,770.00	0	0.00%
Totals	365		145,360	100.00%

METER ALLOCATION FACTOR (b)

Meter Size	Number of Meters	Meter Cost	Weighted Dollars of Meters	
			Cost	Percent of Total
5/8" x 3/4"	334	\$ 135.00	45,090	61.46%
3/4"	0	215.00	0	0.00%
1"	20	255.00	5,100	6.95%
1-1/2"	0	465.00	0	0.00%
2"	10	1,690.00	16,900	23.03%
3"	0	2,265.00	0	0.00%
4"	0	3,245.00	0	0.00%
6"	1	6,280.00	6,280	8.56%
8"	0	6,280.00	0	0.00%
10"	0	6,280.00	0	0.00%
Totals	365		73,370	100.00%

(PURCHASED POWER AND WATER ONLY)

COMMODITY ALLOCATION FACTOR

Meter Size	(a)(d)	
	Total Gallons (in 1,000's) In Test Year	Percent of Total
5/8" x 3/4"	28,049	69.58%
3/4"	-	0.00%
1"	2,141	5.31%
1-1/2"	-	0.00%
2"	10,122	25.11%
3"	-	0.00%
4"	-	0.00%
6"	-	0.00%
8"	-	0.00%
Totals	40,311	100.00%

- (a) Includes customer and gallon sold annualization.
- (b) Meter and Service Line cost from Arizona Corporation Commission Memo of June 30, 2004 from Marlin Scott, Jr.. Meter costs based on compound meters. Cost of service line and meter is based on costs allowed for a compound meter installation.
- (c) Actual gallons delivered to Golf Course 125,026,000 gallons was delivered to Golf Course from all three wells. There was 14,334,700 gallons of unaccounted water. Quantity used for 6 inch meter includes the Golf Course water plus unaccounted water totaling 139,360,700.
- (d) Golf Course pays 100% of power costs for all three wells and pumping stations on the Talking Rock Ranch system. Approximately \$11,900 of power costs paid for by Golf Course is attributed to ICR customers and is included in study. Purchased water costs are attributed to ICR customers only.

SUPPLEMENTAL EXHIBIT 2

ICR Water Users Association
 Test Year Ended December 31, 2006
 Computation of Increase in Gross Revenue
 Requirements As Adjusted
 Assuming Golf Course Leaves the ICR Water System

Supplemental Exhibit 2
 Proforma Schedule A-1
 Page 1
 Witness: Bourassa

Line No.		\$	(576,986)
1	Fair Value Rate Base		
2			(107,017)
3	Adjusted Operating Income		
4			N/A
5	Current Rate of Return		
6		\$	49,026
7	Required Operating Income Operating Margin = 13.14%		
8			N/A
9	Required Rate of Return on Fair Value Rate Base		
10		\$	156,043
11	Operating Income Deficiency		
12			1.0000
13	Gross Revenue Conversion Factor		
14		\$	156,043
15	Increase in Gross Revenue Requirement		
16			71.93%
17	% Increase over Adjusted Revenues		
18			
19			
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39			
40	<u>SUPPORTING SCHEDULES:</u>		
41	Rebuttal B-1		
42	Proforma Schedule C-1		
43			
44			
45			
46			

ICR Water Users Association
Test Year Ended December 31, 2006
Income Statement
Assuming Golf Course Leaves the ICR Water System

Line No.	ADJ. LABEL-->	1	2	3	4	5	Required Rate Increase
		Remove Golf Course Revenues	Pumping Power Costs	Property Taxes	Revenues from New Water Service Agreement	Rate Case Expense	Required Rate Increase
1	Revenues	\$ 214,643					\$ 370,705
2	Metered Water Revenues						
3	Unmetered Water Revenues	177,306	(175,026)		2,280		2,280
4	Other Water Revenues	391,950	(175,026)				372,985
5		\$	\$	\$	\$	\$	\$
6	Operating Expenses						
7	Salaries and Wages - Employees						
8	Purchased Water	6,388					6,388
9	Purchased Power	95,731	(67,582)				28,148
10	Fuel for Power Production						
11	Chemicals	2,516					2,516
12	Water Testing	4,029					4,029
13	Repairs and Maintenance	14,389					14,389
14	Office Expense	1,720					1,720
15	Contractual Services - Accounting	32,549					32,549
16	Contractual Services - Legal	513					513
17	Contractual Services - Operations	86,227					86,227
18	Contractual Services - Other						
19	Rental of Building/Real Property	3,600					3,600
20	Rental of Equipment						
21	Transportation Expenses						
22	Telephone	751					751
23	Insurance	8,995					8,995
24	Reg. Comm. Exp.	30,000					30,000
25	Bad Debt Expense						
26	Miscellaneous Expenses	235					235
27	Depreciation Expenses	93,748					93,748
28	Property Taxes	15,374		(5,287)			10,087
29	Payroll Taxes						
30	Sales Tax Expense						
31	Income Tax	45					45
32	Total Operating Expenses	\$ 396,811	\$ (67,582)	\$ (5,287)	\$ (5,287)	\$ -	\$ 323,941
33	Operating Income	\$ (4,861)	\$ (175,026)	\$ 67,582	\$ 5,287	\$ -	\$ 156,061
34	Other Income (Expense)						\$ 49,044
35	Interest Income	180					180
36	Other Income	779					779
37	Interest Expense						
38	Other Expense						
39							
40	Total Other Income (Expense)	\$ 959	\$ -	\$ -	\$ -	\$ -	\$ 959
41	Net Profit (Loss)	\$ (3,902)	\$ (175,026)	\$ 67,582	\$ 5,287	\$ -	\$ 156,061
42							\$ 50,003

RECAP SCHEDULES:
Protoforma A-1

SUPPORTING SCHEDULES:
Supplemental C-1

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 1

Supplemental Exhibit 2
Schedule C-2
Page 1
Witness: Bourassa

Line

No.

1 Remove Revenues provided by WSA

2

3 Reservation Charge

\$ 50,000

4 Commodity Changes

125,026

5 Total

\$ 175,026

6

7

8 Adjustment to Revenues/Expenses

\$ (175,026)

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ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Supplmental Exhibit 2
Schedule C-2
Page 2
Witness: Bourassa

<u>Line No.</u>			
1	<u>Remove power costs attributed to Talking Rock Golf and included in supplemental filing</u>		
2			
3			
4	<u>Purchased Power Costs Paid By Talking Rock Golf Course</u>		
5			
6	TRR Pumping Station	\$	34,241
7	TRR Well Field		38,480
8			
9	Total Power Costs Paid By Golf Course	\$	<u>72,721</u>
10			
11	Gallons sold on Talking Rock system		134,532
12	Cost Per 1,000 gallons	\$	0.541
13	Gallons delivered to Talking Rock Golf for test year		125,026
14	Power costs attributed to Talking Rock Golf	\$	67,582
15			
16			
17	Adjustment to Purchased Power	\$	<u>(67,582)</u>
18			
19	Adjustment to Revenues/Expenses	\$	<u>(67,582)</u>
20			
21			
22			
23			
24			
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26			

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 3

Supplemental Exhibit 2
 Schedule C-2
 Page 3
 Witness: Bourassa

Line No.			
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>		
2			
3	Adjusted Revenues in year ended 12/31/2006	\$	216,924
4	Adjusted Revenues in year ended 12/31/2006		216,924
5	Proposed Revenues		372,985
6			
7	Average of three year's of revenue	\$	268,944
8	Average of three year's of revenue, times 2	\$	537,888
9	Add:		
10	Construction Work in Progress at 10%	\$	-
11	Deduct:		
12	Book Value of Transportation Equipment		-
13			
14	Full Cash Value	\$	537,888
15	Assessment Ratio		<u>23.50%</u>
16	Assessed Value		126,404
17	Property Tax Rate		7.9800%
18			
19	Property Tax		10,087
20	Tax on Parcels		0
21			
22	Total Property Tax at Proposed Rates Rebuttal	\$	10,087
23	Property Taxes per Direct Filing		15,374
24	Change in Property Taxes	\$	<u>(5,287)</u>
25			
26			
27	Adjustment to Revenues and/or Expenses	\$	<u>(5,287)</u>
28			

SUPPLEMENTAL EXHIBIT 3

ICR Water Users Association
Test Year Ended December 31, 2006
Computation of Increase in Gross Revenue
Requirements As Adjusted
Assuming Golf Course Pays Tariff Rates

Supplemental Exhibit 3
Schedule A-1
Page 1
Witness: Bourassa

Line No.					
1	Fair Value Rate Base			\$	(576,986)
2					
3	Adjusted Operating Income				(7,009)
4					
5	Current Rate of Return				N/A
6					
7	Required Operating Income	Operating Margin =	9.83%	\$	37,208
8					
9	Required Rate of Return on Fair Value Rate Base				N/A
10					
11	Operating Income Deficiency			\$	44,216
12					
13	Gross Revenue Conversion Factor				1.0000
14					
15	Increase in Gross Revenue				
16	Requirement			\$	44,216
17					
18	% Increase over Adjusted Revenues				13.23%
19					
20					
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39					
40	<u>SUPPORTING SCHEDULES:</u>				
41	Rebuttal B-1				
42	Settlement Schedule C-1				
43					

ICR Water Users Association
Test Year Ended December 31, 2006
Income Statement
Assuming Golf Course Pays Tariff Rates

Line No.	ADJ. LABEL-->	1 Remove Golf Course Revenues	2 Wheeling Charges	3 Pumping Power Costs	4 Revenues from Modified Well/Asmt.	5 Property Taxes	Adjusted Results	Required Rate Increase	Required with Rate Increase
1	Revenues	\$ 214,643					\$ 214,643	\$ 44,216	\$ 258,860
2	Metered Water Revenues	53,403	3,082		114,290		119,652		119,652
3	Unmetered Water Revenues	268,047	(51,123)				334,286	44,216	378,512
4	Other Water Revenues								
5									
6	Operating Expenses								
7	Salaries and Wages - Employees	6,388					6,388		6,388
8	Purchased Water	16,239		36,269			52,508		52,508
9									
10	Fuel for Power Production	2,516					2,516		2,516
11	Chemicals	4,029					4,029		4,029
12	Water Testing	14,389					14,389		14,389
13	Repairs and Maintenance	1,720					1,720		1,720
14	Office Expense	32,549					32,549		32,549
15	Contractual Services - Accounting	513					513		513
16	Contractual Services - Legal	86,227					86,227		86,227
17	Contractual Services - Operations	3,600					3,600		3,600
18	Contractual Services - Other								
19	Rental of Building/Real Property								
20	Rental of Equipment								
21	Transportation Expenses								
22	Telephone	751					751		751
23	Insurance	8,995					8,995		8,995
24	Reg. Comm. Exp.	20,000					20,000		20,000
25	Bad Debt Expense								
26	Miscellaneous Expenses	235					235		235
27	Depreciation Expenses	93,748					93,748		93,748
28	Property Taxes	11,160		1,931			13,091		13,091
29	Payroll Taxes								
30	Sales Tax Expense								
31	Income Tax	45					45		45
32									
33	Total Operating Expenses	\$ 303,105	\$ -	\$ -	\$ -	\$ 1,931	\$ 341,304	\$ -	\$ 341,304
34	Operating Income	\$ (35,058)	\$ (51,123)	\$ 3,082	\$ 114,290	\$ (1,931)	\$ (7,009)	\$ 44,216	\$ 37,208
35	Other Income (Expense)								
36	Interest Income	180					180		180
37	Other Income	779					779		779
38	Interest Expense								
39	Other Expense								
40									
41	Total Other Income (Expense)	\$ 959	\$ -	\$ -	\$ -	\$ -	\$ 959	\$ -	\$ 959
42	Net Profit (Loss)	\$ (34,099)	\$ (51,123)	\$ 3,082	\$ 114,290	\$ (1,931)	\$ (6,049)	\$ 44,216	\$ 38,167

RECAP SCHEDULES:
Proforma A-1

SUPPORTING SCHEDULES:
Rebuttal C-1
Proforma C-2

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 1

Supplemental Exhibit 3
Schedule C-2
Page 1
Witness: Bourassa

<u>Line</u> <u>No.</u>			
1	<u>Remove Golf Course Expense Reimbursement Revenues</u>		
2			
3			
4	Golf Course Expense Reimbursements	\$	51,123
5			
6			
7			
8	Adjustment to Revenues/Expenses	\$	<u>(51,123)</u>
9			
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ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 2

Supplemental Exhibit 3
Schedule C-2
Page 2
Witness: Bourassa

Line No.			
1	<u>Wheeling Charges For Golf Course Water</u>		
2			
3	Gallons Delivered to Golf Course during test year (in 1,000's)	125,026	
4	Less: Gallons subject to tariff rates	36,532	
5	Gallons subject to wheeling fee	88,494	
6			
7	Quantity of Water Delivered in acre feet	271.58	
8	Wheeling Charge per acre foot	\$ 11.35	
9	Total Wheeling Charges		\$ 3,082
10			
11			
12	Total Wheeling Charges		<u>\$ 3,082</u>
13			
14			
15	Adjustment to Revenues/Expenses		<u>\$ 3,082</u>
16			
17			

ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 3

Supplemental Exhibit 3
Schedule C-2
Page 3
Witness: Bourassa

Line No.			
1	<u>Purchased Power Costs Paid By Talking Rock Golf Course</u>		
2			
3			
4	TRR Pumping Station	\$	34,241
5	TRR Well Field		<u>38,480</u>
6	Power Costs Paid by Golf Course	\$	<u>72,721</u>
7			
8	Gallons Pumped on Talking Rock System (in 1,000's)		148,867
9	Cost per 1,000 gallons	\$	0.4885
10	Gallons Pumped from Well #3 per Staff CRM-24		60,385
11	Power Costs for Well #3		29,498
12	Adobe Pumping Station (paid by TRG but for ICR customers)	\$	<u>6,771</u>
13			
14	Adjustment to Purchased Power	\$	36,269
15			
16			
17	Adjustment to Revenues/Expenses	\$	<u>36,269</u>
18			
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ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 4

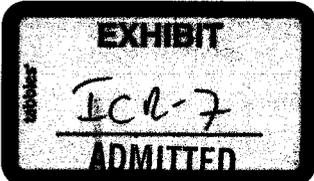
Supplemental Exhibit 3
Schedule C-2
Page 4
Witness: Bourassa

Line No.		
1	<u>Golf Course Revenues at present rates</u>	
2		
3	Gallons Delivered from ICR Wells (in 1,000's) per Staff CRM-24	36,544
4	Less: 1,000 gallons included in monthly minimum	<u>12</u>
5	Gallons Subject to Commodity Rate	<u>36,532</u>
6		
7	<u>Revenues at Present Rates</u>	
8	Monthly Minimum 6 inch meter at \$1,000 per month	\$ 12,000
9	Commodity rate at \$2.80 per 1,000 gallons	<u>\$ 102,290</u>
10	Total Revenues from Golf Course at Present Rates	<u>\$ 114,290</u>
11		
12		
13		
14	Adjustment to Revenues/Expenses	<u>\$ 114,290</u>
15		
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ICR Water Users Association
Test Year Ended December 31, 2006
Adjustment to Revenues and Expenses
Adjustment Number 5

Supplemental Exhibit 3
Schedule C-2
Page 5
Witness: Bourassa

Line No.		
1	<u>Adjust Property Taxes to Reflect Proposed Revenues:</u>	
2		
3	Adjusted Revenues in year ended 12/31/2006	\$ 334,296
4	Adjusted Revenues in year ended 12/31/2006	334,296
5	Proposed Revenues	378,512
6		
7	Average of three year's of revenue	\$ 349,034
8	Average of three year's of revenue, times 2	\$ 698,069
9	Add:	
10	Construction Work in Progress at 10%	\$ -
11	Deduct:	
12	Book Value of Transportation Equipment	<u>-</u>
13		
14	Full Cash Value	\$ 698,069
15	Assessment Ratio	<u>23.50%</u>
16	Assessed Value	164,046
17	Property Tax Rate	7.9800%
18		
19	Property Tax	13,091
20	Tax on Parcels	0
21		
22	Total Property Tax at Proposed Rates Rebuttal	<u>\$ 13,091</u>
23	Property Taxes per Direct Filing	<u>11,160</u>
24	Change in Property Taxes	<u>\$ 1,931</u>
25		
26		
27	Adjustment to Revenues and/or Expenses	<u>\$ 1,931</u>
28		



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

DOCKET NO. W-02824A-07-0388

IN THE MATTER OF THE APPLICATION
OF ICR WATER USERS ASSOCIATION,
INC. FOR DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICES

Snell & Wilmer
LLP
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2102
(602) 382-6000

ADDITIONAL SUPPLEMENTAL TESTIMONY OF

ROBERT M. BUSCH

**IN SUPPORT OF WATER SERVICE AGREEMENT
ON BEHALF OF ICR WATER USERS ASSOCIATION, INC.**

OCTOBER 15, 2008

- 1 **I. INTRODUCTION.**
- 2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**
- 3 A. My name is Robert M. Busch. I have been contracted by ICR Water Users
4 Association, Inc. ("ICRWUA" or the "Association") to be the Association's
5 manager. My business address is P.O. Box 5669, Chino Valley, Arizona 86323.
- 6 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
7 **PROCEEDING?**
- 8 A. Yes, I submitted Rebuttal Testimony on December 14, 2007, and Supplemental
9 Rebuttal Testimony on March 14, 2008.
- 10 **Q. WHAT IS THE PURPOSE OF THIS ADDITIONAL SUPPLEMENTAL**
11 **REBUTTAL TESTIMONY?**
- 12 A. The purpose of my Additional Supplemental Rebuttal Testimony is to discuss the
13 Water Service Agreement ("Water Service Agreement" or "WSA") executed
14 September 12, 2008, between ICRWUA, Harvard Simon I, LLC, Talking Rock
15 Land, L.L.C., and Talking Rock Golf Club, L.L.C. (the "Golf Club"). Harvard
16 Simon I, LLC, Talking Rock Land, L.L.C., and the Talking Rock Golf Club,
17 L.L.C., are referred to collectively in my testimony as the "Talking Rock Parties."
18 ICRWUA witness Thomas J. Bourassa is also providing Additional Supplemental
19 Testimony in support of the Water Service Agreement, specifically addressing the
20 financial impact to the customers of the Association if the WSA is not approved,
21 among other things.
- 22 **Q. DID YOU PARTICIPATE IN THE NEGOTIATION AND PREPARATION**
23 **OF THE WATER SERVICE AGREEMENT?**
- 24 A. Yes. I personally attended meetings with the board of ICRWUA and meetings
25 with representatives of the Talking Rock Parties which occurred generally from
26 April through early September 2008. I reviewed drafts of the WSA, and
27 participated in a number of phone calls.
- 28

1 **Q. PLEASE IDENTIFY FOR THE RECORD THE WATER SERVICE**
2 **AGREEMENT.**

3 A. I have attached as Attachment A to this testimony an executed copy of the Water
4 Service Agreement. The WSA was the culmination of several months of intense
5 negotiations between the board of ICRWUA and the Talking Rock Parties. The
6 Water Service Agreement was executed on September 12, 2008, and was filed
7 with the Commission in this docket that same day.

8 **Q. DOES THE WATER SERVICE AGREEMENT BECOME EFFECTIVE**
9 **IMMEDIATELY?**

10 A. No. Pursuant to Section 11 of the Water Service Agreement, the parties must
11 seek Commission approval of the WSA in this docket. If the Commission
12 determines that it does not have authority to approve the WSA, then the parties
13 must seek Commission approval of the rates and charges for water service that
14 are set forth in the WSA. If the Commission denies approval of the WSA, or if
15 the Commission denies approval of the rates and charges or term contained in the
16 WSA, then the WSA does not become effective and has no further force or effect.
17 In such event, the existing agreements between ICRWUA and the Talking Rock
18 Parties remain in place and in effect.

19 **Q. ARE YOU FAMILIAR WITH THE EVENTS THAT LED ICRWUA AND**
20 **THE TALKING ROCK PARTIES TO NEGOTIATE AND EXECUTE THE**
21 **WATER SERVICE AGREEMENT.**

22 A. Yes I am. However, an explanation of the events that led to the negotiation and
23 execution of the Water Service Agreement requires that I go back and recount
24 some of the relevant history regarding the relationship between ICRWUA and the
25 Talking Rock Parties. On May 31, 2001, ICRWUA filed an application with the
26 Commission requesting approval for an extension of the Association's certificate
27 of convenience and necessity (the "CC&N Application") to include
28 approximately 3,700 acres being developed as the master planned community of

1 Talking Rock Ranch ("Talking Rock Ranch"). In connection with the CC&N
2 Application, ICRWUA entered into a Main Extension Agreement (the "MXA")
3 with the property owner and developer of Talking Rock Ranch, Harvard Simon I,
4 L.L.C ("Harvard") dated March 5, 2001. Pursuant to the MXA, Harvard was
5 required to advance water facilities needed to serve Talking Rock Ranch at an
6 estimated cost of \$15,398,078. A copy of the MXA was filed with the
7 Commission as an exhibit to the CC&N Application, and I also attached a copy of
8 the MXA to my Supplemental Rebuttal Testimony filed March 14, 2008.

9 When the CC&N Application was filed, the parties contemplated that
10 Harvard would supply water to ICRWUA for Talking Rock Ranch from wells
11 drilled and owned by Harvard pursuant to the terms and conditions of a separate
12 Water Purchase Agreement dated April 27, 2001. Such an arrangement was not
13 novel to ICRWUA as the Association already supplied water to its then-existing
14 service area from a well owned by a third party pursuant to a water purchase
15 agreement. Thus, Harvard agreed to transfer to ICRWUA all water infrastructure
16 necessary to serve Talking Rock Ranch except for wells, which would be retained
17 by Harvard.

18 In addition to retaining ownership of the wells, the MXA allowed Harvard
19 to supply its own water to the Golf Club for landscape irrigation, the filling of
20 lakes and other non-potable purposes. Specifically, Section 12(c) of the MXA
21 stated:

22 Utility acknowledges that Developer intends to construct the Golf
23 Course. Utility further acknowledges that Developer intends to
24 supply water to the Golf Course for landscape irrigation, the filling
25 of lakes and other non-potable purposes and hereby provides its
26 unconditional consent for Developer to supply water to the Golf
27 Course for such purposes. Utility further agrees to provide water
28 utility service to the Golf Course for landscape irrigation, the filling
of lakes and other non-potable purposes at a future date but only
upon receipt of Developer's written request at which time such
service would be provided consistent with the rules and regulations

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of the Commission and Utility's Commission approved tariffs. (MXA at page 10).

On August 2, 2001, Staff filed its report ("Staff Report") recommending approval of the CC&N Application. With specific reference to the wells, the Staff Report stated as follows:

Harvard also informed the ACC that "the parties have also entered into a Water Purchase Agreement whereby Harvard will be providing water to ICR at costs lower than the utility's current cost of water."

On August 1, 2001, Harvard provided Staff with a copy of the April 27, 2001, Water Purchase Agreement between ICR and Harvard. Harvard has drilled a well in the proposed extension territory and has entered into an agreement with ICR to sell water to ICR at \$0.15 per 1,000 gallons, for resale to the ICR customers in Harvard's development. (Staff Report at page 2).

The Commission approved the CC&N Application in Decision 64360 (Docket W-02824A-01-0450) dated January 15, 2002. However, the Commission ordered that the parties modify the terms of the MXA so that ICRWUA would own the wells used to supply water to Talking Rock Ranch. Specifically, Finding of Fact 34 of Decision 64360 required that "Harvard should include in its advance, the wells which it has drilled for the purpose of providing water to the extension area described in Exhibit A to ensure that the utility has adequate water for its customers and to ensure that they are not subject to relying for their water on a third party over which the Commission lacks jurisdiction." The Commission continued in Finding of Fact 35 that "[w]e believe that this additional condition can be met by amending the [MXA] Agreement between the parties," and required that ICRWUA "file a copy of the relevant documents transferring ownership of the wells and related infrastructure within 365 days of the effective date of this Decision." The Commission did not order the modification of Section 12(c) of the MXA which permitted Harvard to supply its

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own water to the Golf Club for landscape irrigation, the filling of lakes and other non-potable purposes.

After receiving a short extension of the deadline for compliance, ICRWUA filed a Notice of Compliance to Decision 64360 on March 7, 2003. As part of the compliance filing, ICRWUA submitted a First Amendment to the Main Extension Agreement dated February 25, 2003, (the "First Amendment") which provided for the immediate transfer of Production Well 3 to ICRWUA and the transfer of Production Well 2 to ICRWUA upon the 800th hookup in the Talking Rock Development. A copy of the First Amendment was attached to my Supplemental Rebuttal Testimony filed March 14, 2008.

Concurrently with the execution of the First Amendment, ICRWUA and Harvard entered into a Well Agreement dated February 25, 2003 ("Well Agreement") which set forth the terms and conditions governing the delivery of water to the Golf Club, which entailed Harvard wheeling water through ICRWUA's system in exchange for paying ICRWUA a wheeling fee and a percentage of the costs associated with running the water system. The Well Agreement incorporated the provisions of the MXA and the First Amendment. The Well Agreement was filed with the Commission as part of the Notice of Compliance dated March 7, 2003.

No objections were filed by Staff to the Notice of Compliance, and Staff approved the MXA and First Amendment on September 19, 2003.

Q. DID ICRWUA REASONABLY BELIEVE THAT IT HAD COMPLIED WITH THE REQUIREMENTS OF DECISION 64360?

A. Yes. Given that: (1) ICRWUA had submitted copies of the MXA, the First Amendment and the Well Agreement to the Commission as part of its Notice of Compliance; (2) Staff did not object to the March 7, 2003, Notice of Compliance; and (3) Staff approved the MXA and First Amendment on September 19, 2003, the Association reasonably believed that it was in full compliance with Decision

1 64360. In fact, the Commission's compliance database showed ICRWUA to be in
2 full compliance at the time the Association filed its rate case in this docket.
3 However, on January 15, 2008, Staff issued a letter of non-compliance in Docket
4 W-02824A-01-0450, asserting that ICRWUA had not timely complied with
5 Decision 64360 because Harvard failed to transfer a second well to the
6 Association.

7 **Q. HAS A SECOND WELL SINCE BEEN TRANSFERRED TO ICRWUA?**

8 A. Yes. On May 21, 2008, Harvard transferred Production Well 2 to ICRWUA via a
9 bill of sale recorded in Book 4598, Page 645, of the records of Yavapai County,
10 Arizona. In addition, the Water Service Agreement provides for the transfer to
11 ICRWUA of Production Well 1 within 15 days of the effective date of the
12 agreement.

13 **Q. AS A RESULT OF THE TRANSFER OF PRODUCTION WELL 2 TO**
14 **ICRWUA, DO YOU BELIEVE THAT THE ASSOCIATION IS NOW IN**
15 **FULL COMPLIANCE WITH DECISION 64360?**

16 A. Yes. As I stated above, ICRWUA reasonably believed that it has been in full
17 compliance with Decision 64360 since Staff approved the MXA and the First
18 Amendment on September 19, 2003. However, I believe that the transfer of
19 Production Well 2 removes all doubt.

20 **Q. PLEASE CONTINUE WITH YOUR DISCUSSION OF THE EVENTS**
21 **THAT LED TO THE EXECUTION OF THE WATER SERVICE**
22 **AGREEMENT.**

23 A. On June 26, 2006, ICRWUA filed its rate application in this docket. A hearing
24 on the rate application was scheduled for January 8, 2008. Staff filed Direct
25 Testimony and Surrebuttal Testimony on November 30, 2007, and December 21
26 2007, respectively. Based upon these filings by Staff, ICRWUA and Staff were
27 in substantial agreement—except for the rate design—and were prepared for
28 hearing on January 8, 2008. On December 21, 2007, Dayne Taylor filed his

1 motion to intervene which was subsequently granted on January 8, 2008, the day
2 the hearing was to commence. The administrative law judge heard public
3 comment on January 8, 2008, but continued the hearing to April 16, 2008, in
4 order that the parties could file testimony related to issues raised by Mr. Taylor.
5 On April 3, 2008, the Golf Club sought and was granted intervention.

6 On February 1, 2008, Mr. Taylor filed his Direct Testimony in the rate
7 case. Mr. Taylor asserted that ICRWUA and the Talking Rock Parties had failed
8 to fulfill the requirements of Decision 64360, and as a result, the Association did
9 not have the legal right to provide water to the Golf Club. Specifically, Mr.
10 Taylor asserted that the Talking Rock Parties had failed to convey wells to
11 ICRWUA as required by Decision 64360, that ICRWUA was not charging the
12 Golf Club tariffed rates for water delivered, and that domestic demand did not
13 have a priority over the demand of the Golf Club. Mr. Taylor also raised
14 questions regarding the air content of the water supplied by the wells, and
15 whether the wells could produce adequate water to supply the domestic demand
16 and the Golf Club demand at full build-out of Talking Rock Ranch.

17 On March 14, 2008, Staff filed the Amended Direct Testimonies of
18 witnesses Charles Myhlhousen and Jian Liu. In Mr. Myhlhousen's testimony, he
19 recommended, among other things, an adjustment to increase test year revenue by
20 \$114,290, to impute the amount of revenue which he believed should have been
21 collected from the Golf Club for water delivered from Production Well 3 owned
22 by ICRWUA. Mr. Liu asserted that ICRWUA had not achieved compliance with
23 Decision 64360 because a second well had not been transferred to the
24 Association.

25 Beyond the issues raised by Mr. Taylor and Staff, the ICRWUA board of
26 directors had identified certain issues related to the operation of the MXA, as
27 amended by the First Amendment, and the Well Agreement. In an effort to
28 address the issues raised by Staff and Mr. Taylor in the rate case, as well as other

1 issues of concern to the board, ICRWUA and the Talking Rock Parties agreed to
2 meet and discuss a "special contract" for water supplied to the Golf Club which
3 would modify and supersede the existing suite of agreements which governed the
4 relationship; namely, the MXA, the First Amendment and the Well Agreement.
5 The concept of a new special contract to supersede the existing arrangement was
6 discussed with Staff, and ICRWUA received a favorable reaction.

7 **Q. WHAT HAPPENED NEXT?**

8 As an initial step toward a special contract, ICRWUA and the Talking Rock
9 Parties met and negotiated a non-binding letter of understanding ("LOU") dated
10 April 18, 2008. The purpose of the LOU was to set forth and outline the basic
11 terms of a special contract, which would be incorporated into a binding document
12 executed by ICRWUA and the Talking Rock Parties. A copy of the LOU was
13 mailed to all customers of ICRWUA on or about May 12, 2008, together with a
14 short explanatory statement and notice of a public meeting to discuss the LOU at
15 7:00 PM on June 3, 2008, in the multipurpose room of the local Judd Elementary
16 School. The Association also published notice of the June 3, 2008 special
17 meeting in the Prescott Courier.

18 On May 20, 2008, representatives of the Association's board of directors
19 met with Mr. Taylor and a group of residents in Prescott to discuss the LOU. On
20 May 29, 2008, representatives of ICRWUA met with Mr. Taylor and Staff in
21 Phoenix to discuss the LOU. Then, on June 3, 2008, the Association's board held
22 the special meeting to give customers a presentation regarding the LOU and the
23 board's rationale for pursuing a special contract with the Talking Rock Parties.
24 The board also provided Mr. Taylor with the opportunity to make his own
25 presentation at the meeting, which he did make. In addition, the board sent
26 explanatory letters regarding the LOU and the board's efforts to negotiate a
27 special contract to customers on May 12, May 19, and May 27, 2008. Copies of
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these letters were filed in the docket in this case by ICRWUA on June 6, 2008. Other informal communications occurred with the Association's customers.

Throughout the summer of 2008, ICRWUA and the Talking Rock Parties negotiated, exchanged many drafts and met together on the special contract. The negotiations were forthright and robust. On or about August 29, 2008, ICRWUA and the Talking Rock Parties reached agreement on a new special contract, which is memorialized in the Water Service Agreement. That same day, the draft WSA was sent to Staff and Mr. Taylor via e-mail requesting review and comment. ICRWUA also proposed a meeting or conference call among the parties to discuss the draft WSA and address any comments or concerns that Staff or Mr. Taylor might have. On September 11, 2008, ICRWUA hosted a conference call with Staff's legal counsel, Mr. Taylor, and legal counsel for the Talking Rock Parties to solicit input regarding the draft WSA and to discuss any questions, comments or concerns that Mr. Taylor or Staff might have regarding the draft WSA. Staff counsel and Mr. Taylor both stated that they would provide their comments regarding the draft WSA after it was signed and submitted to the Commission. ICRWUA and the Talking Rock Parties executed the Water Service Agreement on September 12, 2008, and filed a copy of the agreement with the Commission.

- Q. WHAT DOES THE WATER SERVICE AGREEMENT ACCOMPLISH?**
- A. The Water Service Agreement is intended to accomplish the following:
- (1) resolve and settle concerns raised by Mr. Taylor, Staff and the Association's board regarding the existing suite of agreements between ICRWUA and the Talking Rock Parties (*i.e.*, the MXA, First Amendment and Well Agreement)
 - (2) achieve compliance with Decision 64360, to the extent that compliance has not previously been achieved;
 - (3) supersede, replace and terminate the existing agreements between ICRWUA and the Talking Rock Parties, except for certain provisions specifically identified in the Water Service Agreement;
 - (4) keep the

1 Golf Club on the water system, thereby providing significant financial benefits to
2 the Association and its customers; and (5) govern the relationship between
3 ICRWUA and the Talking Rock Parties going forward from the date of approval
4 by the Commission until the expiration of the WSA according to its terms and
5 conditions.

6 **Q. PLEASE DISCUSS THE SPECIFIC BENEFITS OF THE WATER**
7 **SERVICE AGREEMENT TO ICRWUA AND ITS CUSTOMERS.**

8 A. Of the many benefits of the Water Service Agreement to ICRWUA and its
9 customers, one of the biggest must be that the Golf Club will remain on the
10 Association's water system as a special contract customer. Since the Talking
11 Rock Parties own one or more other wells that could be used by the Golf Club to
12 self-supply water to the golf course, the Association must recognize the
13 possibility that the Golf Club could disconnect from the Association's water
14 system. The revenue that will be received by ICRWUA from the Golf Club
15 under the Water Service Agreement will substantially reduce the size of the
16 requested rate increase in this case. Mr. Bourassa addresses the impact of the
17 Water Service Agreement on the rate request in his Additional Supplemental
18 Testimony filed contemporaneously with my testimony.

19 Additional benefits of the Water Service Agreement to ICRWUA and its
20 customers include the following:

- 21 • Transfer of Production Well 1. Section 2(a) of the Water Service
22 Agreement provides for the immediate transfer of the remaining equipped well
23 owned by the Talking Rock Parties—Production Well 1—to ICRWUA. That
24 means that the Association will own all three of the equipped wells connected to
25 the water system that serves Talking Rock Ranch. Production Well 1 will be
26 transferred without condition, subject only to the terms of the WSA. See WSA §
27 2(a). Pursuant to Section 2(c)(i) of the WSA, the Talking Rock Parties will
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warrantee Production Well 1 for a period of one year from the date the well is transferred to ICRWUA. *See* WSA § 2(c)(i).

- Production Well 2 Pump Motor Replacement. Under Section 2(b) of the WSA, the Talking Rock Parties will pay the actual cost of purchasing and installing a new pump motor at Production Well 2, up to a maximum cost of \$50,000. In addition, the Talking Rock Parties will warrantee the pump motor in Production Well 2 for a period of one year from the date of installation. *See* WSA § 2(c)(ii).

- Air Production Warranty. Under Section 2(c)(iii) of the WSA, the Talking Rock Parties warrantee during the applicable warranty period that the maximum allowable air production in water withdrawn from Production Well 1 and Production Well 2 will not exceed 3.5%, expressed as a percent of unit volume of water produced from each well at atmospheric pressure. Air production is measured using the procedure set forth in Attachment 1 to the WSA. If the maximum allowable air production is exceeded during the applicable warranty period, then the Talking Rock Parties must take action under the WSA, in consultation with ICRWUA, to reduce the air production at the Talking Rock Parties' sole cost and expense. *See* WSA § 2(c)(iii).

- Waiver of Prior Restrictions. Under Section 2(d) of the WSA, the Talking Rock Parties waive and release all restrictions on the amount and rate of water that may be pumped from Production Well 2 and Production Well 3 which are contained in the respective bills of sale for those wells.

- Residential Priority. Section 5 of the WSA makes clear that the residential delivery of water pumped from Production Well 1, Production Well 2 and Production Well 3 has priority over all other use classifications included uses by the Talking Rock Parties, including the Golf Club.

- System Reservation Charge. Under Section 6(a) of the WSA, the Talking Rock Parties agree to pay a new charge identified as the "System Reservation

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Charge" for a period of 10 years. The Talking Rock Parties will pay \$340,000 in System Reservation Charges during the first 10 years of the WSA. The Talking Rock Parties must pay the System Reservation Charges whether they receive any water from ICRWUA. Mr. Bourassa provides additional testimony regarding the System Reservation Charge in his Additional Supplemental Testimony.

• Commodity Charge. In addition to the System Reservation Charges, the Talking Rock Parties must pay a commodity charge for each 1,000 gallons of water delivered by ICRWUA. The commodity charge is designed in a manner intended to allow ICRWUA to recover its cost of service under the WSA, plus an appropriate operating margin. The commodity charge begins at \$1.00 and is increased annually based upon the average annual Consumer Price Index—All Urban Consumers: Area-West Urban (the "CPI Index") issued by the U.S. Bureau of Labor Statistics. See WSA § 6(b). In addition to annual adjustment based on the CPI Index, the commodity charge is subject to adjustments in the event that: (1) new Federal, State or County water treatment standards or requirements are adopted which increase ICRWUA's capital and/or operational costs of treating water delivered through the water system which serves Talking Rock Ranch; or (2) groundwater withdrawn by ICRWUA from Production Well 1, Production Well 2 or Production Well 3 becomes contaminated with any pollutant regulated by Federal, State or County entities which increases ICRWUA's capital and/or operational costs of treating water delivered through the water system which serves Talking Rock Ranch. In addition to these adjustments, there is one other failsafe to protect ICRWUA and its customers from unanticipated changes in the costs of providing water service to the Talking Rock Parties. Pursuant to Section 6(b)(iv) of the Water Service Agreement, on or after the seventh anniversary of the effective date of the WSA, the parties may request a cost of service study to evaluate whether the commodity charge continues to cover ICRWUA's cost of

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service for supplying water to the Talking Rock Parties. This provision provides significant additional protection for ICRWUA and its customers.

- Annual Notice Filing. In order to ensure that the Commission remains apprised of the commodity charge throughout the term of the WSA, ICRWUA must notify the Commission's Utilities Division of each annual change in the commodity charge. *See* WSA § 2(b)(v).

- Financial Assistance. In order to help defray ICRWUA's costs of negotiating the Water Service Agreement, the Talking Rock Parties agreed to pay \$30,000 to the Association at the time of execution of the WSA with an additional \$50,000 following the Commission's approval of the WSA. *See* WSA § 7.

- Water Conservation. Pursuant to Section 10 of the WSA, the Talking Rock Parties agree to continue to use reasonable efforts to promote conservation within Talking Rock Ranch and to minimize the use of groundwater for landscape irrigation, lake fill and other non-potable purposes.

- No Right to Challenge Withdrawals of Groundwater by ICRWUA. Under Section 14(a) of the WSA, the Talking Rock Parties waive their right to challenge ICRWUA's withdrawal of groundwater from Production Well 1, Production Well 2 and Production Well 3.

- Golf Club as a Special Contract Customer of ICRWUA. Recital O of the WSA makes clear that the Golf Club is a special contract customer of ICRWUA.

These are not all of the benefits of the Water Service Agreement to ICRWUA and its customers, but are among the more important benefits.

Snell & Wilmer

LLP
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

1 Q. IS IT YOUR OPINION THAT THE WATER SERVICE AGREEMENT
2 PROVIDES SUBSTANTIAL BENEFITS TO ICRWUA AND ITS
3 CUSTOMERS, AND THAT THE WSA SHOULD BE APPROVED BY THE
4 COMMISSION?

5 A. Yes. As the manager of ICRWUA's water system, I am confident that the Water
6 Service Agreement is a very good agreement for the Association and its
7 customers, and that it will provide significant benefits.

8 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

9 A. Yes.

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ATTACHMENT A

WATER SERVICE AGREEMENT

This Water Service Agreement ("Agreement") is fully executed this 12th day of September, 2008, by and between ICR Water Users Association, Inc., an Arizona public service corporation ("ICRWUA"), Harvard Simon I, LLC ("Harvard Simon"), Talking Rock Land, L.L.C., an Arizona limited liability company ("TRL") and Talking Rock Golf Club, L.L.C., an Arizona limited liability company ("TRGC"). The parties may be referred to collectively herein as the "Parties" or individually as a "Party," and one, two or all three of "Harvard Simon", "TRL" and "TRGC" may be referred to collectively as the "Talking Rock Parties". The Parties do hereby enter into this Agreement for the purpose of seeking approval of the Arizona Corporation Commission ("ACC") to: (1) resolve and settle the Parties' respective concerns over their existing agreements and compliance with ACC Decision No. 64360 (January 15, 2002); (2) supersede, replace and terminate any and all existing agreements between the Parties, except for certain provisions specifically identified herein; and (3) govern the Parties' relationship from the time of final ACC approval, if obtained, until the expiration of this Agreement according to its express terms.

RECITALS

A. The Talking Rock master planned community ("Talking Rock") is located in Yavapai County, Arizona. Talking Rock contains approximately 3,100 acres and, at build-out, will include roughly 1,600 homes. Talking Rock also includes common areas, a clubhouse, a health and fitness center and an 18-hole golf course ("Golf Course") owned and operated by TRGC.

B. Harvard Simon and ICRWUA entered into that certain Main Extension Agreement, dated March 5, 2001, ("MXA") pertaining to the extension of water utility service to Talking Rock. Under the MXA, Harvard Simon was obligated to finance, construct and transfer title to all on-site and off-site facilities necessary for ICRWUA to provide water utility service to Talking Rock. The MXA sets forth ICRWUA's "unconditional consent" for Harvard Simon to supply water to the Golf Course for "landscape irrigation, the filling of lakes and other non-potable purposes." The MXA also sets forth that ICRWUA "agrees to provide water utility service to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes at a future date but only upon receipt of [Harvard Simon's] written request at which time such service would be provided consistent with the rules and regulations of the Commission and Utility's Commission approved tariffs."

C. Harvard Simon and ICRWUA entered into that certain Water Purchase Agreement dated April 27, 2001 ("WPA"). TRL had previously obtained a well site that could be used to serve Talking Rock and conducted test drilling. Pursuant to the WPA, Harvard Simon agreed to supply water from one or more wells drilled or to be drilled at this well site to ICRWUA on a wholesale basis to be used by ICRWUA for all purposes, excluding water service for landscape irrigation, lake fill, construction and other non-potable purposes.

D. On January 15, 2002, the ACC issued Decision No. 64360 extending ICRWUA's CC&N to include Talking Rock, subject to the condition that Harvard Simon transfer to ICRWUA "the wells which it has drilled for the purpose of providing water to the extension area

... to ensure that the utility has adequate water for its customers and to ensure that they are not subject to relying for their water on a third party over which the Commission lacks jurisdiction."

E. ICRWUA, Harvard Simon and TRGC entered into that certain Well Agreement dated February 25, 2003 ("Well Agreement"). Pursuant to the Well Agreement, Harvard Simon and TRGC agreed to transfer two wells in Talking Rock to ICRWUA: Production Well No. 2 ("Well 2") and Production Well No. 3 ("Well 3"). The Well Agreement further provided that a third well, Production Well No. 1 ("Well 1") (collectively, Well 1, Well 2 and Well 3 will be referred to as the "Talking Rock Wells"), had been drilled and that TRGC would retain title to Well 1 and continue to use water from wells that it or its affiliates owned to provide its own water for landscape irrigation, lake fill, construction and other non-potable purposes. The Well Agreement superseded, replaced and terminated the WPA.

F. ICRWUA and Harvard Simon entered into that certain First Amendment to Main Extension Agreement on February 25, 2003 ("First Amendment to MXA"). The First Amendment modified the MXA such that Well 2 and Well 3 would be included in the Talking Rock Parties advances in aid of construction. All other aspects of the MXA were left in full force and effect, with the Talking Rock Parties remaining obligated to finance and construct the water system necessary for (1) ICRWUA to serve customers residing within Talking Rock; and (2) the Talking Rock Parties to serve themselves and satisfy landscape irrigation, lake fill, construction and other non-potable water demand with water from the wells owned by the Talking Rock Parties.

G. On March 7, 2003, ICRWUA filed the Well Agreement and the First Amendment to MXA with the ACC for the purpose of complying with Decision 64630. The ACC Staff approved both the MXA and First Amendment to MXA on September 19, 2003. The Parties have relied on the express language of the Well Agreement and MXA, as amended, in connection with their development activities and operation of the Golf Course.

H. Harvard Simon assigned its rights and interest in the Well Agreement to TRL pursuant to that certain Assignment and Assumption of Well Agreement dated October 9, 2003. The Talking Rock Parties then executed the First Amendment to Well Agreement dated October 23, 2003 correcting the name to Talking Rock Golf Club, L.L.C.

I. Harvard Simon transferred Well 3 to ICRWUA pursuant to that certain Bill of Sale (Production Well) dated October 28, 2003 ("Well 3 Bill of Sale") recorded in Book 4088, Page 386, records of Yavapai County, Arizona.

J. ICRWUA and TRL entered into that certain Second Amendment to Well Agreement ("Second Amendment to Well Agreement") on September 15, 2005. Under the Second Amendment to Well Agreement, TRL agreed to provide additional water supply at its own expense in the event production from Well 3 was inadequate to meet demand from customers in Talking Rock before service to the 800th lot was extended.

K. On June 26, 2007, ICRWUA filed an application for rate increases with the ACC, ACC Docket No. W-02824A-07-0388. On April 3, 2008, TRGC moved to intervene in ICRWUA's rate case. TRGC asserted that it had a direct and substantial interest in the

proceeding as a result of the positions taken by other parties to the proceeding. TRGC was granted intervention on April 3, 2008.

L. On April 14, 2008, ICRWUA's rate case was delayed to allow ICRWUA and TRGC an opportunity to negotiate an agreement that would address the Parties' concerns over claims and position taken in ICRWUA's rate case. ICRWUA and TRGC entered into that certain Letter of Understanding ("LOU") on April 18, 2008.

M. TRGC transferred Well 2 to ICRWUA pursuant to that certain Bill of Sale (Production Well) dated as of May 21, 2008, ("Well 2 Bill of Sale") recorded in Book 4598, Page 645, records of Yavapai County, Arizona.

N. By this Agreement, the Parties intend to (1) resolve and settle the Parties' concerns over their existing agreements and compliance with Decision 64630; (2) supersede, replace and terminate all existing agreements between the Parties, except for certain provisions specifically identified herein; and (3) govern the Parties' relationship from the time of final ACC approval of this Agreement, if obtained, until the expiration of this Agreement according to its express terms.

O. Subject to the terms and conditions of this Agreement, TRGC will be a special contract customer of ICRWUA.

AGREEMENTS

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Incorporation of Recitals. By this reference, the Parties hereby incorporate the recitals above as part of their agreement as if fully set forth herein.

2. Well 1 Transfer; Well 2 Pump Motor Replacement; Warranties; Waiver of Prior Restrictions; Use of Talking Rock Wells.

a. Well 1 Transfer. Within fifteen (15) days of the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall transfer Well 1 to ICRWUA via bill of sale ("Well 1 Bill of Sale") in a form mutually satisfactory to the Parties, without condition, and subject only to the terms and conditions set forth herein.

b. Well 2 Pump Motor Replacement. After the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall pay the actual cost of purchasing and installing a new pump motor at Well 2 ("Well 2 Pump Motor Replacement") up to a maximum cost of \$50,000. ICRWUA shall be responsible for identifying the make and model of the new pump motor and arranging for the installation of the pump motor. ICRWUA shall provide the Talking Rock Parties with an invoice specifying the cost of the Well 2 Pump Motor Replacement, and the Talking Rock Parties shall pay the invoice (up to a maximum of \$50,000) within ten (10) business days of the date of receipt of the invoice from ICRWUA.

c. Warranties. The Talking Rock Parties shall provide the warranties in this Section against construction defects, manufacturing defects and defects in workmanship, but such warranties do not cover the negligent or intentional acts of ICRWUA, its employees, agents, contractors or representatives.

i. Well 1. For a period of one (1) year from the date of the Well 1 Bill of Sale (the "Well 1 Warranty Period"), the Talking Rock Parties shall warrantee (i) the workmanship and construction of Well 1, including without limitation, the well casing; and (ii) the pump motor, bowls and related components of Well 1.

ii. Well 2. For a period of one (1) year from the date of installation of the Well 2 Pump Motor Replacement (the "Well 2 Pump Motor Replacement Warranty Period") as required in Section 2(b) above, the Talking Rock Parties shall warrantee the Well 2 Pump Motor Replacement against any and all defects in manufacturing and workmanship.

iii. Air Production. The Talking Rock Parties agree that the maximum allowable air production ("Air Production") in water withdrawn from Well 1 and/or Well 2, expressed as a percent of unit volume of water produced from each well at atmospheric pressure, shall not exceed three point five percent (3.5%) (the "Maximum Allowable Air Production"). The Talking Rock Parties shall warrantee the Maximum Allowable Air Production (the "Air Production Warranty Period") for Well 1 during the Well 1 Warranty Period and for Well 2 during the Well 2 Pump Motor Replacement Warranty Period; provided, however, that if the Air Production Warranty Period for either Well 1 or Well 2 will expire on or after April 15 but on or before September 15 of the same calendar year, then the Air Production Warranty Period for such well shall be extended through and including September 15 of that calendar year. If the Air Production of Well 1 or Well 2 exceeds the Maximum Allowable Air Production during the Air Production Warranty Period, then ICRWUA shall notify the Talking Rock Parties of such occurrence in writing, and the Talking Rock Parties shall take such actions, in consultation and agreement with ICRWUA, as are necessary to reduce the Air Production at Well 1 and/or Well 2 to a level at or below the Maximum Allowable Air Production at the Talking Rock Parties' sole cost and expense. Air Production shall be measured using the procedure established during the test of the Talking Rock Wells (as hereinafter defined) as summarized in Attachment 1, which is incorporated herein as part of this Agreement.

d. Waiver of Prior Restrictions. The Talking Rock Parties hereby waive and release all restrictions on the amount and rate of water that may be pumped from Well 2 and Well 3 which are contained in the Well 2 Bill of Sale and the Well 3 Bill of Sale.

3. Use of Talking Rock Wells and the Well Field Property.

a. Perpetual Right to Enter the Well Field Property; No Charges to ICRWUA for Groundwater Withdrawn. The Talking Rock Parties will retain ownership of the real property upon which the Talking Rock Wells are located (the "Well Field Property"), but hereby grant to ICRWUA a perpetual right to enter the Well Field Property at any time day or night to operate, test, inspect, repair, replace and maintain the Talking Rock Wells. The legal description for the Well Field Property is attached hereto as Attachment 2. The Talking Rock Parties further agree that ICRWUA may pump the Talking Rock Wells and withdraw groundwater in quantities

necessary for ICRWUA to provide water service to its current and future customers on the Talking Rock water system subject to the terms of this Agreement and without any charge to ICRWUA for the groundwater withdrawn or for the rights granted to ICRWUA under this Agreement. The Talking Rock Parties further agree, on behalf of themselves and their respective successors and assigns, that they shall not construct or permit the construction of any additional wells on the Well Field Property or the equipping and use of the existing fourth well on the Well Field Property by any person or entity other than ICRWUA, subject only to ICRWUA's right to drill one or more replacement wells on the Well Field Property. The Parties intend that the rights of ICRWUA granted under this Section 3 shall run with the land and shall survive the expiration or termination of this Agreement, and the Parties agree that they will execute such additional documents, in recordable form, as may be deemed necessary to ensure that the rights granted to ICRWUA hereunder run with the Well Field Property.

b. Operation of the Talking Rock Wells. ICRWUA agrees that it will, at all times following the transfer of Well 1, operate, test, inspect, repair, replace and maintain the Talking Rock Wells at its own expense and in a manner that complies with Arizona and federal laws and that fulfills both its obligations under its CC&N and under this Agreement. ICRWUA further acknowledges and agrees that water from the Talking Rock Wells will only be used to serve its customers on the Talking Rock water system and for purposes of this Agreement, and that such restriction arises from recorded deed restrictions put in place by the seller of the Well Field Property whereon the Talking Rock Wells are located.

4. Service of Water for Landscape Irrigation, Lake Fill, Construction and Other Non-Potable Purposes; Maximum Amount; No Minimum Delivery; Quantity Required. ICRWUA agrees to and will deliver water to any and all of the Talking Rock Parties up to a maximum amount of 525 acre feet of water per year, of which a maximum of 400 acre-feet of water can be used at the Golf Course for Landscape Irrigation, Lake Fill and other non-potable purposes, and a maximum of 125 acre-feet of water can be used for Construction Purposes by any of the Talking Rock Parties in the development of Talking Rock, subject to the terms and conditions set forth in this Agreement. The Talking Rock Parties shall not be required to take any minimum amount of water under this Agreement, and retain the right to provide their own water supply without any provision by ICRWUA as long as such self-supply is not in violation of Arizona and/or federal law; provided, however, that ICRWUA shall remain solely responsible for supplying water to customers of ICRWUA within Talking Rock requesting water service from ICRWUA. The term "Landscape Irrigation" when used in this Agreement means the irrigation of any and all landscaping located anywhere within the Golf Course, whether such landscaping is turf or non-turf, and without regard to whether the water is delivered through sprinklers or drip irrigators or other means. The term "Lake Fill" when used in this Agreement means the filling of any water retention structures within the Golf Course, including decorative water features and holding ponds for Landscape Irrigation. The term "Construction Purposes" when used in this Agreement means water used by the Talking Rock Parties within Talking Rock for grading and compaction, installation of subdivision infrastructure, construction of structures (excluding residential home construction), and related uses.

5. Residential Priority; Curtailment of Water Service to Talking Rock Parties. Residential delivery of water pumped from the Talking Rock Wells shall have priority (the "Residential Priority") over all other use classifications including uses by the Talking Rock

Parties under this Agreement; provided, however, that curtailment ("Curtailment") in order to meet the Residential Priority shall occur only when there is insufficient water production from the Talking Rock Wells, in aggregate, to meet both the demand from residential customers and the demand from non-residential customers at Talking Rock (a "Water Shortage"), and shall continue only so long as the Water Shortage continues. During any Curtailment, ICRWUA shall make reasonable efforts to meet, in part, the demand from the Talking Rock Parties after ICRWUA fully meets the Residential Priority, and to resume normal water service to the Talking Rock Parties under this Agreement as soon as is practicable.

6. Payment for Water Service. The amount the Talking Rock Parties shall pay for water delivered by ICRWUA under this Agreement shall consist of (i) a System Reservation Charge, which shall terminate after ten (10) years; and (ii) a Commodity Charge, which shall be subject to annual adjustment, as set forth below in this Section. In accordance with Section 11 of this Agreement, the Parties agree that the ACC must approve the charges and the Commodity Charge-setting methodology set forth herein for the term of this Agreement.

a. System Reservation Charge. For a period of ten (10) consecutive years following the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall pay to ICRWUA a fixed, annual charge ("System Reservation Charge") as set forth below in this Section. The Talking Rock Parties shall pay the System Reservation Charge whether or not they receive any water from ICRWUA, and the System Reservation Charge shall be in addition to the Commodity Charge, which is payable under Section 6(b) below. The System Reservation Charges are as follows:

i.	Year One:	\$50,000
ii.	Year Two	\$50,000
iii.	Year Three	\$50,000
iv.	Year Four	\$40,000
v.	Year Five	\$40,000
vi.	Year Six	\$30,000
vii.	Year Seven	\$30,000
viii.	Year Eight	\$20,000
ix.	Year Nine	\$20,000
x.	Year Ten	\$10,000

b. Commodity Charge. In addition to the System Reservation Charge payable under Section 6(a) above, the Talking Rock Parties shall pay a commodity charge ("Commodity Charge") initially set at One dollar (\$1.00) per 1,000 gallons of water delivered by ICRWUA to the Talking Rock Parties which Commodity Charge shall be subject to adjustment in accordance with the provisions of this Section 6(b).

i. Basis for Calculation. The Parties have agreed to the Commodity Charge in order to allow ICRWUA to recover its cost of service under this Agreement, plus an

appropriate operating margin. In calculating the Commodity Charge set forth in this Section 6(b), the Parties utilized the 2006 volume of water delivered through the Talking Rock water system to the Talking Rock Parties. The Parties have also relied on ICRWUA's Cost of Service Study filed in ACC Docket No. W-02824A-07-0388.

ii. Annual Adjustment. The Commodity Charge shall be subject to annual adjustment based on the average annual Consumer Price Index - All Urban Consumers: Area-West Urban issued by the US Bureau of Labor Statistics (the "Index"). Beginning one year after the Effective Date, the Commodity Charge for a Current Year, as hereinafter defined, shall be computed each year by multiplying the Commodity Charge for the Base Year, which is \$1.00 as set forth in this Section 6(b), by a factor computed by dividing the Index for the most recent full year reported by the Bureau by the Index for the Base Year, rounded to the nearest penny. The Base Year shall be the year of the Effective Date of the Agreement. The Current Year shall be the year in which the annual adjustment is to be made. The adjustment shall be made annually for the term of the Agreement commencing one year after the Effective Date as defined in Section 11(c). By way of illustration only, if the Base Year Index is 208 and the Current Year Index is 215, then the adjustment factor would be 1.0337 ($215 \div 208 = 1.0337$). The new Commodity Rate for the Current Year would be \$1.03 ($\$1.00 \times 1.0337 = \1.03 (rounded to the nearest penny)).

iii. Adjustment for Costs to Comply with New Treatment Requirement or Groundwater Contamination.

(1) In the event that any Federal, State or County entity (excluding any special taxing district established under A.R.S. Title 48) imposes upon ICRWUA any new rule, requirement, regulation, ordinance, judgment, order or similar decree (collectively, a "New Treatment Requirement") which: (a) increases ICRWUA's capital and/or operational costs of treating water delivered through the Talking Rock water system; and (b) was not in effect as of the date this Agreement was signed, then the Parties shall immediately meet and confer and make an equitable adjustment to the Commodity Rate in order that ICRWUA is reimbursed for the Talking Rock Parties' allocable share (based upon volume of water delivered to the Talking Rock Parties during the most recent three-year rolling average) of the increased costs resulting from ICRWUA's compliance with the New Treatment Requirement.

(2) In the event that the groundwater withdrawn by ICRWUA from the Talking Rock Wells becomes contaminated ("Contamination") with any pollutant regulated by any Federal, State or County entity (excluding any special taxing district established under A.R.S. Title 48) and such Contamination requires additional treatment and/or remediation ("Treatment and Remediation") by ICRWUA which: (a) increases ICRWUA's capital and/or operational costs of delivering water through the Talking Rock water system; and (b) was not required as of the date this Agreement was signed, then the Parties shall immediately meet and confer and make an equitable adjustment to the Commodity Rate in order that ICRWUA is reimbursed for the Talking Rock Parties' allocable share (based upon volume of water delivered to the Talking Rock Parties during the most recent three-year rolling average) of the Treatment and Remediation costs resulting from the Contamination.

(3) The Talking Rock Parties shall only be responsible for

payment of an allocable share of the costs of complying with a New Treatment Requirement or any Treatment and Remediation costs under this Section to the extent that ICRWUA cannot physically separate potable water deliveries to Talking Rock from the delivery of water to the Talking Rock Parties under this Agreement; provided, however, that ICRWUA shall have no obligation to invest capital in a system that can separate the delivery of potable and non-potable water supplies.

iv. Future Cost of Service Study and Adjustment to Commodity Charge. On or after the seventh (7th) anniversary of the Effective Date of this Agreement as defined in Section 7(c) below, any Party may request in writing that a cost of service study ("COSS") be completed in order to evaluate whether the Commodity Charge continues to cover ICRWUA's cost of service for supplying water to the Talking Rock Parties under this Agreement plus an appropriate operating margin, which is the basis for establishing the initial Commodity Charge under Section 6(b)(i) above. The Parties shall mutually agree upon a certified public accountant with at least ten year's public utility accounting experience to prepare the COSS. One-half of the cost of the COSS shall be paid by ICRWUA and one-half of the COSS shall be paid by the Talking Rock Parties. The COSS shall be prepared in a manner consistent with the process used to determine the Commodity Charge as set forth in Section 6(b)(i) above. Within fifteen (15) days after the COSS has been provided to the Parties, the Parties shall meet and mutually agree upon an appropriate modification to the Commodity Charge based upon the COSS, with the understanding that the Commodity Charge shall cover ICRWUA's cost of service for supplying water to the Talking Rock Parties under this Agreement plus an appropriate operating margin.

v. Notice Filing. ICRWUA shall notify the ACC Utilities Division Staff of each annual change in the Commodity Charge.

c. Meter Reading; Access to Meters. On a monthly basis, ICRWUA shall provide the Talking Rock Parties with meter readings, and upon request shall also furnish water production and usage data, sufficient to allow the Talking Rock Parties to confirm the amount of water pumped from the Talking Rock Wells and the amount of water delivered from the Talking Rock Wells to the Talking Rock Parties under this Agreement. The Talking Rock Parties shall allow representatives of ICRWUA reasonable access to property owned and/or controlled by the Talking Rock Parties as necessary for ICRWUA to read the water meters. The Talking Rock Parties may request that ICRWUA calibrate and adjust the meter recording devices under this Agreement not more frequently than once per calendar year, at the cost of the Talking Rock Parties, unless the meter is found to be in error by more than 3%, in which event no costs of the meter reading and repair shall be charged to the Talking Rock Parties.

d. Billing and Timing of Payment; Point of Contact. The System Reservation Charge for Year One shall be paid within thirty (30) days of the Effective Date of this Agreement as defined in Section 11(c) below and paid annually thereafter on the anniversary of the Effective Date according to the schedule in Section 6(a) above. Commodity Charges shall be billed by ICRWUA and paid by the Talking Rock Parties on a monthly basis. The Talking Rock Parties shall identify a single point of contact ("Point of Contact") for receipt of all invoices to the Talking Rock Parties under this Agreement and shall notify ICRWUA in writing of the identify of the Point of Contract at the address set forth in Section 14(f) below. The Point

of Contact shall be responsible for remitting payment on behalf of the Talking Rock Parties for all invoices received by the Talking Rock Parties. Late fees shall be assessed in accordance with ICRWUA's tariff.

e. No Other Charges. ICRWUA agrees that it will not bill or otherwise require payment from the Talking Rock Parties for water for purposes of Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes except as provided for in this Agreement. This Agreement does not relate to or impact the rates and charges for water service by ICRWUA to the existing customers of the Talking Rock water system that are subject to ICRWUA's ACC approved tariff of rates and charges, including, for example, the Talking Rock health and fitness center and clubhouse.

7. Financial Assistance. In order to help defray ICRWUA's costs to negotiate and obtain approval of this Agreement, upon execution of this Agreement the Talking Rock Parties shall pay ICRWUA the amount of \$30,000. Within thirty (30) days of the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall pay ICRWUA an additional \$50,000.

8. Additional Well(s); Additional Transmission Facilities; Ownership and Operation; Operating Expenses and Commodity Charge; Use and Severance.

a. Additional Wells and Additional Transmission Facilities. Upon receipt of the prior written consent of ICRWUA, the Talking Rock Parties may drill, equip and interconnect one or more additional wells (i.e., wells other than the Talking Rock Wells) ("Additional Well(s)") to the Talking Rock water system via the existing transmission system, if reasonable and prudent to do so, and/or via additional transmission facilities ("Additional Transmission Facilities") constructed by or for the Talking Rock Parties in order to supply water for Landscape Irrigation, Lake Fill, Construction Purposes and/or other non-potable purposes in Talking Rock. No consent is required unless the Talking Rock Parties request the interconnection of the Additional Well(s) and/or Additional Transmission Facilities to the Talking Rock water system. If consent is required, ICRWUA shall provide such consent within thirty (30) business days following written request by the Talking Rock Parties; provided, that each Additional Well(s) and/or Additional Transmission Facilities meet the following conditions:

i. New Source Approval Requirements. If the Talking Rock Parties utilize the Talking Rock delivery system as currently configured, which precludes separation of potable and non-potable water supplies for delivery to Talking Rock, then each Additional Wells(s) shall meet new source approval requirements applicable to ICRWUA's use of that Additional Well(s), as such requirements are codified in Federal, State and County (excluding any special taxing district established under A.R.S. Title 48) law. In the event that new transmission facilities are constructed by the Talking Rock Parties or are otherwise available which allow for the separation of potable and non-potable water supplies delivered to Talking Rock, then the Additional Well(s) will not have to meet new source approval requirements; provided, however, that ICRWUA shall have no obligation to invest capital in a system that can separate the delivery of potable and non-potable water supplies.

ii. Engineering and Permitting. The Additional Transmission

Facilities meet all applicable engineering standards, including those of ICRWUA, and permitting requirements;

iii. Non-Interference. The Additional Well(s) and Additional Transmission Facilities shall not unreasonably interfere with ICRWUA's operation of its Talking Rock water system.

b. Ownership and Operation: Easement and/or Legal Right of Access. The Talking Rock Parties shall retain ownership of any Additional Well(s) and Additional Transmission Facilities. After interconnection of each Additional Well(s) and Additional Transmission Facilities to ICRWUA's Talking Rock water system, such wells and facilities shall at all times be operated, tested, inspected, repaired and maintained by ICRWUA at ICRWUA's sole expense; provided, however, that nothing contained herein shall require ICRWUA to replace any Additional Well(s) or any Additional Transmission Facilities. The Talking Rock Parties agree that ICRWUA may pump any Additional Well(s) and withdraw groundwater subject to the terms of this Agreement without any charge to ICRWUA for the groundwater withdrawn, as long as such pumping does not interfere with delivery of water from such Additional Well(s) to Talking Rock. The Talking Rock Parties shall convey to ICRWUA such easement or other legal right of access as is reasonably required by ICRWUA to operate, test, inspect, repair and maintain the Additional Well(s) and the Additional Transmission Facilities.

c. Commodity Charge. Water delivered to any of the Talking Rock Parties from any Additional Well(s) through the Talking Rock water system shall be subject to the Commodity Charge under Section 6(b) of this Agreement. In the event that Additional Well(s) are used by the Talking Rock Parties but not connected to the Talking Rock system, then the Commodity Charge will not be applicable and ICRWUA will have no right to operate such Additional Well(s).

d. Use Limitations in Talking Rock; No Curtailment. ICRWUA and the Talking Rock Parties shall ensure that the annual production from any Additional Well(s) and delivered to the Talking Rock Parties is used only for Landscape Irrigation, Lake Fill, Construction Purposes and/or other non-potable purposes in Talking Rock. No Additional Well(s) shall be subject to Residential Priority and Curtailment as set forth in Section 5, nor shall such Additional Wells(s) be considered in determining whether a Water Shortage exists. This Section 8(d) is expressly subject to Sections 8(e) and 8(f) below.

e. Severance. Upon six (6) months written notice, the Talking Rock Parties may sever Additional Well(s) and/or Additional Transmission Facilities from ICRWUA's Talking Rock water system without any further obligation to provide supply from such wells to ICRWUA for any purpose, except as provided in Section 8(f) below. Severance shall be accomplished at the Talking Rock Parties sole cost and expense in coordination with ICRWUA, and in a manner that does not unreasonably interfere with ICRWUA's operations and which leaves ICRWUA's Talking Rock water system in the same or better condition. In the event that the Talking Rock Parties elect to sever any Additional Well(s) and/or Additional Transmission Facilities from the Talking Rock water system under this Section 8(e), then ICRWUA's obligation to supply water to the Talking Rock Parties for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes under Section 4 shall thereafter be limited to supplying such water only if

and to the extent that ICRWUA has water available from the Talking Rock Wells after satisfying the Talking Rock Potable Water Demand as defined in Section 8(f) below.

f. Limitation on Right to Sever Additional Well(s) and/or Additional Transmission Facilities Required by ICRWUA to Supply Residential Water Demand in Talking Rock. Notwithstanding anything in this Section to the contrary, the Talking Rock Parties shall not be permitted to sever any Additional Well(s) and/or Additional Transmission Facilities if and so long as such Additional Well(s) and/or Additional Transmission Facilities are required by ICRWUA to supply the potable water demand, or any portion thereof, from customers within Talking Rock (the "Talking Rock Potable Water Demand"). For purposes of this Section, the Talking Rock Potable Water Demand shall be (i) the actual peak-day potable water demand for customers of ICRWUA on the Talking Rock water system in the year the Talking Rock Parties seek to sever the Additional Well(s) and/or Additional Transmission Facilities if the peak-day has occurred; or (ii) the estimated peak-day potable water demand for customers of ICRWUA on the Talking Rock water system in the year the Talking Rock Parties seek to sever the Additional Well(s) and/or Additional Transmission Facilities if the peak-day has not yet occurred. Further, if such Additional Well(s) and/or Additional Transmission Facilities are required in order for ICRWUA to supply the Talking Rock Potable Water Demand, then the limitations and exclusions set forth in Section 8(d) above shall not apply.

9. Prior Agreements. The Parties agree that the MXA, as amended, and Well Agreement, as amended, are valid and remain in full force and effect until the Effective Date of this Agreement as defined in Section 11(c) below. The Parties further agree that, as of the Effective Date, this Agreement shall become the principle agreement governing the Parties' relationship as water utility, developer, and Golf Course owner, and that each and every existing agreement between the Parties, as identified in the Recitals, is hereby superseded, replaced and terminated by this Agreement, except as follows:

a. Utility Facilities; Transfers; Refunds. Within thirty (30) days of the Effective Date of this Agreement, the Talking Rock Parties shall convey to ICRWUA and ICRWUA shall accept from the Talking Rock Parties all utility infrastructure constructed to serve Talking Rock which has not been transferred as of the Effective Date, subject only to the applicable warranties of the Talking Rock Parties with respect to such infrastructure including, without limitation, the warranties set forth in Section 2(c) of this Agreement, and any outstanding punch list items applicable to such infrastructure. The Parties agree that their rights and obligations under Sections 1-7 and 14-15 of the MXA, as amended by the First Amendment to MXA, with respect to the financing, construction and transfer of on-site and off-site facilities necessary for ICRWUA to extend water utility service to Talking Rock in accordance with its CC&N remain in full force and effect in conjunction with this Agreement, except as modified by this Section 9(a). The Parties further agree that ICRWUA's obligation to make refunds under Sections 8 and 9 of the MXA, as amended by Section 1(d) of the First Amendment to MXA, remains in full force and effect; provided, however, that ICRWUA may elect in its sole discretion to characterize utility infrastructure provided by the Talking Rock Parties as either advances in aid of construction or contributions in aid of construction, provided that no less than thirty percent (30%) of plant advanced or contributed is characterized as advances in aid of construction. The Parties further agree that amounts paid by the Talking Rock Parties under

Section 6 of this Agreement shall not be used in the determination of revenues for the purpose of determining the amount of any refunds for advances in aid of construction.

b. Incorporation of Surviving Provisions of MXA, as Amended by the First Amendment to MXA. The Parties agree that the portions of the MXA, as amended, that are intended to survive this Agreement, which sections are identified in this Section 9, are attached hereto as Attachment 3, and incorporated herein as part of this Agreement.

10. Conservation. The Talking Rock Parties agree to continue to use reasonable efforts to promote conservation within Talking Rock and to minimize the use of groundwater for Landscape Irrigation, Lake Fill and other non-potable purposes. TRGC further agrees to complete construction of an additional planned storage pond with an estimated capacity of 25,000,000 gallons no later than February 1, 2009, which deadline may be extended by the Talking Rock Parties for good cause and following notice to ICRWUA.

11. ACC Approval; Effect of Issuance of ACC Approval; Effective Date; Term.

a. Cooperation of the Parties. The Parties agree to cooperate fully and in good-faith to take all steps necessary and reasonable to seek ACC approval of this Agreement without material change, or if the ACC determines that it does not have authority to approve this Agreement, to seek ACC approval of the rates and charges contained in this Agreement without material change, including, without limitation, the term. Such approval shall be sought in ACC Docket No. W-02824A-07-0388. For purposes of this Agreement, a "material change" shall, in light of the surrounding circumstances, be a modification, alteration or amendment to the Agreement and/or any of its individual terms and conditions, including its provisions for rates and charges and term, such that a reasonable person would view such modification, alteration or amendment as having influenced the decision whether to have entered into this Agreement.

b. Effect of Issuance of ACC Approval.

i. ACC Approval Without Material Change. If the ACC approves this Agreement without material change, or alternatively, if the ACC determines that it does not have authority to approve this Agreement but approves the rates and charges contained in this Agreement for the term set forth in the Agreement, without material change, then each of the Parties shall submit a Statement of Acceptance within ten (10) business days of such order becoming final and non-appealable.

ii. ACC Approval With Material Change. If the ACC issues an order approving this Agreement but with material changes, or alternatively, if the ACC determines that it does not have authority to approve this Agreement but approves the rates and charges and/or term contained in this Agreement with material change, then each of the Parties shall submit either a Statement of Acceptance or a Statement of Non-Acceptance within ten (10) business days of such order becoming final and non-appealable. If any of the Parties submits a Statement of Non-Acceptance, such statement shall specify the reason for non-acceptance of the ACC order approving the Agreement and, thereafter, the Parties shall meet within ten (10) business days to discuss whether the reason for non-acceptance can be cured. If the Statement of Non-Acceptance is not withdrawn as a result of such meeting and a Statement of Acceptance issued,

the Parties hereby agree that this Agreement not become effective, shall have no force and effect, and that the Parties' existing agreements shall remain in full force and effect.

iii. ACC Denial of Approval. If the ACC issues an order denying approval of this Agreement, or alternatively, if the ACC determines that it does not have authority to approve this Agreement but denies the rates and charges and/or term contained in this Agreement, then the Parties hereby agree that this Agreement shall not become effective, shall have no force and effect, and that the Parties' existing agreements shall remain in full force and effect.

c. Effective Date. This Agreement has been executed as the date first included above. However, the Parties agree that this Agreement shall not be effective until the effective date ("Effective Date"), which shall be defined for purposes of this Agreement as the date upon which all Parties have submitted a Statement of Acceptance indicating that the final and non-appealable ACC decision approving the Agreement is acceptable.

d. Term. The initial term ("Initial Term") of this Agreement shall be thirty-five (35) years commencing upon the Effective Date as defined in Section 11(c) above. Thereafter, the Parties may agree to extend this Agreement and seek additional ACC approval, if necessary, to extend the Initial Term. If the Parties do not mutually agree to extend the Initial Term, then this Agreement shall expire at the end of the Initial Term and ICRWUA shall thereafter bill the Talking Rock Parties for all water delivered at the then currently applicable tariffed rates and charges approved by the ACC for Landscape Irrigation, Lake Fill and other like non-potable purposes.

12. Non-Discrimination Provision. ICRWUA agrees to treat the Talking Rock Parties and all customers in Talking Rock in a non-discriminatory manner.

13. Authority, Representations and Warranties.

a. ICRWUA represents and warrants that:

i. It is a non-profit association and public service corporation, duly organized and existing under the laws of the State of Arizona, and has, and as of the Effective Date will have, full legal right, power and authority to: (i) enter into this Agreement; and (ii) carry out and consummate the transactions contemplated by this Agreement.

ii. The Board of Directors of ICRWUA: (i) has duly authorized and approved the execution and delivery of, and the performance of its obligations under this Agreement; and (ii) has duly authorized and approved the consummation of all other transactions contemplated by this Agreement.

iii. The consummation of the transactions contemplated in this Agreement will not conflict with or constitute a breach of or default under any provision of applicable law or administrative regulation of the State of Arizona or the United States of America or any department, division, agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, bond, note, resolution, ordinance, indenture, agreement or other instrument to which ICRWUA is a party or may be otherwise subject, to the

extent that such conflict, breach or default adversely affects or impacts the terms or performance of this Agreement or any of the transactions contemplated by this Agreement.

iv. There is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or, to the knowledge of ICRWUA, threatened: (i) in any way affecting ICRWUA's powers or the existence of ICRWUA; (ii) in any way contesting or affecting the validity or enforceability of this Agreement or any agreements entered into in connection therewith; or (iii) that may adversely affect ICRWUA or the purposes of this Agreement.

b. The Talking Rock Parties represent and warrant that:

i. Each are duly organized and existing under the laws of the State of Arizona, and have, and as of the Effective Date will have, full legal right, power and authority to: (i) enter into this Agreement; and (ii) carry out and consummate the transactions contemplated by this Agreement.

ii. Each is: (i) duly authorized and approved the execution and delivery of, and the performance of its obligations under this Agreement; and (ii) duly authorized and approved the consummation of all other transactions contemplated by this Agreement.

iii. The consummation of the transactions contemplated in this Agreement will not conflict with or constitute a breach of or default under any provision of applicable law or administrative regulation of the State of Arizona or the United States of America or any department, division, agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, bond, note, resolution, ordinance, indenture, agreement or other instrument to which one or more of the Talking Rock Parties is a party or may be otherwise subject, to the extent that such conflict, breach or default adversely affects or impacts the terms or performance of this Agreement or any of the transactions contemplated by this Agreement.

iv. There is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or, to the knowledge of the Talking Rock Parties, threatened: (i) in any way affecting the Talking Rock Parties' powers or existence; (ii) in any way contesting or affecting the validity or enforceability of this Agreement or any agreements entered into in connection therewith; or (iii) that may adversely affect one or more of the Talking Rock Parties or the purposes of this Agreement.

c. Accuracy of Representations and Warranties. The Parties acknowledge that each and every representation, warranty, term and condition in this Agreement shall be true and accurate as of the date of execution of this Agreement, and as of the Effective Date as defined in Section 11(c) above, and shall constitute a material part of the consideration hereunder, and shall survive the execution of this Agreement.

14. Miscellaneous Provisions.

a. No Right to Challenge Withdrawal of Groundwater. The Talking Rock Parties hereby waive on behalf of themselves and their respective successors and assigns any right to challenge ICRWUA's withdrawal of water from the Talking Rock Wells, or from any Additional Well(s) as long as such Additional Well(s) is under the control of ICRWUA in

accordance with Section 8 of this Agreement, and so long as ICRWUA is not in breach of this Agreement. It is the Parties' mutual understanding and good faith belief that ICRWUA has the legal right and authority to withdraw groundwater from the Talking Rock Wells and any Additional Well(s), and once groundwater is withdrawn from such wells, ICRWUA is the owner of such groundwater.

b. Estoppel Certificate. After the Effective Date as defined in Section 11(c) above, a Party shall at any time and from time to time upon not less than ten (10) days' prior written notice from the other Party execute, acknowledge and deliver to the requesting Party a statement in writing: (i) certifying that this Agreement is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Agreement, as so modified, is in full force and effect), and the date to which amounts due hereunder are paid in advance, if any; (ii) acknowledging that there are not, to the knowledge of the certifying Party, any uncured defaults on the part of the other Party hereunder, or specifying such defaults, if there are any claimed; and (iii) confirming such other matters as the requesting Party may reasonably request. Any such statement may be relied upon by the requesting Party, and any prospective purchaser or encumbrancer of the requesting Party's property. Upon a failure to sign the statement or notify the requesting Party in writing of any inaccuracies in the statement within the time period stated above, the statement submitted by a requesting Party shall be deemed approved.

c. Force Majeure. No Party to this Agreement shall be liable to any other Party for failure, default or delay in performing any of its obligations hereunder, other than for the payment of money obligations specified herein, in case such failure, default or delay is caused by strikes or other labor problems; forces of nature, unavoidable accident, fire, acts of the public enemy, delays in receipt of materials; or any other cause, whether of similar nature, not within the control of the Party affected and which, by the exercise of due diligence, such Party is unable to prevent or mitigate the outcome ("Force Majeure Matters"); provided, however, that the Party's failure, default or delay in performance shall be excused only for so long as such cause or event is present. Should any Force Majeure Matter occur, the Parties hereto agree to proceed with diligence to do whatever is reasonable and necessary with respect to the Force Majeure Matter so that each Party may perform its obligations under this Agreement.

d. Indemnity. After the Effective Date, ICRWUA shall indemnify, save and hold harmless the Talking Rock Parties and their members, officers, directors, partners, principals, employees and agents for, from and against any and all loss or damage arising from or relating to the storage, treatment, delivery or service of water withdrawn from the Talking Rock Wells or any Additional Well(s) by ICRWUA for the purpose of serving ICRWUA's customers in Talking Rock, including any liability resulting from the quality of the water of the Talking Rock Wells or any Additional Well(s), or any violation of laws, rules or regulations relating to human health or the safety or protection of the environment.

e. Assignment.

i. Right of Assignment as Part of Sale. Any of the Talking Rock Parties may assign this Agreement, or any rights and obligations hereunder, to another entity as part of a sale of the Golf Course, or of the Talking Rock development, in whole or in part, or as

part of the sale or merger of any of the entities making up the Talking Rock Parties, but only after notice to ICRWUA of the assignment. The notice required in this Section of the Agreement shall include (i) the assigning Party's written agreement to assign this Agreement, in whole or in part; and (ii) the assignee party's written agreement to be bound by the terms and conditions of this Agreement, including all financial obligations. An assignment under this Section of the Agreement shall be effective ten (10) business days after receipt by ICRWUA.

ii. Right of Assignment by Harvard Simon. The Parties hereby agree that all prospective rights and obligations imposed on Harvard Simon by virtue of this Agreement are hereby assigned by Harvard Simon to TRL and/or TRGC consistent with the material rights and obligations imposed on the Parties under this Agreement, and ICRWUA hereby agrees that, as of the Effective Date, Harvard Simon is released from any and all prospective obligations hereunder.

iii. Right/Duty of Assignment by ICRWUA as Part of Condemnation, Sale of Assets or Other Reorganization Impacting its Non-Profit or Other Corporate Status. ICRWUA shall ensure that all of its obligations under this Agreement are assigned to and accepted by any person or entity, including a restructured association or corporation, acquiring the Talking Rock water system by condemnation, purchase, merger, assignment or other lawful means of acquisition. The notice required in this Section of the Agreement shall include (i) ICRWUA's written agreement to assign this Agreement, in whole or in part; and (ii) the assignee party's written agreement to be bound by the terms and conditions of this Agreement, including all obligations for delivery of water to the Talking Rock Parties for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes. An assignment under this Section of the Agreement shall be effective ten (10) business days after receipt of notice by the Talking Rock Parties.

iv. Other Assignments. Any other assignments shall require the other Party's or Parties' prior written consent to the assignment, such consent not to be unreasonably withheld.

v. Outstanding Amounts Due. On or before the date of assignment under this Agreement, the Talking Rock Parties agree to pay all unpaid charges due under this Agreement.

vi. Responsibility of Talking Rock Parties for System Reservation Charge. In the event of any assignment by the Talking Rock Parties of this Agreement, the Talking Rock Parties shall remain obligated and liable to ICRWUA for payment of all unpaid System Reservation Charges under Section 6(a) of the Agreement. In the event that any assignee of this Agreement fails to pay any System Reservation Charge when due, then ICRWUA shall notify the Talking Rock Parties of such failure in writing (by notice to the Point of Contact), and the Talking Rock Parties shall make such payment to ICRWUA on behalf of the assignee within fifteen (15) days following the date of the receipt of the written notice from ICRWUA.

f. Manner of Giving Notice. Any notice required or permitted to be given hereunder shall be in writing and directed to the address set forth below for the Party to whom the notice is given and shall be deemed delivered: (i) by personal delivery, on the date of delivery;

(ii) by first class United States mail, three (3) business days after being mailed; or (iii) by Federal Express Corporation (or other reputable overnight delivery service), one (1) business day after being deposited into the custody of such service. The address of ICRWUA for all notices under this Agreement shall be:

ICR Water Users Association, Inc.
Attn: Robert M. Busch
P.O. Box 5669
Chino Valley, Arizona 86323

With a copy also provided to:

Jeffrey W. Crockett, Esq.
SNELL & WILMER
One Arizona Center
400 East Van Buren
Phoenix, Arizona 85004-2202

The address of the Talking Rock Parties for all notices under this Agreement shall be:

Harvard Investments
Attn: Craig Krumwiede
17700 North Pacesetter Way
Scottsdale, AZ 85255

With a copy also provided to:

Jay L. Shapiro, Esq.
Fennemore Craig
3003 N. Central Ste. 2600
Phoenix, Arizona 85012-2913

Any Party may designate another person or address for notices under this Agreement by giving the other Party notice at least thirty (30) days prior to the effective date of the new designation.

g. Attorneys Fees and Costs. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing Party or Parties shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such Party or Parties may be entitled.

h. Binding Effect. This Agreement is binding upon and inures to the benefit of the Parties and their respective successors and assigns.

i. Default. If any Party breaches or defaults under this Agreement, and such breach or default continues for a period of two (2) days with respect to any breach or default by ICRWUA under Section 3, or for a period of ten (10) days with respect to any breach or default

in the payment of money, or for a period of thirty (30) days with respect to any other breach or default, in each case after receipt by the defaulting Party of a written notice describing the default, the non-defaulting Party may immediately pursue any and all remedies available for such breach or default at law or in equity, including bringing an action for injunctive relief or for specific performance.

j. Time of the Essence. Time is of the essence of every provision hereof.

k. Governing Law. This Agreement shall be governed by the laws of the State of Arizona.

l. No Waiver. No change in, addition to, or waiver of any provisions of this Agreement shall be binding upon any Party unless in writing and signed by all Parties.

m. Counterparts. This Agreement may be executed in two or more original or facsimile counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

n. Enforceability; Invalidity of Provision or Provisions. In case any provision of this Agreement shall be determined to be invalid, illegal or unenforceable, it shall, to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as most nearly to retain the intent of the Parties. If such modification is not possible, such provision shall be severed from this Agreement. In either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

o. Joint Drafting and Negotiation. The Parties have participated jointly in the negotiation and drafting of this Agreement, and each have been represented by legal counsel. If a question of interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK

IN WITNESS WHEREOF, the Parties hereto have caused this Water Service Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, INC.

By *Hugh C. Pryor*

Its: President HUGH C. PRYOR

HARVARD SIMON I, L.L.C.

By _____
Its: Manager

TALKING ROCK LAND, LLC

By: _____
Its: Manager

TALKING ROCK GOLF CLUB, LLC

By: _____
Its: Manager

IN WITNESS WHEREOF, the Parties hereto have caused this Water Service Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, INC.

By _____

Its: President _____

HARVARD SIMON I, L.L.C.,

By: Harvard Talking Rock, L.L.C.,
Its Operating Member,

By: Harvard Investments, Inc.,
Its Manager

By _____

Its: President

TALKING ROCK LAND, LLC,

By: Harvard Simon I, L.L.C.,
Its Manager,

By: Harvard Talking Rock, L.L.C.,
Its Operating Member,

By: Harvard Investments, Inc.,
Its Manager

By: _____

Its: President

TALKING ROCK GOLF CLUB, L.L.C.,

By: Harvard Simon I, L.L.C.,
Its Manager,

By: Harvard Talking Rock, L.L.C.,
Its Operating Member,

By: Harvard Investments, Inc.,
Its Manager

By: _____

Its: President

ATTACHMENT 1

PROCEDURE FOR MEASURING AIR PRODUCTION

Measurement of Allowable Air Production in Talking Rock Well 1 and Well 2

The measurement of the amount of air produced by Talking Rock Well 1 and Well 2 is based on a method developed by Southwest Ground Water for the test conducted in October 2007. The test was designed to establish the approximate volume of air in a given volume of water measured at atmospheric pressure. This percentage is obtained by:

1. Collecting a sample of water from the well in question in a small balloon. The volume collected in the balloon needs to be standardized for repeatability (try for 400 ml +/- 50 ml).
2. This sample is then inserted into a graduated beaker, the beaker is filled with water to a given volume (1,000 ml) and the balloon is removed. The water level in the beaker is measured and subtracted from the given volume thus obtaining the total volume of the balloon.
3. The balloon is then inserted into an Imhoff Cone completely filled with water, inverted and standing in a tank of water nine (9) inches deep.
4. The balloon is ruptured inside the Imhoff Cone and the volume of air released into the Cone is recorded.
5. This air volume is divided by the volume of the balloon obtained in step two above and multiplied by 100 to obtain the percentage of air per unit volume of water produced by the well.

Although only providing an approximate value for the volume of air in a given volume of water measured at atmospheric pressure, the technique does provide results that are consistently comparable and relate directly to the values obtained during the October 2007 well field test. The latter values have been used to set the allowable standard for the approximate volume of air in a given volume of water measured at atmospheric pressure.

ATTACHMENT 2

WELL FIELD PROPERTY LEGAL DESCRIPTION

LEGAL DESCRIPTION

That certain portion of Lot 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, Page 66, Yavapai County Records, Arizona located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Meridian, Yavapai County, Arizona, more particularly described as follows:

COMMENCING at the Southwest Corner of said lot:

Thence North $02^{\circ} 27' 51''$ East along the westerly line of said lot a distance of 303.11 feet to the POINT OF BEGINNING;

Thence continuing North $02^{\circ} 27' 51''$ East a distance of 269.75 feet;

Thence South $79^{\circ} 51' 35''$ East leaving said westerly line a distance of 389.85 feet;

Thence South $04^{\circ} 03' 10''$ West a distance of 619.62 feet to a point on the Northerly Right-of-Way line of the Williamson Valley Road as recorded in Book 11, Page 47, Yavapai County Records;

Thence North $62^{\circ} 07' 46''$ West along said Right-of-Way a distance of 12.98 feet to terminus of said Right-of-Way, the beginning of a 25' easement for public utilities, public roadway, and drainage purposes, and the beginning of a nontangent curve concave to the southwest and having a radius of 1471.23 feet, the radius point of which bears South $28^{\circ} 09' 35''$ West;

Thence northwesterly along said curve thru a central angle of $09^{\circ} 31' 15''$ an arc length of 244.47 feet to a point on an existing well easement as recorded in the said "Amended Record of Survey for Valley View Estates";

Thence North $20^{\circ} 15' 50''$ West along said well easement a distance of 334.90 feet to the POINT OF BEGINNING.

Containing 4.59 acres more or less.

That certain portion of Parcel 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, page 66, Yavapai County Records, Arizona, located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Commencing at the Southwestern most corner of said parcel;

Thence North 02 degrees 27 minutes 51 seconds East along the Westerly line of said Parcel a distance of 25.48 feet to the POINT OF BEGINNING;

Thence continuing North 02 degrees 27 minutes 51 seconds East, a distance of 303.10 feet;

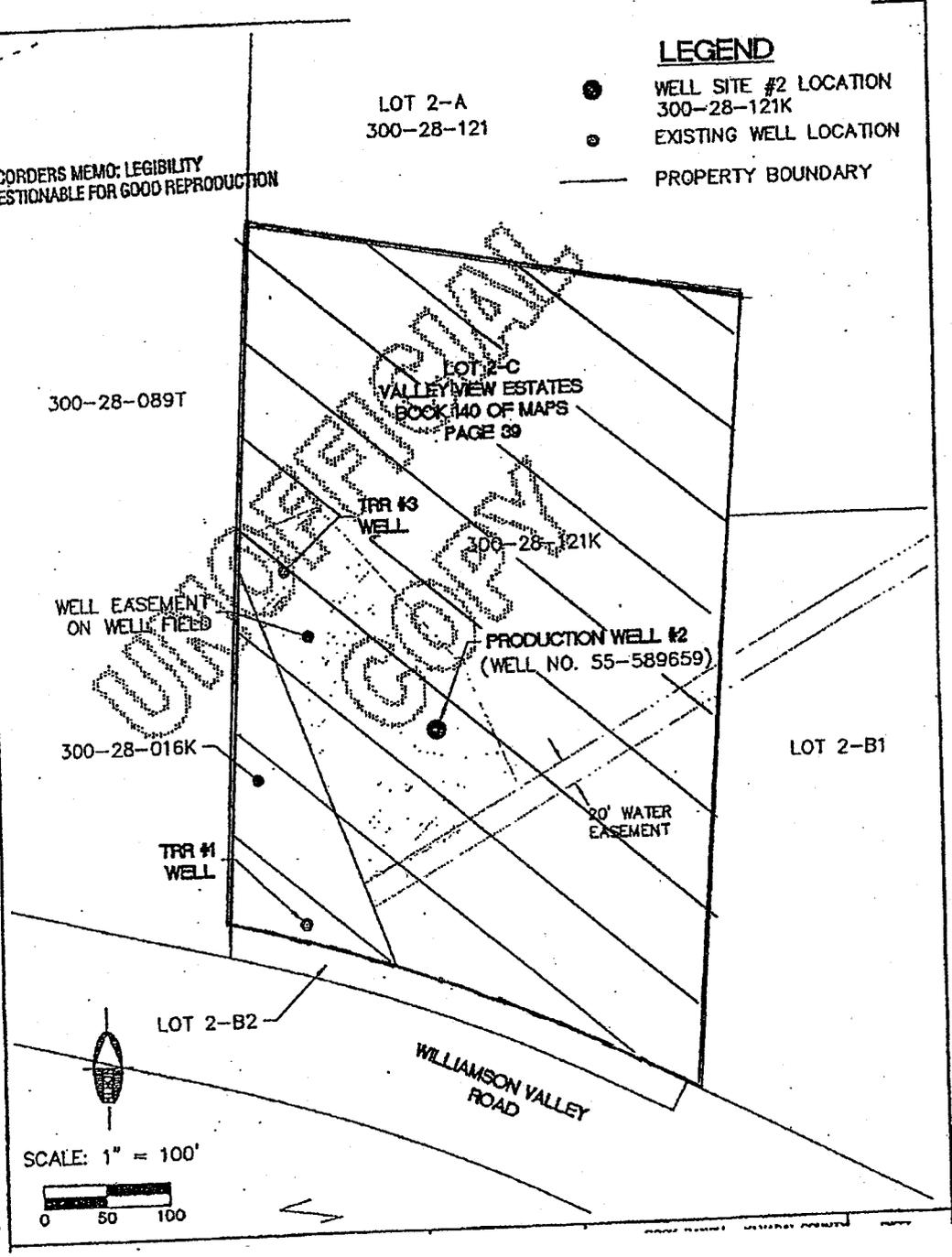
Thence South 20 degrees 15 minutes 50 seconds East leaving said Westerly line a distance of 334.90 feet to a point on the curved Northerly right of way line of a 25 foot wide easement for ingress, egress, utility, roadway and drainage, said curved right of way line being concave to the Southwest and having a radius of 1471.23 feet, the radius point of which bears South 73 degrees 55 minutes 50 West;

Thence Northwesterly along said last mentioned curve thru central angle of 05 degrees 08 minutes 20 seconds an arc length of 131.95 feet;

Thence continuing along the Northerly right of way line of said 25 foot wide easement South 76 degrees 30 minutes 00 second East, a distance of 1.21 feet to the POINT OF BEGINNING.

Containing approximately 0.45 acres more or less.

king Rock Ranch \DWO\04046 DWG\WELL SITE #2 LOCATION 5-7-08\04045-004 Well site 2 exhibit with EASEMENT 5-8-08.dwg 2008-10-14 4:40pm
RECORDERS MEMO: LEGIBILITY QUESTIONABLE FOR GOOD REPRODUCTION



LEGEND

- WELL SITE #2 LOCATION
300-28-121K
- EXISTING WELL LOCATION
- PROPERTY BOUNDARY

LOT 2-A
300-28-121

300-28-089T

LOT 2-C
VALLEY VIEW ESTATES
BOOK 140 OF MAPS
PAGE 39

TRR #3
WELL

300-28-121K

WELL EASEMENT
ON WELL FIELD

PRODUCTION WELL #2
(WELL NO. 55-589659)

300-28-016K

TRR #1
WELL

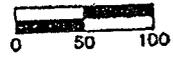
20' WATER
EASEMENT

LOT 2-B1

LOT 2-B2

WILLIAMSON VALLEY
ROAD

SCALE: 1" = 100'



LEGAL DESCRIPTION

A parcel of land lying within Parcel 2, Amended Record of Survey of Valley View Estates as recorded in Book 49 of Land Surveys, Page 66 in the Yavapai County Recorder's Office (R1), lying in Section 17, Township 16 North, Range 3 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona;

BEGINNING at the Southeast corner of Section 17, from which the East Quarter corner of Section 17 bears North $04^{\circ}56'24''$ East, a distance of 2644.68 feet (Record per a Results of Survey as recorded in Book 53 of Land Surveys, Page 24 in the Yavapai County Recorders Office (R2) and Basis of Bearings for this description);

Thence North $46^{\circ}18'18''$ West, a distance of 5869.55 feet (R2) to the Southwest corner of said Parcel 2 and the Southwest corner of a Well Easement as recorded in Book 3697 of Official Records, Page 369, Yavapai County Recorder's Office (R3), said point being on the Northerly Right of Way line of Williamson Valley Road;

Thence North $02^{\circ}31'38''$ East, along the Westerly line of said Parcel 2, a distance of 25.48 feet (North $02^{\circ}27'51''$ East, a distance of 25.48 feet R3);

Thence South $76^{\circ}26'12''$ East, along the Northerly line of a 25.00 feet wide Easement for Public Utilities, Public Roadway and Drainage Purposes per R1, a distance of 1.21 feet (South $76^{\circ}30'00''$ East, a distance of 1.21 feet R3), to a point of curvature, the central point of which bears South $13^{\circ}33'48''$ West;

Thence along a curve concave Southwest, having a radius of 1471.23 feet, through a central angle of $05^{\circ}08'20''$, a distance of 131.95 feet (R3);

Thence leaving said Northerly Easement line, North $20^{\circ}12'03''$ West, (North $20^{\circ}15'50''$ West R3), along the Easterly line of R3, a distance of 69.75 feet to the TRUE POINT OF BEGINNING;

Thence continuing along the Easterly line of R3, North $20^{\circ}12'03''$ West (North $20^{\circ}15'50''$ West R3); a distance of 265.15 feet to a point on the West line of said Parcel 2 (per R1);

Thence leaving the Easterly line of R3, North $02^{\circ}31'38''$ East (North $02^{\circ}27'51''$ East R1), along the West line of Parcel 2, a distance of 24.22 feet;

Thence leaving the West line of Parcel 2, North 69°47'57" East, a distance of 65.64 feet;

Thence South 40°37'38" East, a distance of 170.16 feet;

Thence South 22°57'00" East, a distance of 104.63 feet;

Thence South 60°13'27" West, a distance of 141.37 feet to the TRUE POINT OF BEGINNING.

Containing 0.75 Acres, more or less.

That certain portion of Parcel 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, page 66, Yavapai County Records, Arizona, located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Commencing at the Southwestern most corner of said parcel;

Thence North 02 degrees 27 minutes 51 seconds East along the Westerly line of said Parcel a distance of 25.48 feet to the POINT OF BEGINNING;

Thence continuing North 02 degrees 27 minutes 51 seconds East, a distance of 303.10 feet;

Thence South 20 degrees 15 minutes 50 seconds East leaving said Westerly line a distance of 334.90 feet to a point on the curved Northerly right of way line of a 25 foot wide easement for ingress, egress, utility, roadway and drainage, said curved right of way line being concave to the Southwest and having a radius of 1471.23 feet, the radius point of which bears South 73 degrees 55 minutes 50 West;

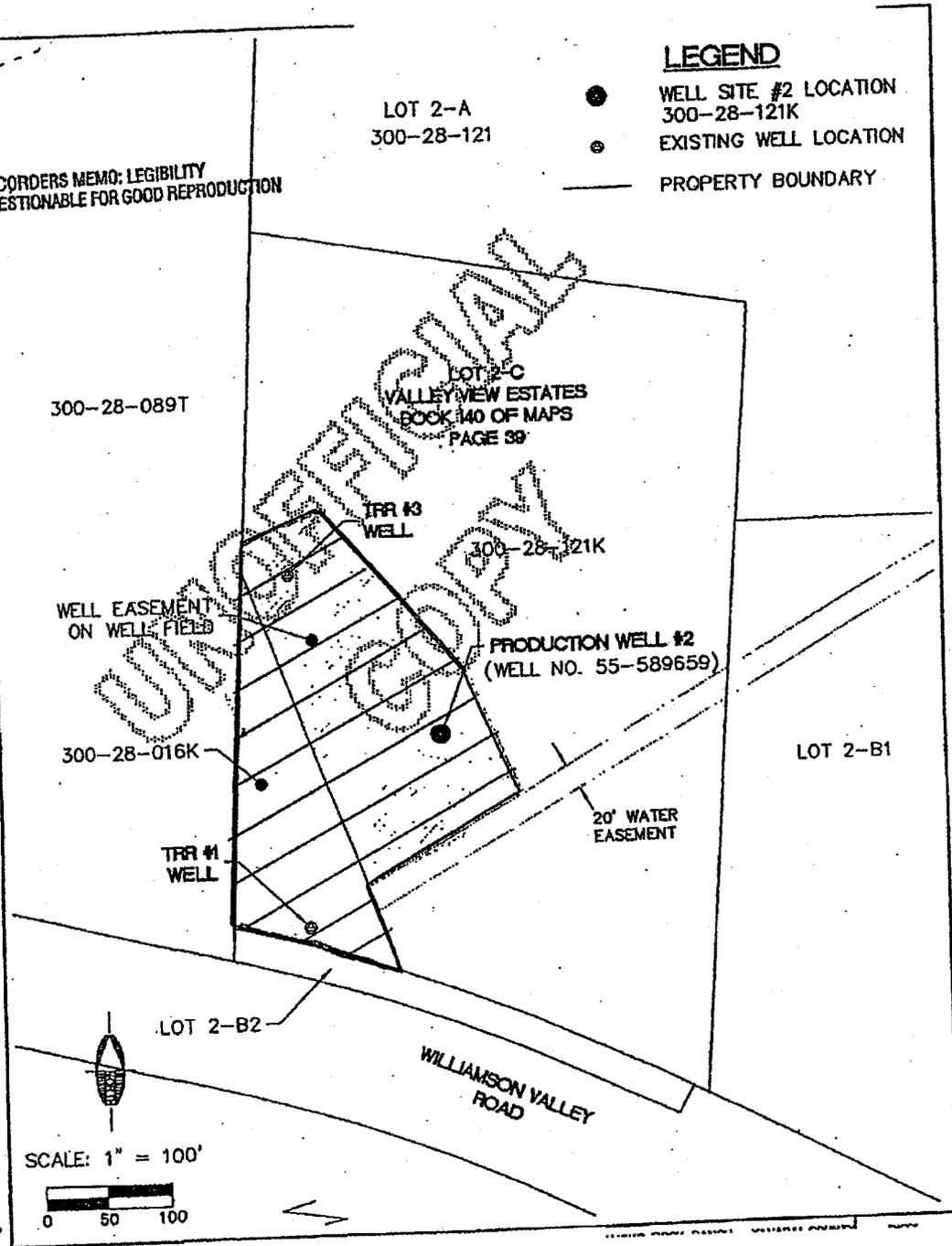
Thence Northwesterly along said last mentioned curve thru central angle of 05 degrees 08 minutes 20 seconds an arc length of 131.95 feet;

Thence continuing along the Northerly right of way line of said 25 foot wide easement South 76 degrees 30 minutes 00 second East, a distance of 1.21 feet to the POINT OF BEGINNING.

Containing approximately 0.45 acres more or less.

king Rock Ranch\DWG\04046 DWG\WELL SITE #2 LOCATION 5-7-08\04046-004 Well site 2 exhibit with easement 5-7-08.dwg, 2008-10-14 4:44pm

RECORDERS MEMO: LEGIBILITY QUESTIONABLE FOR GOOD REPRODUCTION



LEGEND

- WELL SITE #2 LOCATION 300-28-121K
- ⊙ EXISTING WELL LOCATION
- PROPERTY BOUNDARY

LOT 2-A
300-28-121

LOT 2-C
VALLEY VIEW ESTATES
BOOK 140 OF MAPS
PAGE 39

300-28-089T

300-28-121K

WELL EASEMENT
ON WELL FIELD

PRODUCTION WELL #2
(WELL NO. 55-589659)

300-28-016K

LOT 2-B1

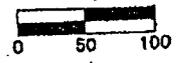
TRR #1
WELL

20' WATER
EASEMENT

LOT 2-B2

WILLIAMSON VALLEY
ROAD

SCALE: 1" = 100'



ATTACHMENT 3

MXA PROVISIONS

**ATTACHMENT 3
MXA PROVISIONS**

Sections 1 – 9 and 14 – 15 of MXA

1. Construction of Water Utility Facilities by Developer.

(a) Construction of Facilities. At its sole expense, Developer shall construct and install, or shall cause to be constructed and installed water utility facilities consisting of water distribution mains and pipelines, valves, hydrants, fittings, service lines and all other related items of utility plant, both on-site and off-site, to be used to extend water service to each lot, building or other customer within the Property (the "Facilities") as more particularly described in Exhibit "C" attached hereto and incorporated herein by this reference. Exhibit "C" also contains an estimated cost of construction for the Facilities. Utility hereby acknowledges and agrees that the Property may be developed in separate phases and that Developer may construct and install the Facilities in phases in a manner that will allow for the provision of water utility services to each phase as necessary and in a timely manner. The size, design, type and quality of materials used to construct the Facilities, as well as the location of the Facilities upon and under the ground, shall be approved by Utility, which approval shall be promptly provided and which shall not be unreasonably withheld.

(b) Utility's Use of the Facilities. Utility covenants and agrees that it shall use its best efforts to ensure that the Facilities are not used to serve customers outside the Property in a manner that adversely impacts the provision of water utility service to the Property. Utility further represents to Developer that, in Utility's judgment, the cost of constructing the Facilities is disproportionate to anticipated revenues to be derived from future customers within the Property.

2. Engineering Plans. Developer has retained Shephard-Wesnitzer, Inc. to prepare engineering plans and specifications for the Facilities to be constructed hereunder. Developer may retain additional engineers or other consultants as determined in Developer's sole discretion to be necessary in connection with the design and installation of the Facilities. All plans and specifications shall be submitted to Utility and its engineers for review and approval, together with a copy of the subdivision plat for the Property and drawings depicting the infrastructure improvements for the subdivision.

3. Design and Construction Standards; Regulatory Approvals. All Facilities designed and constructed by Developer hereunder shall be in strict conformance with the plans and specifications therefor, and the applicable regulations of the Yavapai County Environmental Services Department ("Environmental Services"), Arizona Department of Environmental Quality ("ADEQ"), the Commission and/or any other governmental agency exercising jurisdiction over the design and construction of potable water systems. Prior to construction of any Facilities, Developer shall obtain approval to construct from either Environmental Services or ADEQ. Upon completion of the Facilities, Developer shall obtain approval of construction from either Environmental Services or ADEQ. Developer shall also be responsible for obtaining any additional permits, licenses and/or approvals required for the construction of the Facilities. Utility shall cooperate with and assist Developer promptly, as may be reasonably required, in obtaining such certificates and approvals. All contractors and subcontractors employed by Developer in connection with the construction of the Facilities shall be licensed by the Arizona Registrar of Contractors and shall be qualified in the construction of public water systems.

4. Right of Inspection; Corrective Action. Utility shall have the right to have its engineers, the selection of which shall be subject to Developer's approval, inspect and test the Facilities at reasonable times during the course of construction as necessary to ensure conformance with plans and specifications. If at any time before the final acceptance by Utility of the Facilities any construction, materials or workmanship are found to be defective or deficient in any way, or the Facilities fail to conform to this Agreement, then Utility may reject such defective or deficient construction, materials and/or workmanship and require Developer to fully pay for all necessary corrective construction efforts ("Corrective Action").

Utility reserves the right to withhold approval and to forbid connection of any defective portion of the Facilities to Utility's system unless and until the Facilities have been constructed in accordance with plans and specifications and all applicable regulatory requirements. Further, Developer shall promptly undertake any Corrective Action required to remedy such defects and deficiencies in construction, materials and workmanship upon receipt of notice by Utility. The foregoing notwithstanding, Utility shall not unreasonably withhold or delay acceptance of the Facilities.

5. Transfer of Ownership; As-Built Plans; Warranty.

(a) Transfer of Ownership. Upon proper completion, testing and final inspection of the Facilities by Utility, Utility shall issue a written notice of acceptance to Developer. Immediately thereafter, Developer shall convey to Utility, via a bill of sale in a form satisfactory to Utility, the Facilities together with any permanent easements and/or rights-of-way required pursuant to paragraph 7 below. All Facilities so transferred shall thereafter become and remain the sole property and responsibility of Utility. Developer covenants and agrees that, at the time of transfer, the Facilities shall be free and clear of all liens and encumbrances, and Developer shall provide evidence in the form of lien waivers or other appropriate documents that all claims of contractors, subcontractors, mechanics and materialmen have been paid and are fully satisfied.

(b) As-Built Plans. At the time of transfer, Developer shall provide to Utility three (3) sets of "as-built" drawings and specifications for the Facilities, certified and sealed by Developer's engineers to be true and correct.

(c) Warranty. Developer warrants that, upon their completion, the Facilities will be free from all defects and deficiencies in construction, materials and workmanship for a period of time commensurate with the warranty period provided to Developer by contractors retained by Developer to construct the Facilities, but in no event, for a period of less than one (1) year from the date of Utility's acceptance. During the warranty period, Developer agrees to promptly undertake any Corrective Action required to remedy such defects and deficiencies upon notice by Utility. Upon Utility's acceptance of the Facilities, as provided in this paragraph, Utility shall be deemed to have accepted the Facilities in "as is" and "as-constructed" condition, subject only to the warranty period concerning defects and deficiencies in construction, materials and workmanship provided for herein.

6. Reimbursement for Inspection Costs, Overhead and Other Expenses of Utility. Developer shall reimburse Utility for Utility's reasonable fees, costs and expenses incurred in connection with its review of the engineering plans and specifications for the Facilities, the preparation of this Agreement and other necessary legal services, inspection and testing of the Facilities during their construction, and other fees, costs and expenses reasonably and necessarily incurred by Utility with respect to this project during the course of construction and in connection with obtaining approval of the Commission to extend Utility's CC&N to include the Extension Area (collectively, "Administrative Costs"). Utility covenants to use reasonable efforts to incur Administrative Costs only as necessary and prudent. On a monthly basis, Utility shall provide Developer with a written statement describing with specificity all Administrative Costs incurred by Utility during the preceding month, together with complete copies of all bills, statements and invoices supporting such Administrative Costs. Developer shall make payment on or before the fifteenth (15th) day of the calendar month following the month in which Utility's statement is received. Utility hereby acknowledges its receipt of \$5,000.00 as a deposit, which deposit shall be applied as a credit against Administrative Costs incurred by Utility hereunder.

7. Public Streets and Rights-of-Way; Easements; Spacing of Lines. At the time of transfer of ownership of any Facilities, as provided in paragraph 5 above, Developer shall provide Utility with evidence satisfactory to Utility that all distribution mains and service lines within the Property are located within dedicated streets and/or public rights-of-way. In the event that any distribution mains or service lines are not located within dedicated streets and/or public rights-of-way, then at the time of transfer of ownership of such Facilities, Developer shall grant to Utility, or shall cause to be granted to Utility, easements and/or rights-of-way, free from all liens and security interests thereon, and in a form that is

satisfactory to Utility, over, under, and across all pipeline routes and all portions of the Property necessary to operate, maintain and repair such Facilities. Unless otherwise mutually agreed upon in writing, such easements and/or rights-of-way within the Property shall be free of physical encroachments, encumbrances or obstacles, and shall have a minimum width of ten (10) feet. The distribution mains and service lines constructed and installed by Developer within the Property shall be separated by a reasonable distance from other utility lines and facilities to prevent damage or conflicts in the event of repairs or maintenance.

8. Determination of Amount of Developer Advances. The actual cost of constructing and installing the Facilities described in paragraph 1 above and all amounts paid by Developer pursuant to paragraph 6 above shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9, below. Developer shall provide Utility with a written statement setting forth in detail Developer's actual costs of construction within ten (10) business days following receipt of Utility's notice of acceptance of the Facilities, together with copies of all invoices, bills, statements and other documentation evidencing the cost of construction. The costs of any Corrective Action, as defined in paragraph 4 above, the costs of curing any defects arising during the warranty period, as provided herein, and the costs of any unreasonable overtime incurred in the construction of the Facilities shall not be included in the actual cost of constructing and installing the Facilities, and shall not be subject to refund by Utility hereunder.

9. Refunds of Advances to Developer. Following the District's acquisition of the Facilities pursuant to paragraph 5(a) hereinabove, Utility shall refund annually to Developer an amount equal to fifteen percent (15%) of the gross annual operating revenues from water sales to bona fide customers of Utility within the Property. Such refunds shall be paid by Utility on or before August 31 of each calendar year for the preceding July 1 to June 30 period, commencing in the fifth calendar year immediately following the initiation of water utility service to the first customer within the Property by Company, continuing thereafter in each succeeding calendar year for a total of twenty (25) years. No interest shall accrue or be payable on the amounts to be refunded for the Facilities hereunder, and any unpaid balance remaining at the end of such twenty-five year period shall become a non-refundable contribution in aid of construction to Utility and be recorded as such in the Utility's books and records of account. In no event shall the total amount of the refunds paid by Utility pursuant to this Agreement exceed the total amount of all refundable advances paid by Developer in connection with the construction of the Facilities.

14. Right of Assignment. Developer may assign this Agreement, or any of its rights and obligations hereunder, to another party provided that written notice of such assignment is given to Utility prior to the effective date of assignment and that the assignee agrees in writing to fully perform Developer's obligations hereunder and to be bound by this Agreement.

15. Condemnation or Sale of Utility. In the event of the condemnation or sale of the Facilities, Utility shall promptly pay to Developer any unrefunded portion of Developer's advances in aid of construction. Payment by Utility shall be made on or before thirty (30) days from the date on which Utility receives payment.

First Amendment to MXA: Provisions amending Sections 1 – 9 or 14 – 15 of MXA.

1. Amendment to Agreement.

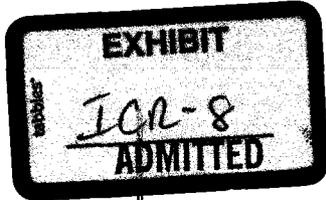
(a) Off-Site Facilities. Paragraph 1(a) of the Agreement is amended to provide that the "Facilities" include two production wells that have been installed and constructed by Developer and are described as Production Well 3 and Production Well 2 in that Well Agreement to be executed by Company, Developer and Talking Rock Golf, L.L.C. concurrently with the execution of this Agreement (the "Well Agreement"). A Revised Exhibit "C" reflecting the actual costs of the two production wells is attached hereto and incorporated herein by this reference.

(b) Utility's Use of the Facilities. Paragraph 1(b) of the Agreement is amended to provide that Company covenants and agrees that Company shall use and operate the production wells

installed and constructed by Developer and transferred to Company pursuant to the Well Agreement only in accordance with the use restrictions contained in the Well Agreement and the conditions and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona, pursuant to which Developer's affiliate acquired the location of the production wells.

(c) Transfer of Ownership. Paragraph 5(a) of the Agreement is amended to provide that, pursuant to the Well Agreement, (i) immediately after the approval of this First Amendment by the Commission or its staff, Developer will transfer and convey Production Well 3 to the Company, via Bill of Sale in form attached to the Well Agreement; and (ii) on or before the date that the Company provides water service to the 800th single-family residence at the Property, Developer's affiliate, Talking Rock Golf, will transfer and convey Production Well 2 to the Company, via Bill of Sale in form attached to the Well Agreement. All other Facilities shall be conveyed in accordance with the terms of the Agreement.

(d) Determination of Amount of Developer Advances. Paragraph 8 of the Agreement is amended to provide that the actual costs of Production Well 3 and Production Well 2, including all equipment, pumps, motors, valves, pipes, electrical system and other appurtenances installed and constructed by Developer and transferred and conveyed by Developer or by Talking Rock Golf to Company, shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9 of the Agreement.



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE
APPLICATION OF ICR WATER USERS
ASSOCIATION, INC. FOR
DETERMINATION OF THE CURRENT
FAIR VALUE OF ITS UTILITY PLANT
AND PROPERTY AND FOR INCREASES
IN ITS RATES AND CHARGES FOR
UTILITY SERVICES

DOCKET NO. W-02824A-07-0388
NOTICE OF FILING ADDITIONAL
SUPPLEMENTAL REBUTTAL
TESTIMONY OF THOMAS J.
BOURASSA ON BEHALF OF ICR
WATER USERS ASSOCIATION, INC.
AND ADDITIONAL SUPPLEMENTAL
REBUTTAL TESTIMONY OF ROBERT
M. BUSCH ON BEHALF OF ICR
WATER USERS ASSOCIATION

ICR Water Users Association Inc. ("ICR" or the "Association"), through its undersigned counsel, hereby files Notice of Filing Additional Supplemental Rebuttal Testimony of Thomas J. Bourassa on Behalf of ICR Water Users Associations, Inc. and Additional Supplemental Rebuttal Testimony of Robert M. Busch on Behalf of ICR Water Users Association in connection with the above-captioned matter.

RESPECTFULLY submitted this 21 day of November, 2008.

SNELL & WILMER

Jeffrey W. Crockett
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1 ORIGINAL AND THIRTEEN (13) copies
2 filed this 21st day of November, 2008, with:

3 Docket Control
4 ARIZONA CORPORATION COMMISSION
5 1200 West Washington
6 Phoenix, Arizona 85007

7 COPY of the foregoing hand-delivered
8 this 21st day of November, 2008, to:

9 Judge Marc E. Stern
10 ARIZONA CORPORATION COMMISSION
11 1200 West Washington
12 Phoenix, Arizona 85007

13 Kevin Torrey
14 Legal Division
15 ARIZONA CORPORATION COMMISSION
16 1200 West Washington
17 Phoenix, Arizona 85007

18 Ernest Johnson
19 Utilities Division
20 ARIZONA CORPORATION COMMISSION
21 1200 West Washington
22 Phoenix, Arizona 85007

23 COPY of the foregoing e-mailed/mailed
24 this 21st day of November, 2008, to:

25 Mr. Dayne Taylor
26 13868 North Grey Bears Trail
27 Prescott, AZ 86305

28 Jay L. Shapiro, Esq.
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION
OF ICR WATER USERS ASSOCIATION,
INC. FOR A DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND CHARGES
FOR UTILITY SERVICES

DOCKET NO: W-02824A-07-0388

**ADDITIONAL SUPPLEMENTAL REBUTTAL TESTIMONY
OF THOMAS J. BOURASSA
ON BEHALF OF ICR WATER USERS ASSOCIATION, INC.**

NOVEMBER 21, 2008

1 **I. INTRODUCTION AND PURPOSE OF TESTIMONY.**

2 **Q. PLEASE STATE YOUR NAME AND ADDRESS.**

3 A. My name is Thomas J. Bourassa. My business address is 139 W. Wood Drive,
4 Phoenix, Arizona 85029.

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THE INSTANT**
6 **CASE?**

7 A. Yes, my direct, rebuttal, and supplemental testimony has already been submitted in
8 support of the ICRWUA Water Users Association ("ICRWUA").

9 **Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?**

10 A. I will testify on behalf of ICRWUA in response to Mr. Dayne Taylor's additional
11 supplemental testimony dated on November 14, 2008. Specifically, I will respond
12 to Mr. Taylor's comments about the cost of service study I prepared for ICRWUA.

13 **Q. PLEASE COMMENT ON MR. TAYLOR'S TESTIMONY (PAGE 8 AND 9)**
14 **REGARDING HIS COMPUTED COST OF \$2.07 PER 1,000 GALLONS OF**
15 **WATER FOR THE TALKING ROCK SYSTEM.**

16 A. The primary criticism is that Mr. Taylor's computed \$2.07 per 1,000 gallons does
17 not bear any relationship to the cost of service and is not meaningful because it
18 exclusively uses volume (gallons pumped), and does not consider the true
19 relationship of cost and the functional relationship to the cause of the cost such as
20 demand and/or customer counts, as I explain below. Comparison of this cost to
21 the commodity rate set forth in the Water Service Agreement ("WSA") between
22 ICRWUA and Talking Rock Golf Club, LLC ("TRG") or any analysis which
23 makes a claim that the \$2.07 cost per 1,000 gallons is the basis for the cost of
24 service for any particular customer, or customer class, on the Talking Rock system,
25 is invalid and should be disregarded.

26 Let me explain. Assuming for the moment that that the costs Mr. Taylor has
27 set forth for purchased power expense, depreciation expense, and contract
28 operation expense are correct, only one of those costs, purchased power, is directly

1 related to the gallons pumped (or sold). The other two have no direct relationship
2 to gallons pumped or sold. In terms of cost of service, both depreciation and
3 contract operation expense are primarily related to potential demand and not
4 gallons pumped (or sold). By using volume (gallons pumped) as the basis for
5 depreciation and operator costs before first considering the functional relationship
6 to the cause of the cost, Mr. Taylor distorts and misrepresents the true cost of
7 service. For example, consider monthly meter reading costs which are a
8 component of the operator costs. These costs are a function of the number of
9 customers. It costs the same to read the meter of TRG, who uses millions of
10 gallons of water, as it does to read the meter of an average 5/8 inch residential
11 customer, who uses 7,000 gallons per month.

12 To further illustrate, let's assume the annual cost to read meters is \$36,400,
13 there are 364 customers, and the annual gallons sold is 180,000 thousand gallons.
14 Under Mr. Taylor's view, the annual meter reading cost of service per 1,000
15 gallons is \$0.20 (\$36,400 divided by 180,000 thousand gallons) for all customers.
16 However, if the cost is the same to read each customer meter and there are 364
17 customers, then the cost per customer is really \$100 (\$36,400 divided by 364
18 customers). The true cost of service on a per 1,000 gallons basis for any particular
19 customer is then dependent upon how much water that customer uses and can be
20 very different from customer to customer. For example, if it costs \$100 annually
21 per customer to read the customer's meter, the cost per 1,000 gallons for a
22 customer who uses 125,000 thousand gallons of water annually would be less
23 than 1/10 of a cent (\$100 divided by 125,000 thousand gallons). On the other
24 hand, the cost per 1,000 gallons for an average 5/8 inch meter who uses 84
25 thousand gallons annually (7,000 gallons per month) would be much higher at
26 \$1.19 (\$100 divided by 84 thousand gallons).

27 Q. PLEASE CONTINUE WITH YOUR EXPLANATION OF THE
28 FUNCTIONAL RELATIONSHIP TO THE CAUSE OF THE COST FOR

1 **DEPRECAITION AND OPERATOR COSTS.**

2 A. Depreciation will be incurred whether 100 gallons or 100 million gallons are
3 pumped (or sold). Depreciation is the direct result of the required system design
4 (the infrastructure necessary to serve customers). The system must be designed
5 and built to meet the potential demand of all customers regardless of the actual
6 water usage and each customer should bear the cost of the portion of the system
7 serving them and necessary to meet their potential demand on the system. In order
8 to attribute the infrastructure costs (depreciation) to a customer, and/or a class of
9 customers, these costs must be allocated in terms of potential demand of the
10 customer, or the customer class, and not gallons pumped (or sold). Only after the
11 costs are allocated can any meaningful analysis take place with respect to a
12 particular customer, or customer class, on a cost per 1,000 gallons basis. Even then
13 one must use caution because customer usage can vary from year to year.

14 Similarly, contract operation expense will be incurred regardless of the
15 quantity of gallons pumped (or sold). The majority of costs of AQuality Water Co.
16 ("AQuality") are based on a fixed monthly fee. Evidence of this can be found in
17 the AQuality Agreement for Operator Services itself (attached hereto at
18 Supplemental Exhibit 1). On page 6, Item 23 of Exhibit A in the Agreement for
19 Operator Services, you will find a monthly fixed rate of \$5,885 for routine services.
20 Even the non-routine services are not based on gallons pumped (or sold) but rather
21 on hourly charges. Again, only after these costs are allocated can any meaningful
22 analysis take place with respect to a particular customer, or customer class, on a
23 cost per 1,000 gallons basis. And, again, even then one must use caution because
24 customer usage can vary from year to year.

25 **Q. PLEASE RESPOND TO MR. TAYLOR'S ASSERTION, THAT**
26 **DEPRECIATION AND OPERATOR COSTS ARE INCORRECTLY**
27 **STATED IN YOUR COST OF SERVICE STUDY.**

28 A. Mr. Taylor testifies to unrecorded plant costs totaling over ^{7.85}~~8.85~~ million (\$6.65

1 million plus \$1.2 million) and asserts that depreciation is understated as a result.
2 See Supplemental Testimony of Dayne Taylor ("Taylor Supp.") at 8. These costs
3 are not relevant for several reasons. First, these costs have not been audited and/or
4 verified, are outside of the test year, and includes plant which will be used to serve
5 future customers, not TRG. Second, the ICRWUA Board has not determined how
6 these costs, once verified, will be funded – either refundable advances-in-aid of
7 construction ("AIAC") and/or non-refundable contributions-in-aid of construction
8 ("CIAC"). Specifically, the WSA provides that ICRWUA may elect in its sole
9 discretion to characterize utility infrastructure provided by the Talking Rock
10 Parties as either advances in aid of construction or contributions in aid of
11 construction, provided that no less than thirty percent (30%) of plant advanced or
12 contributed is characterized as advances in aid of construction. If the plant is
13 treated as funded by AIAC, depreciation expense will be impacted in the future. If
14 the plant is treated as funded by CIAC, there will be no impact on future
15 depreciation expense. However, it would be speculation at this point to make any
16 specific claims about the impact on the future cost of service of TRG without
17 knowing how ICRWUA intends to fund this plant.

18 Third, most of the ^{7.55}~~8.85~~ million of additional plant is for infrastructure
19 unrelated to servicing TRG. Most of this plant is for subdivision infrastructure
20 necessary to serve existing and future ICRWUA customers, not TRG. Only the
21 cost of the wells, chlorination facilities, and off-site main, totaling approximately
22 \$1.33 million, could possibly be considered in the cost of service to TRG in the
23 future. Even if one assumes that the \$1.33 million was recorded during the test
24 year and funded with AIAC, the impact on TRG's cost of service would be small.
25 For example, assuming all of the \$1.33 million was in plant-in-service for the test
26 year, was treated as being funded by AIAC, and the depreciation for this plant
27 allocated following the method used in the cost of service study (90% demand,
28 10% commodity), the depreciation impact to TRG's cost of service would have

1 been less than \$5,300.¹ With consideration of customer growth since the end of the
2 test year, the depreciation impact would likely be less than \$5,300. Putting this
3 aside, under the WSA, even if the additional \$5,300 were to be attributed to TRG's
4 cost of service, the commodity rate alone would still provide for a nearly 8%
5 operating margin. With the system reservation charge the operating margin would
6 be well over 33%. Just as important, however, the ICRWUA 5/8 inch residential
7 class would still have a negative operating margin (even more negative if the
8 depreciation impact on \$1.33 million of plant were considered) and would still be
9 heavily subsidized by TRG. In other words, even if we were to include this
10 additional plant in the analysis, I would not change my conclusions based on the
11 cost of service study or my conclusion about the adequacy of the commodity rate in
12 the WSA because of the minimal potential impact of additional adjustments.

13 Finally, the impact on any future additional infrastructure costs on the cost
14 of service will have to take into consideration the customer growth that has
15 occurred since the end of the test year. Any future cost of service will depend upon
16 numerous factors including additional capital investment, the capital funding mix
17 (AIAC, CIAC, debt, and/or equity), changes in operating expenses, as well as
18 customer growth.

19 Mr. Taylor also asserts that the operator costs are understated in the cost of
20 service study. He claims that instead of \$23,610 of costs used in the cost of service
21 study, the actual cost should have been \$38,154. *See* Taylor Supp. at 9. I am
22 confused by this assertion. In the cost of service study, and based on the adjusted
23 test year, the AQuality costs totaled nearly \$73,000. *See* Supplemental Exhibit 1,
24 Schedule G-7, page 2.1. The \$73,000 was the cost for the entire ICRWUA system.
25 Even if one were to allocate the \$73,000 to the Talking Rock system based on the
26 2006 customer counts, the Talking Rock system AQuality costs would be over

27
28 ¹ Arguably, since the developer of Talking Rock Ranch also owns TRG and has paid for the wells and mains, there
 no reason for TRG to also have depreciation associated with this plant included in its cost of service.

1 \$51,000 (approximately 70%² of \$73,000) – significantly higher than the \$38,154
2 Mr. Taylor claims should have been used.

3 **Q. DOESN'T MR. TAYLOR ALSO POINT TO 2009 COSTS FOR AQUALITY**
4 **TOTALING \$62,760?**

5 A. Yes. See Taylor Supp. at 9. Again, I am confused and am not sure where this
6 figure comes from. Further, this has to be an estimate because 2009 hasn't
7 occurred yet. I understand the 2009 budgeted cost for AQuality services is \$82,440.
8 Assuming the same customer allocation as above, the Talking Rock system portion
9 would be \$57,780 (\$82,440 times 70%) – lower than Mr. Taylor's figure of
10 \$62,760. More importantly, however, the 2009 cost is well outside the test year
11 and there is a potential matching problem. If there are more customers on the
12 system, the allocation rate may no longer be 70% and, even if the allocated cost is
13 higher, the cost of service to TRG, or any other customer on the Talking Rock
14 system, would not necessarily be higher. It could be lower.

15 Let me illustrate. According the 2007 ICRWUA ACC annual report, the
16 year end number of customers for 2007 was 439. For the test year, the year-end
17 number of customers was 364. So, customer growth of 75 customers has taken
18 place since the end of the test year. Based on the 2006 allocated amount of
19 \$51,000 for the Talking Rock system, as computed above, the cost per customer
20 was approximately \$201 (\$51,000 divided by 254). Assuming that the growth of
21 75 customers occurred exclusively on the Talking Rock system, then the allocation
22 rate would be approximately 75% (329³ divided by 439). The allocated portion of
23 the costs would be \$61,830 (\$82,440 times 75%). However, the cost per
24 customer for the Talking Rock system would drop to approximately \$188 (\$61,830
25 divided by 329).

26 **Q. DID YOU ALLOCATE THE AQUALITY CONTRACT COSTS USING A**
27 **CUSTOMER ALLOCATION FACTOR IN YOUR COST OF SERVICE**

28 ² 254 Talking Rock system customers divided by 364 total ICRWUA customers

³ 254 customers on Talking Rock system in 2006 plus 75 additional customers in 2007.

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STUDY?

A. In part, yes. I allocated the AQuality construct costs based on a combination of demand, commodity, customer and meter allocation factors. See Supplemental Exhibit 1, Schedule G-7, page 2.1. I did this in order to match as closely as possible the kinds of costs to the appropriate cost function. As I testified above, most of the Aquality costs are fixed and are demand related, not based on gallons pumped (or sold).

Q. IF YOU USED THE SAME ALLOCATION METHOD USED IN THE COST OF SERVICE STUDY TO ALLOCATE THE \$82,440 AND CONSIDERED THE GROWTH OF 75 CUSTOMERS FOR 2007, WHAT WOULD HAVE BEEN THE CHANGE IN TRG'S ALLOCATED PORTION OF THE AQUALITY COSTS?

A. TRG's allocated portion of the AQuality costs would have increased by less than \$400. So, while the \$82,440 is nearly \$10,000 higher than the \$73,000 for the test year, the impact on TRG's cost of service for these costs would be than \$400. Remember however, the \$82,440 is the expected 2009 costs. While I have used known growth of 75 customers for 2007, there may also be growth for 2008 and 2009 which would potentially further lessen the allocated cost and possibly cause it to lower than the 2006 allocated amount. A better analysis would be to use the actual AQuality expense for 2007 of \$78,207 along with the growth of 75 customers in 2007. Under that analysis, the allocated portion of AQuality costs for TRG would have gone down by over \$200. Here again, while the Aquality costs increased from 2006 to 2007 by over \$5,000 (\$78,207 for 2007 less \$73,000 for 2006), the allocated portion of TRG's cost would have decreased - primarily because of customer growth on the system.

Q. PLEASE COMMENT ON MR. TAYLOR'S TESTIMONY REGARDING PUMPING POWER COSTS?

A. Mr. Taylor testifies to a wide variation in the monthly power costs and that the cost

1 per 1,000 gallons could be as high as \$2.26. See Taylor at 9. In my opinion, this
2 wide variation is simple not credible. The wide variation in the computed costs per
3 1,000 gallons calculated by Mr. Taylor is due to a measurement error on his part.
4 Let me explain. The measurement period for the gallons pumped data used by Mr.
5 Taylor does not correspond to the power provider's billing (or measurement)
6 period. In fact, the TRG meter is typically read towards the end of the month
7 whereas the power provider's typically reads the electric meter around the middle
8 of the month. This difference in measurement periods causes a gross distortion of
9 the cost per 1000 gallons when viewed on a monthly basis. When viewed on an
10 annualized basis, which helps to smooth out variations caused by the different
11 measurement periods, there is very little change in the cost per 1,000 gallons from
12 2006 to 2007 (\$0.53 per 1,000 for 2006 and \$0.54 per thousand for 2007).

13 **Q. PLEASE REpond TO MR. TAYLOR'S TESTIMONY (PAGE 9) THAT**
14 **THE WSA COMMODITY RATE DOES NOT CONSIDER THE EXPENSES**
15 **OF OPERATING, TESTING, INSPECTING, REPAIRING AND**
16 **MAINTAINING ADDITIONAL WELLS AND/OR TRANSMISSION**
17 **FACILITIES OWNED BY THE TRG THAT THE WSA ALLOWS TRG TO**
18 **CONNECT TO ICRWUA'S SYSTEM IN THE FUTURE.**

19 **A.** As set forth in the Supplemental Rebuttal Testimony of Robert M. Busch,
20 additional wells cannot be connected to the ICRWUA Talking Rock system
21 without ICRWUA prior written consent. In addition, each additional well must
22 meet new source approval requirements applicable to ICRWUA's use of that
23 additional well, as codified in Federal, State, and County law. If such additional
24 wells are in fact connected, since TRG will retain ownership of the wells, there will
25 be no issue with respect to depreciation because the well will not be considered an
26 ICRWUA asset and would not record depreciation on its books. Furthermore, any
27 water delivered to TRG from any additional wells will be charged at the
28 commodity rate set forth in the WSA. Based on the test year, the commodity rate

1 should be more than adequate to cover operating and maintenances expenses.
2 After all, the cost of service study demonstrates that the commodity charge
3 adequately covers TRG's portion of the operation, testing, repairs and maintenance
4 costs on the three existing wells. Finally, a future cost of service study,
5 contemplated in the WSA, will provide a means of truing-up the cost of service, if
6 by chance the commodity rate fails to cover the cost of service for the additional
7 wells.

8 **Q. DOES THAT CONCLUDE YOUR ADDITIONAL SUPPLEMENTAL**
9 **TESTIMONY?**

10 **A.** Yes. However, my silence on anything in Staff's testimony or Mr. Taylor's
11 testimony should not be taken as consent by me or ICRWUA to any position
12 advocated by Staff or Mr. Taylor.

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

IN THE MATTER OF THE APPLICATION
OF ICR WATER USERS ASSOCIATION,
INC. FOR DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICES

DOCKET NO. W-02824A-07-0388

**ADDITIONAL SUPPLEMENTAL REBUTTAL TESTIMONY OF
ROBERT M. BUSCH
ON BEHALF OF ICR WATER USERS ASSOCIATION, INC.**

November 21, 2008

1 I. INTRODUCTION.

2 Q. PLEASE STATE YOUR NAME AND ADDRESS.

3 A. My name is Robert M. Busch. I am the manager of ICR Water Users Association,
4 Inc., ("ICRWUA" or the "Association"). My business address is P. O. Box 5669,
5 Chino Valley, Arizona 86323.

6 Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS
7 PROCEEDING?

8 A. Yes, I submitted Rebuttal Testimony on December 14, 2007, Supplemental
9 Rebuttal Testimony on March 14, 2008, and Additional Supplemental Testimony
10 on October 15, 2008.

11 Q. WHAT IS THE PURPOSE OF THIS SUPPLEMENTAL REBUTTAL
12 TESTIMONY?

13 A. The purpose of this Supplemental Rebuttal Testimony is to address ICRWUA's
14 concerns resulting from Staff's recommendation that the Arizona Corporation
15 Commission ("Commission") deny the Water Service Agreement ("WSA") dated
16 September 12, 2008, between ICRWUA, Harvard Simon I, LLC, Talking Rock
17 Land, L.L.C., and intervenor Talking Rock Golf Club, L.L.C. ("TRG").
18 Specifically, without approval of the WSA, many of the outstanding issues in this
19 case will be left unresolved as I describe below.

20
21 In addition, I will address Intervenor Dayne Taylor's concerns regarding the
22 WSA's provision, if adopted, to allow the connection of additional wells by TRG
23 and ICRWUA agreement to operate, test, inspect, repair and maintain the wells.

24
25 II. RAMIFICATIONS OF COMMISSION NOT APPROVING THE WSA AND
26 APPROVING STAFF'S RECCOMENDATIONS INSTEAD.
27
28

1 In addition, I identified additional benefits of the WSA as follows:

- 2 • Transfer of Production Well 1.
- 3 • Production Well 2 Pump Motor Replacement.
- 4 • Air Production Warranty.
- 5 • Waiver of Prior Restrictions.
- 6 • Residential Priority.
- 7 • System Reservation Charge.
- 8 • Commodity Charge.
- 9 • Annual Notice Filing.
- 10 • Financial Assistance.
- 11 • Water Conservation.
- 12 • No Right to Challenge Withdrawals of Groundwater by ICRWUA.
- 13 • Golf Club becomes a Special Contract Customer of ICRWUA.

14 ICRWUA worked very diligently to negotiate and secure these beneficial
15 concessions from the Talking Rock Parties, which were conditional on the
16 approval of the WSA. If the WSA is not approved, many of these contractual
17 concessions by the Talking Rock Parties would no longer materialize. In
18 addition, if the WSA is not approved, ICRWUA will still have in place various
19 agreements with the Talking Rock Parties including a Main Extension Agreement
20 (the "MXA") with the property owner and developer of Talking Rock Ranch,
21 Harvard Simon I, L.L.C ("Harvard"), dated March 5, 2001; a First Amendment to
22 the Main Extension Agreement dated February 25, 2003; and a Well Agreement
23 dated February 25, 2003 ("Well Agreement"), which set forth the terms and
24 conditions governing the delivery of water to the Golf Club and entitled the
25 developer to wheel water through ICRWUA's system in exchange for paying
26 ICRWUA a wheeling fee and a percentage of the costs associated with running
27 the water system. The Well Agreement incorporated the provisions of the MXA
28 and the First Amendment. The rights and obligations under these agreements will

1 remain in effect and will conflict with Staff's recommendation to require the
2 Talking Rock Parties to transfer Production Well 1 and have ICRWUA charge the
3 golf course a tariff rate for all water delivered. ICRWUA's concern is that these
4 conflicts are irreconcilable short of possible litigation.

5 **Q. MR. BUSCH, CAN YOU IDENTIFY THOSE PROVISIONS IN THE WSA,**
6 **WHICH IF NOT PROVIDED, WOULD DETRIMENTALLY IMPACT**
7 **ICRWUA?**

8 **A.** Yes, Section 2(a) of the WSA provided for the immediate transfer of the remaining
9 equipped well owned by the Talking Rock Parties—Production Well 1—to
10 ICRWUA. That meant that ICRWUA would have owned all three of the equipped
11 wells connected to the water system that serves Talking Rock Ranch. In addition,
12 the Talking Rock Parties agreed to warrantee Production Well 1 for a period of one
13 year from the date the well is transferred to ICRWUA.

14 **Q. BUT WAIT A MINUTE MR. BUSCH, DOESN'T STAFF RECOMMEND**
15 **THAT THE COMMISSION ORDER THE TALKING ROCK PARTIES TO**
16 **TRANSFER PRODUCTION WELL 1 IN ANY EVENT?**

17 **A.** Yes. That is Staff's recommendation. However, ICRWUA is concerned that the
18 Commission does not have the authority to order such a transfer from a private
19 company. As a result, the transfer of Production Well 1 will be left unresolved by
20 Staff's recommendation. In addition, if Staff's recommendation is approved and
21 the Talking Rock Parties do not agree to transfer Production Well 1, ICRWUA is
22 left in the untenable position to decide whether to breach the Well Agreement and
23 only provide water to TRG at the Commission approved tariff rate or not comply
24 with Commission Decision and charge TRG the wheeling rate for water delivered
25 from Production Well 1 as provided by the Well Agreement. Either way,
26 ICRWUA loses.

27 **Q. PLEASE CONTINUE.**

28

1 A. Under Section 2(b) of the WSA, the Talking Rock Parties would have paid the
2 actual cost of purchasing and installing a new pump motor at Production Well 2,
3 up to a maximum cost of \$50,000, and would have warranted the pump motor in
4 Production Well 2 for a period of one year from the date of installation.

5
6 In addition, under Section 2(c)(iii), the Talking Rock Parties agreed to warrantee
7 the maximum allowable air production in water withdrawn from Production Well
8 1 and Production Well 2 (not to exceed 3.5) at the Talking Rock Parties' sole cost
9 and expense.

10 **Q. BUT MR. BUSCH, CAN'T THE COMMISSION ORDER THE TALKING**
11 **ROCK PARTIES TO MAKE THESE REPAIRS?**

12 A. I don't know. As with the transfer of Production Well 1, ICRWUA is concerned
13 that the Commission does not have the authority to order or compel a private
14 company to make these types of repairs.

15 **Q. PLEASE CONTINUE.**

16 A. Under Section 6(a) of the WSA, the Talking Rock Parties also agreed to pay a
17 new charge identified as the "System Reservation Charge" for a period of 10
18 years. This charge would have provided ICRWUA with \$340,000 of guaranteed
19 payments during the first 10 years of the WSA over and above the Commodity
20 Charge (described below) whether or not they receive any water from ICRWUA.

21 **Q. BUT MR. BUSCH, DIDN'T STAFF RECOMMEND INCREASING THE**
22 **COMMODITY CHARGE FROM \$1.00 TO \$1.40 TO COVER REVENUE**
23 **THAT WOULD BE RECOVERED UNDER THE SYSTEM**
24 **RESERVATION CHARGE?**

25 A. Yes, but as I mentioned earlier, keeping the golf course on the system directly
26 benefits our ratepayers. ICRWUA recognizes that the golf course has another
27 option in that they can self-serve from additional water sources that they have
28 procured. The System Reservation Charge was developed to insure that the

1 Water Company would be guaranteed a source of revenue for 10 years, even if
2 the golf course decided to leave the system. Under Staff's recommendation,
3 ICRWUA will only be compensated for that amount of water actually delivered,
4 if any. Once the golf course leaves ICRWUA's system, the water company will
5 not recover any additional funds from them. Under the WSA, a revenue stream is
6 guaranteed for 10 years. And again, the purpose of the System Reservation
7 Charge is to help reverse ICRWUA's deplorable, current financial condition and
8 stabilize its revenues.

9 **Q. MR. BUSCH, DO YOU HAVE ANY OTHER CONCERNS WITH STAFF'S**
10 **RECOMMENDATION?**

11 **A.** Yes. In order to help defray the cost of negotiating the WSA, the Talking Rock
12 Parties agreed to pay \$30,000 to ICRWUA at the time of execution of the WSA
13 with an additional \$50,000 following the Commission's approval of the WSA. If
14 the Commission does not approve the WSA, the Talking Rock Parties have no
15 obligation to pay the additional \$50,000 in financial assistance to ICRWUA.

16 **III. JUSTIFICATION FOR AGREEING TO ALLOW TALKING ROCK**
17 **PARTIES TO ADD ADDITIONAL WELLS TO THE ICRWUA SYSTEM.**

18 **Q. MR. BUSCH, THERE HAS BEEN CONCERN RAISED FOR THE**
19 **PROVISION IN THE WSA WHICH ALLOWS THE TALKING ROCK**
20 **PARTIES TO INTERCONNECT ADDITIONAL WELLS TO ICRWUA'S**
21 **SYSTEM. CAN YOU ADDRESS THIS?**

22 **A.** Yes. Under Section 8(a) entitled "Additional Wells and Additional Transmission
23 Facilities," upon receipt of the prior written consent of ICRWUA, the Talking
24 Rock Parties may drill, equip and interconnect one or more additional wells to the
25 Talking Rock water system via the existing transmission system, if reasonable
26 and prudent to do so, or via additional transmission facilities constructed by or for
27 the Talking Rock Parties in order to supply water for landscape irrigation, lake
28 fill, construction purposes, and other non-potable purposes in Talking Rock.

1 Q. WHAT IS THE JUSTIFICATION FOR ALLOWING ADDITIONAL
2 WELLS TO BE INTERCONNECTED?

3 A. The assumption was in the event that ICRWUA was unable to serve the golf
4 course with existing well capacity; the Talking Rock Parties would have the
5 option to find additional sources of water to be delivered to their property. To
6 protect ICRWUA customers the WSA required that if the Talking Rock Parties
7 utilize the Talking Rock delivery system, which precludes separation of potable
8 and non-potable water supplies for delivery to Talking Rock, then each additional
9 well must meet new source approval requirements applicable to ICRWUA's use
10 of that additional well, as codified in Federal, State, and County law.

11
12 Because ICRWUA felt that it would be more beneficial to retain the golf course
13 as a customer, various payment options were discussed including having the golf
14 course maintain the wells and pay a wheeling fee and costs similar to the Well
15 Agreement or have the golf course pay the commodity rate for any water
16 delivered from these additional wells. ICRWUA ultimately decided that it would
17 be more beneficial to keep the golf course and recover the commodity charge.

18 Q. WHAT ABOUT CONCERNS RAISED BY THE INTERVENOR THAT
19 ICRWUA IS ASSUMING THE REPONSIBILITY TO OPERATE, TEST,
20 INSPECT, REPAIR, AND MAINTAIN THE WELLS?

21 A. Under the WSA, the commodity rate was designed to cover costs plus margin
22 associated with water delivered to the golf course regardless of which well the
23 water came from. In addition, the commodity charge assessed to these additional
24 wells is subject to the same adjustments in the event that: (1) new Federal, State
25 or County water treatment standards or requirements are adopted which increase
26 ICRWUA's capital and/or operational costs of treating water delivered through
27 the water system; or (2) groundwater withdrawn by ICRWUA from these wells
28 becomes contaminated with any pollutant regulated by Federal, State or County

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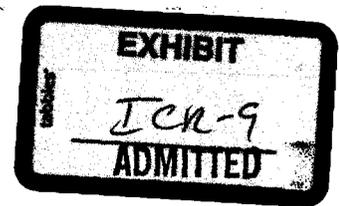
entities which increases ICRWUA's capital and/or operational costs of treating water delivered through the water. In addition to these adjustments, there is one other under Section 6(b)(iv) of the WSA, in which on or after the seventh anniversary of the effective date of the WSA, the parties may request a cost of service study to evaluate whether the commodity charge continues to cover ICRWUA's cost of service for supplying water to the Talking Rock Parties.

IV. CONCLUSION.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes. However, my silence on anything in Staff's testimony or Mr. Taylor's testimony should not be taken as consent by me or ICRWUA to any position advocated by Staff or Mr. Taylor.

9288801.2



WATER SERVICE AGREEMENT

This Water Service Agreement ("Agreement") is fully executed this 12th day of September, 2008, by and between ICR Water Users Association, Inc., an Arizona public service corporation ("ICRWUA"), Harvard Simon I, LLC ("Harvard Simon"), Talking Rock Land, L.L.C., an Arizona limited liability company ("TRL") and Talking Rock Golf Club, L.L.C., an Arizona limited liability company ("TRGC"). The parties may be referred to collectively herein as the "Parties" or individually as a "Party," and one, two or all three of "Harvard Simon", "TRL" and "TRGC" may be referred to collectively as the "Talking Rock Parties". The Parties do hereby enter into this Agreement for the purpose of seeking approval of the Arizona Corporation Commission ("ACC") to: (1) resolve and settle the Parties' respective concerns over their existing agreements and compliance with ACC Decision No. 64360 (January 15, 2002); (2) supersede, replace and terminate any and all existing agreements between the Parties, except for certain provisions specifically identified herein; and (3) govern the Parties' relationship from the time of final ACC approval, if obtained, until the expiration of this Agreement according to its express terms.

RECITALS

A. The Talking Rock master planned community ("Talking Rock") is located in Yavapai County, Arizona. Talking Rock contains approximately 3,100 acres and, at build-out, will include roughly 1,600 homes. Talking Rock also includes common areas, a clubhouse, a health and fitness center and an 18-hole golf course ("Golf Course") owned and operated by TRGC.

B. Harvard Simon and ICRWUA entered into that certain Main Extension Agreement, dated March 5, 2001, ("MXA") pertaining to the extension of water utility service to Talking Rock. Under the MXA, Harvard Simon was obligated to finance, construct and transfer title to all on-site and off-site facilities necessary for ICRWUA to provide water utility service to Talking Rock. The MXA sets forth ICRWUA's "unconditional consent" for Harvard Simon to supply water to the Golf Course for "landscape irrigation, the filling of lakes and other non-potable purposes." The MXA also sets forth that ICRWUA "agrees to provide water utility service to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes at a future date but only upon receipt of [Harvard Simon's] written request at which time such service would be provided consistent with the rules and regulations of the Commission and Utility's Commission approved tariffs."

C. Harvard Simon and ICRWUA entered into that certain Water Purchase Agreement dated April 27, 2001 ("WPA"). TRL had previously obtained a well site that could be used to serve Talking Rock and conducted test drilling. Pursuant to the WPA, Harvard Simon agreed to supply water from one or more wells drilled or to be drilled at this well site to ICRWUA on a wholesale basis to be used by ICRWUA for all purposes, excluding water service for landscape irrigation, lake fill, construction and other non-potable purposes.

D. On January 15, 2002, the ACC issued Decision No. 64360 extending ICRWUA's CC&N to include Talking Rock, subject to the condition that Harvard Simon transfer to ICRWUA "the wells which it has drilled for the purpose of providing water to the extension area

... to ensure that the utility has adequate water for its customers and to ensure that they are not subject to relying for their water on a third party over which the Commission lacks jurisdiction."

E. ICRWUA, Harvard Simon and TRGC entered into that certain Well Agreement dated February 25, 2003 ("Well Agreement"). Pursuant to the Well Agreement, Harvard Simon and TRGC agreed to transfer two wells in Talking Rock to ICRWUA: Production Well No. 2 ("Well 2") and Production Well No. 3 ("Well 3"). The Well Agreement further provided that a third well, Production Well No. 1 ("Well 1") (collectively, Well 1, Well 2 and Well 3 will be referred to as the "Talking Rock Wells"), had been drilled and that TRGC would retain title to Well 1 and continue to use water from wells that it or its affiliates owned to provide its own water for landscape irrigation, lake fill, construction and other non-potable purposes. The Well Agreement superseded, replaced and terminated the WPA.

F. ICRWUA and Harvard Simon entered into that certain First Amendment to Main Extension Agreement on February 25, 2003 ("First Amendment to MXA"). The First Amendment modified the MXA such that Well 2 and Well 3 would be included in the Talking Rock Parties advances in aid of construction. All other aspects of the MXA were left in full force and effect, with the Talking Rock Parties remaining obligated to finance and construct the water system necessary for (1) ICRWUA to serve customers residing within Talking Rock; and (2) the Talking Rock Parties to serve themselves and satisfy landscape irrigation, lake fill, construction and other non-potable water demand with water from the wells owned by the Talking Rock Parties.

G. On March 7, 2003, ICRWUA filed the Well Agreement and the First Amendment to MXA with the ACC for the purpose of complying with Decision 64630. The ACC Staff approved both the MXA and First Amendment to MXA on September 19, 2003. The Parties have relied on the express language of the Well Agreement and MXA, as amended, in connection with their development activities and operation of the Golf Course.

H. Harvard Simon assigned its rights and interest in the Well Agreement to TRL pursuant to that certain Assignment and Assumption of Well Agreement dated October 9, 2003. The Talking Rock Parties then executed the First Amendment to Well Agreement dated October 23, 2003 correcting the name to Talking Rock Golf Club, L.L.C.

I. Harvard Simon transferred Well 3 to ICRWUA pursuant to that certain Bill of Sale (Production Well) dated October 28, 2003 ("Well 3 Bill of Sale") recorded in Book 4088, Page 386, records of Yavapai County, Arizona.

J. ICRWUA and TRL entered into that certain Second Amendment to Well Agreement ("Second Amendment to Well Agreement") on September 15, 2005. Under the Second Amendment to Well Agreement, TRL agreed to provide additional water supply at its own expense in the event production from Well 3 was inadequate to meet demand from customers in Talking Rock before service to the 800th lot was extended.

K. On June 26, 2007, ICRWUA filed an application for rate increases with the ACC, ACC Docket No. W-02824A-07-0388. On April 3, 2008, TRGC moved to intervene in ICRWUA's rate case. TRGC asserted that it had a direct and substantial interest in the

proceeding as a result of the positions taken by other parties to the proceeding. TRGC was granted intervention on April 3, 2008.

L. On April 14, 2008, ICRWUA's rate case was delayed to allow ICRWUA and TRGC an opportunity to negotiate an agreement that would address the Parties' concerns over claims and position taken in ICRWUA's rate case. ICRWUA and TRGC entered into that certain Letter of Understanding ("LOU") on April 18, 2008.

M. TRGC transferred Well 2 to ICRWUA pursuant to that certain Bill of Sale (Production Well) dated as of May 21, 2008, ("Well 2 Bill of Sale") recorded in Book 4598, Page 645, records of Yavapai County, Arizona.

N. By this Agreement, the Parties intend to (1) resolve and settle the Parties' concerns over their existing agreements and compliance with Decision 64630; (2) supersede, replace and terminate all existing agreements between the Parties, except for certain provisions specifically identified herein; and (3) govern the Parties' relationship from the time of final ACC approval of this Agreement, if obtained, until the expiration of this Agreement according to its express terms.

O. Subject to the terms and conditions of this Agreement, TRGC will be a special contract customer of ICRWUA.

AGREEMENTS

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Incorporation of Recitals. By this reference, the Parties hereby incorporate the recitals above as part of their agreement as if fully set forth herein.

2. Well 1 Transfer; Well 2 Pump Motor Replacement; Warranties; Waiver of Prior Restrictions; Use of Talking Rock Wells.

a. Well 1 Transfer. Within fifteen (15) days of the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall transfer Well 1 to ICRWUA via bill of sale ("Well 1 Bill of Sale") in a form mutually satisfactory to the Parties, without condition, and subject only to the terms and conditions set forth herein.

b. Well 2 Pump Motor Replacement. After the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall pay the actual cost of purchasing and installing a new pump motor at Well 2 ("Well 2 Pump Motor Replacement") up to a maximum cost of \$50,000. ICRWUA shall be responsible for identifying the make and model of the new pump motor and arranging for the installation of the pump motor. ICRWUA shall provide the Talking Rock Parties with an invoice specifying the cost of the Well 2 Pump Motor Replacement, and the Talking Rock Parties shall pay the invoice (up to a maximum of \$50,000) within ten (10) business days of the date of receipt of the invoice from ICRWUA.

c. Warranties. The Talking Rock Parties shall provide the warranties in this Section against construction defects, manufacturing defects and defects in workmanship, but such warranties do not cover the negligent or intentional acts of ICRWUA, its employees, agents, contractors or representatives.

i. Well 1. For a period of one (1) year from the date of the Well 1 Bill of Sale (the "Well 1 Warranty Period"), the Talking Rock Parties shall warrantee (i) the workmanship and construction of Well 1, including without limitation, the well casing; and (ii) the pump motor, bowls and related components of Well 1.

ii. Well 2. For a period of one (1) year from the date of installation of the Well 2 Pump Motor Replacement (the "Well 2 Pump Motor Replacement Warranty Period") as required in Section 2(b) above, the Talking Rock Parties shall warrantee the Well 2 Pump Motor Replacement against any and all defects in manufacturing and workmanship.

iii. Air Production. The Talking Rock Parties agree that the maximum allowable air production ("Air Production") in water withdrawn from Well 1 and/or Well 2, expressed as a percent of unit volume of water produced from each well at atmospheric pressure, shall not exceed three point five percent (3.5%) (the "Maximum Allowable Air Production"). The Talking Rock Parties shall warrantee the Maximum Allowable Air Production (the "Air Production Warranty Period") for Well 1 during the Well 1 Warranty Period and for Well 2 during the Well 2 Pump Motor Replacement Warranty Period; provided, however, that if the Air Production Warranty Period for either Well 1 or Well 2 will expire on or after April 15 but on or before September 15 of the same calendar year, then the Air Production Warranty Period for such well shall be extended through and including September 15 of that calendar year. If the Air Production of Well 1 or Well 2 exceeds the Maximum Allowable Air Production during the Air Production Warranty Period, then ICRWUA shall notify the Talking Rock Parties of such occurrence in writing, and the Talking Rock Parties shall take such actions, in consultation and agreement with ICRWUA, as are necessary to reduce the Air Production at Well 1 and/or Well 2 to a level at or below the Maximum Allowable Air Production at the Talking Rock Parties' sole cost and expense. Air Production shall be measured using the procedure established during the test of the Talking Rock Wells (as hereinafter defined) as summarized in Attachment 1, which is incorporated herein as part of this Agreement.

d. Waiver of Prior Restrictions. The Talking Rock Parties hereby waive and release all restrictions on the amount and rate of water that may be pumped from Well 2 and Well 3 which are contained in the Well 2 Bill of Sale and the Well 3 Bill of Sale.

3. Use of Talking Rock Wells and the Well Field Property.

a. Perpetual Right to Enter the Well Field Property; No Charges to ICRWUA for Groundwater Withdrawn. The Talking Rock Parties will retain ownership of the real property upon which the Talking Rock Wells are located (the "Well Field Property"), but hereby grant to ICRWUA a perpetual right to enter the Well Field Property at any time day or night to operate, test, inspect, repair, replace and maintain the Talking Rock Wells. The legal description for the Well Field Property is attached hereto as Attachment 2. The Talking Rock Parties further agree that ICRWUA may pump the Talking Rock Wells and withdraw groundwater in quantities

necessary for ICRWUA to provide water service to its current and future customers on the Talking Rock water system subject to the terms of this Agreement and without any charge to ICRWUA for the groundwater withdrawn or for the rights granted to ICRWUA under this Agreement. The Talking Rock Parties further agree, on behalf of themselves and their respective successors and assigns, that they shall not construct or permit the construction of any additional wells on the Well Field Property or the equipping and use of the existing fourth well on the Well Field Property by any person or entity other than ICRWUA, subject only to ICRWUA's right to drill one or more replacement wells on the Well Field Property. The Parties intend that the rights of ICRWUA granted under this Section 3 shall run with the land and shall survive the expiration or termination of this Agreement, and the Parties agree that they will execute such additional documents, in recordable form, as may be deemed necessary to ensure that the rights granted to ICRWUA hereunder run with the Well Field Property.

b. Operation of the Talking Rock Wells. ICRWUA agrees that it will, at all times following the transfer of Well 1, operate, test, inspect, repair, replace and maintain the Talking Rock Wells at its own expense and in a manner that complies with Arizona and federal laws and that fulfills both its obligations under its CC&N and under this Agreement. ICRWUA further acknowledges and agrees that water from the Talking Rock Wells will only be used to serve its customers on the Talking Rock water system and for purposes of this Agreement, and that such restriction arises from recorded deed restrictions put in place by the seller of the Well Field Property whereon the Talking Rock Wells are located.

4. Service of Water for Landscape Irrigation, Lake Fill, Construction and Other Non-Potable Purposes; Maximum Amount; No Minimum Delivery; Quantity Required. ICRWUA agrees to and will deliver water to any and all of the Talking Rock Parties up to a maximum amount of 525 acre feet of water per year, of which a maximum of 400 acre-feet of water can be used at the Golf Course for Landscape Irrigation, Lake Fill and other non-potable purposes, and a maximum of 125 acre-feet of water can be used for Construction Purposes by any of the Talking Rock Parties in the development of Talking Rock, subject to the terms and conditions set forth in this Agreement. The Talking Rock Parties shall not be required to take any minimum amount of water under this Agreement, and retain the right to provide their own water supply without any provision by ICRWUA as long as such self-supply is not in violation of Arizona and/or federal law; provided, however, that ICRWUA shall remain solely responsible for supplying water to customers of ICRWUA within Talking Rock requesting water service from ICRWUA. The term "Landscape Irrigation" when used in this Agreement means the irrigation of any and all landscaping located anywhere within the Golf Course, whether such landscaping is turf or non-turf, and without regard to whether the water is delivered through sprinklers or drip irrigators or other means. The term "Lake Fill" when used in this Agreement means the filling of any water retention structures within the Golf Course, including decorative water features and holding ponds for Landscape Irrigation. The term "Construction Purposes" when used in this Agreement means water used by the Talking Rock Parties within Talking Rock for grading and compaction, installation of subdivision infrastructure, construction of structures (excluding residential home construction), and related uses.

5. Residential Priority; Curtailment of Water Service to Talking Rock Parties. Residential delivery of water pumped from the Talking Rock Wells shall have priority (the "Residential Priority") over all other use classifications including uses by the Talking Rock

Parties under this Agreement; provided, however, that curtailment ("Curtailment") in order to meet the Residential Priority shall occur only when there is insufficient water production from the Talking Rock Wells, in aggregate, to meet both the demand from residential customers and the demand from non-residential customers at Talking Rock (a "Water Shortage"), and shall continue only so long as the Water Shortage continues. During any Curtailment, ICRWUA shall make reasonable efforts to meet, in part, the demand from the Talking Rock Parties after ICRWUA fully meets the Residential Priority, and to resume normal water service to the Talking Rock Parties under this Agreement as soon as is practicable.

6. Payment for Water Service. The amount the Talking Rock Parties shall pay for water delivered by ICRWUA under this Agreement shall consist of (i) a System Reservation Charge, which shall terminate after ten (10) years; and (ii) a Commodity Charge, which shall be subject to annual adjustment, as set forth below in this Section. In accordance with Section 11 of this Agreement, the Parties agree that the ACC must approve the charges and the Commodity Charge-setting methodology set forth herein for the term of this Agreement.

a. System Reservation Charge. For a period of ten (10) consecutive years following the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall pay to ICRWUA a fixed, annual charge ("System Reservation Charge") as set forth below in this Section. The Talking Rock Parties shall pay the System Reservation Charge whether or not they receive any water from ICRWUA, and the System Reservation Charge shall be in addition to the Commodity Charge, which is payable under Section 6(b) below. The System Reservation Charges are as follows:

i.	Year One:	\$50,000
ii.	Year Two	\$50,000
iii.	Year Three	\$50,000
iv.	Year Four	\$40,000
v.	Year Five	\$40,000
vi.	Year Six	\$30,000
vii.	Year Seven	\$30,000
viii.	Year Eight	\$20,000
ix.	Year Nine	\$20,000
x.	Year Ten	\$10,000

b. Commodity Charge. In addition to the System Reservation Charge payable under Section 6(a) above, the Talking Rock Parties shall pay a commodity charge ("Commodity Charge") initially set at One dollar (\$1.00) per 1,000 gallons of water delivered by ICRWUA to the Talking Rock Parties which Commodity Charge shall be subject to adjustment in accordance with the provisions of this Section 6(b).

i. Basis for Calculation. The Parties have agreed to the Commodity Charge in order to allow ICRWUA to recover its cost of service under this Agreement, plus an

appropriate operating margin. In calculating the Commodity Charge set forth in this Section 6(b), the Parties utilized the 2006 volume of water delivered through the Talking Rock water system to the Talking Rock Parties. The Parties have also relied on ICRWUA's Cost of Service Study filed in ACC Docket No. W-02824A-07-0388.

ii. Annual Adjustment. The Commodity Charge shall be subject to annual adjustment based on the average annual Consumer Price Index - All Urban Consumers: Area-West Urban issued by the US Bureau of Labor Statistics (the "Index"). Beginning one year after the Effective Date, the Commodity Charge for a Current Year, as hereinafter defined, shall be computed each year by multiplying the Commodity Charge for the Base Year, which is \$1.00 as set forth in this Section 6(b), by a factor computed by dividing the Index for the most recent full year reported by the Bureau by the Index for the Base Year, rounded to the nearest penny. The Base Year shall be the year of the Effective Date of the Agreement. The Current Year shall be the year in which the annual adjustment is to be made. The adjustment shall be made annually for the term of the Agreement commencing one year after the Effective Date as defined in Section 11(c). By way of illustration only, if the Base Year Index is 208 and the Current Year Index is 215, then the adjustment factor would be 1.0337 ($215 \div 208 = 1.0337$). The new Commodity Rate for the Current Year would be \$1.03 ($\$1.00 \times 1.0337 = \1.03 (rounded to the nearest penny)).

iii. Adjustment for Costs to Comply with New Treatment Requirement or Groundwater Contamination.

(1) In the event that any Federal, State or County entity (excluding any special taxing district established under A.R.S. Title 48) imposes upon ICRWUA any new rule, requirement, regulation, ordinance, judgment, order or similar decree (collectively, a "New Treatment Requirement") which: (a) increases ICRWUA's capital and/or operational costs of treating water delivered through the Talking Rock water system; and (b) was not in effect as of the date this Agreement was signed, then the Parties shall immediately meet and confer and make an equitable adjustment to the Commodity Rate in order that ICRWUA is reimbursed for the Talking Rock Parties' allocable share (based upon volume of water delivered to the Talking Rock Parties during the most recent three-year rolling average) of the increased costs resulting from ICRWUA's compliance with the New Treatment Requirement.

(2) In the event that the groundwater withdrawn by ICRWUA from the Talking Rock Wells becomes contaminated ("Contamination") with any pollutant regulated by any Federal, State or County entity (excluding any special taxing district established under A.R.S. Title 48) and such Contamination requires additional treatment and/or remediation ("Treatment and Remediation") by ICRWUA which: (a) increases ICRWUA's capital and/or operational costs of delivering water through the Talking Rock water system; and (b) was not required as of the date this Agreement was signed, then the Parties shall immediately meet and confer and make an equitable adjustment to the Commodity Rate in order that ICRWUA is reimbursed for the Talking Rock Parties' allocable share (based upon volume of water delivered to the Talking Rock Parties during the most recent three-year rolling average) of the Treatment and Remediation costs resulting from the Contamination.

(3) The Talking Rock Parties shall only be responsible for

payment of an allocable share of the costs of complying with a New Treatment Requirement or any Treatment and Remediation costs under this Section to the extent that ICRWUA cannot physically separate potable water deliveries to Talking Rock from the delivery of water to the Talking Rock Parties under this Agreement; provided, however, that ICRWUA shall have no obligation to invest capital in a system that can separate the delivery of potable and non-potable water supplies.

iv. Future Cost of Service Study and Adjustment to Commodity Charge. On or after the seventh (7th) anniversary of the Effective Date of this Agreement as defined in Section 7(c) below, any Party may request in writing that a cost of service study ("COSS") be completed in order to evaluate whether the Commodity Charge continues to cover ICRWUA's cost of service for supplying water to the Talking Rock Parties under this Agreement plus an appropriate operating margin, which is the basis for establishing the initial Commodity Charge under Section 6(b)(i) above. The Parties shall mutually agree upon a certified public accountant with at least ten year's public utility accounting experience to prepare the COSS. One-half of the cost of the COSS shall be paid by ICRWUA and one-half of the COSS shall be paid by the Talking Rock Parties. The COSS shall be prepared in a manner consistent with the process used to determine the Commodity Charge as set forth in Section 6(b)(i) above. Within fifteen (15) days after the COSS has been provided to the Parties, the Parties shall meet and mutually agree upon an appropriate modification to the Commodity Charge based upon the COSS, with the understanding that the Commodity Charge shall cover ICRWUA's cost of service for supplying water to the Talking Rock Parties under this Agreement plus an appropriate operating margin.

v. Notice Filing. ICRWUA shall notify the ACC Utilities Division Staff of each annual change in the Commodity Charge.

c. Meter Reading; Access to Meters. On a monthly basis, ICRWUA shall provide the Talking Rock Parties with meter readings, and upon request shall also furnish water production and usage data, sufficient to allow the Talking Rock Parties to confirm the amount of water pumped from the Talking Rock Wells and the amount of water delivered from the Talking Rock Wells to the Talking Rock Parties under this Agreement. The Talking Rock Parties shall allow representatives of ICRWUA reasonable access to property owned and/or controlled by the Talking Rock Parties as necessary for ICRWUA to read the water meters. The Talking Rock Parties may request that ICRWUA calibrate and adjust the meter recording devices under this Agreement not more frequently than once per calendar year, at the cost of the Talking Rock Parties, unless the meter is found to be in error by more than 3%, in which event no costs of the meter reading and repair shall be charged to the Talking Rock Parties.

d. Billing and Timing of Payment; Point of Contact. The System Reservation Charge for Year One shall be paid within thirty (30) days of the Effective Date of this Agreement as defined in Section 11(c) below and paid annually thereafter on the anniversary of the Effective Date according to the schedule in Section 6(a) above. Commodity Charges shall be billed by ICRWUA and paid by the Talking Rock Parties on a monthly basis. The Talking Rock Parties shall identify a single point of contact ("Point of Contact") for receipt of all invoices to the Talking Rock Parties under this Agreement and shall notify ICRWUA in writing of the identify of the Point of Contract at the address set forth in Section 14(f) below. The Point

of Contact shall be responsible for remitting payment on behalf of the Talking Rock Parties for all invoices received by the Talking Rock Parties. Late fees shall be assessed in accordance with ICRWUA's tariff.

e. No Other Charges. ICRWUA agrees that it will not bill or otherwise require payment from the Talking Rock Parties for water for purposes of Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes except as provided for in this Agreement. This Agreement does not relate to or impact the rates and charges for water service by ICRWUA to the existing customers of the Talking Rock water system that are subject to ICRWUA's ACC approved tariff of rates and charges, including, for example, the Talking Rock health and fitness center and clubhouse.

7. Financial Assistance. In order to help defray ICRWUA's costs to negotiate and obtain approval of this Agreement, upon execution of this Agreement the Talking Rock Parties shall pay ICRWUA the amount of \$30,000. Within thirty (30) days of the Effective Date of this Agreement as defined in Section 11(c) below, the Talking Rock Parties shall pay ICRWUA an additional \$50,000.

8. Additional Well(s); Additional Transmission Facilities; Ownership and Operation; Operating Expenses and Commodity Charge; Use and Severance.

a. Additional Wells and Additional Transmission Facilities. Upon receipt of the prior written consent of ICRWUA, the Talking Rock Parties may drill, equip and interconnect one or more additional wells (i.e., wells other than the Talking Rock Wells) ("Additional Well(s)") to the Talking Rock water system via the existing transmission system, if reasonable and prudent to do so, and/or via additional transmission facilities ("Additional Transmission Facilities") constructed by or for the Talking Rock Parties in order to supply water for Landscape Irrigation, Lake Fill, Construction Purposes and/or other non-potable purposes in Talking Rock. No consent is required unless the Talking Rock Parties request the interconnection of the Additional Well(s) and/or Additional Transmission Facilities to the Talking Rock water system. If consent is required, ICRWUA shall provide such consent within thirty (30) business days following written request by the Talking Rock Parties; provided, that each Additional Well(s) and/or Additional Transmission Facilities meet the following conditions:

i. New Source Approval Requirements. If the Talking Rock Parties utilize the Talking Rock delivery system as currently configured, which precludes separation of potable and non-potable water supplies for delivery to Talking Rock, then each Additional Well(s) shall meet new source approval requirements applicable to ICRWUA's use of that Additional Well(s), as such requirements are codified in Federal, State and County (excluding any special taxing district established under A.R.S. Title 48) law. In the event that new transmission facilities are constructed by the Talking Rock Parties or are otherwise available which allow for the separation of potable and non-potable water supplies delivered to Talking Rock, then the Additional Well(s) will not have to meet new source approval requirements; provided, however, that ICRWUA shall have no obligation to invest capital in a system that can separate the delivery of potable and non-potable water supplies.

ii. Engineering and Permitting. The Additional Transmission

Facilities meet all applicable engineering standards, including those of ICRWUA, and permitting requirements;

iii. Non-Interference. The Additional Well(s) and Additional Transmission Facilities shall not unreasonably interfere with ICRWUA's operation of its Talking Rock water system.

b. Ownership and Operation; Easement and/or Legal Right of Access. The Talking Rock Parties shall retain ownership of any Additional Well(s) and Additional Transmission Facilities. After interconnection of each Additional Well(s) and Additional Transmission Facilities to ICRWUA's Talking Rock water system, such wells and facilities shall at all times be operated, tested, inspected, repaired and maintained by ICRWUA at ICRWUA's sole expense; provided, however, that nothing contained herein shall require ICRWUA to replace any Additional Well(s) or any Additional Transmission Facilities. The Talking Rock Parties agree that ICRWUA may pump any Additional Well(s) and withdraw groundwater subject to the terms of this Agreement without any charge to ICRWUA for the groundwater withdrawn, as long as such pumping does not interfere with delivery of water from such Additional Well(s) to Talking Rock. The Talking Rock Parties shall convey to ICRWUA such easement or other legal right of access as is reasonably required by ICRWUA to operate, test, inspect, repair and maintain the Additional Well(s) and the Additional Transmission Facilities.

c. Commodity Charge. Water delivered to any of the Talking Rock Parties from any Additional Well(s) through the Talking Rock water system shall be subject to the Commodity Charge under Section 6(b) of this Agreement. In the event that Additional Well(s) are used by the Talking Rock Parties but not connected to the Talking Rock system, then the Commodity Charge will not be applicable and ICRWUA will have no right to operate such Additional Well(s).

d. Use Limitations in Talking Rock; No Curtailment. ICRWUA and the Talking Rock Parties shall ensure that the annual production from any Additional Well(s) and delivered to the Talking Rock Parties is used only for Landscape Irrigation, Lake Fill, Construction Purposes and/or other non-potable purposes in Talking Rock. No Additional Well(s) shall be subject to Residential Priority and Curtailment as set forth in Section 5, nor shall such Additional Wells(s) be considered in determining whether a Water Shortage exists. This Section 8(d) is expressly subject to Sections 8(e) and 8(f) below.

e. Severance. Upon six (6) months written notice, the Talking Rock Parties may sever Additional Well(s) and/or Additional Transmission Facilities from ICRWUA's Talking Rock water system without any further obligation to provide supply from such wells to ICRWUA for any purpose, except as provided in Section 8(f) below. Severance shall be accomplished at the Talking Rock Parties sole cost and expense in coordination with ICRWUA, and in a manner that does not unreasonably interfere with ICRWUA's operations and which leaves ICRWUA's Talking Rock water system in the same or better condition. In the event that the Talking Rock Parties elect to sever any Additional Well(s) and/or Additional Transmission Facilities from the Talking Rock water system under this Section 8(e), then ICRWUA's obligation to supply water to the Talking Rock Parties for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes under Section 4 shall thereafter be limited to supplying such water only if

and to the extent that ICRWUA has water available from the Talking Rock Wells after satisfying the Talking Rock Potable Water Demand as defined in Section 8(f) below.

f. Limitation on Right to Sever Additional Well(s) and/or Additional Transmission Facilities Required by ICRWUA to Supply Residential Water Demand in Talking Rock. Notwithstanding anything in this Section to the contrary, the Talking Rock Parties shall not be permitted to sever any Additional Well(s) and/or Additional Transmission Facilities if and so long as such Additional Well(s) and/or Additional Transmission Facilities are required by ICRWUA to supply the potable water demand, or any portion thereof, from customers within Talking Rock (the "Talking Rock Potable Water Demand"). For purposes of this Section, the Talking Rock Potable Water Demand shall be (i) the actual peak-day potable water demand for customers of ICRWUA on the Talking Rock water system in the year the Talking Rock Parties seek to sever the Additional Well(s) and/or Additional Transmission Facilities if the peak-day has occurred; or (ii) the estimated peak-day potable water demand for customers of ICRWUA on the Talking Rock water system in the year the Talking Rock Parties seek to sever the Additional Well(s) and/or Additional Transmission Facilities if the peak-day has not yet occurred. Further, if such Additional Well(s) and/or Additional Transmission Facilities are required in order for ICRWUA to supply the Talking Rock Potable Water Demand, then the limitations and exclusions set forth in Section 8(d) above shall not apply.

9. Prior Agreements. The Parties agree that the MXA, as amended, and Well Agreement, as amended, are valid and remain in full force and effect until the Effective Date of this Agreement as defined in Section 11(c) below. The Parties further agree that, as of the Effective Date, this Agreement shall become the principle agreement governing the Parties' relationship as water utility, developer, and Golf Course owner, and that each and every existing agreement between the Parties, as identified in the Recitals, is hereby superseded, replaced and terminated by this Agreement, except as follows:

a. Utility Facilities; Transfers; Refunds. Within thirty (30) days of the Effective Date of this Agreement, the Talking Rock Parties shall convey to ICRWUA and ICRWUA shall accept from the Talking Rock Parties all utility infrastructure constructed to serve Talking Rock which has not been transferred as of the Effective Date, subject only to the applicable warranties of the Talking Rock Parties with respect to such infrastructure including, without limitation, the warranties set forth in Section 2(c) of this Agreement, and any outstanding punch list items applicable to such infrastructure. The Parties agree that their rights and obligations under Sections 1-7 and 14-15 of the MXA, as amended by the First Amendment to MXA, with respect to the financing, construction and transfer of on-site and off-site facilities necessary for ICRWUA to extend water utility service to Talking Rock in accordance with its CC&N remain in full force and effect in conjunction with this Agreement, except as modified by this Section 9(a). The Parties further agree that ICRWUA's obligation to make refunds under Sections 8 and 9 of the MXA, as amended by Section 1(d) of the First Amendment to MXA, remains in full force and effect; provided, however, that ICRWUA may elect in its sole discretion to characterize utility infrastructure provided by the Talking Rock Parties as either advances in aid of construction or contributions in aid of construction, provided that no less than thirty percent (30%) of plant advanced or contributed is characterized as advances in aid of construction. The Parties further agree that amounts paid by the Talking Rock Parties under

Section 6 of this Agreement shall not be used in the determination of revenues for the purpose of determining the amount of any refunds for advances in aid of construction.

b. Incorporation of Surviving Provisions of MXA, as Amended by the First Amendment to MXA. The Parties agree that the portions of the MXA, as amended, that are intended to survive this Agreement, which sections are identified in this Section 9, are attached hereto as Attachment 3, and incorporated herein as part of this Agreement.

10. Conservation. The Talking Rock Parties agree to continue to use reasonable efforts to promote conservation within Talking Rock and to minimize the use of groundwater for Landscape Irrigation, Lake Fill and other non-potable purposes. TRGC further agrees to complete construction of an additional planned storage pond with an estimated capacity of 25,000,000 gallons no later than February 1, 2009, which deadline may be extended by the Talking Rock Parties for good cause and following notice to ICRWUA.

11. ACC Approval; Effect of Issuance of ACC Approval; Effective Date; Term.

a. Cooperation of the Parties. The Parties agree to cooperate fully and in good-faith to take all steps necessary and reasonable to seek ACC approval of this Agreement without material change, or if the ACC determines that it does not have authority to approve this Agreement, to seek ACC approval of the rates and charges contained in this Agreement without material change, including, without limitation, the term. Such approval shall be sought in ACC Docket No. W-02824A-07-0388. For purposes of this Agreement, a "material change" shall, in light of the surrounding circumstances, be a modification, alteration or amendment to the Agreement and/or any of its individual terms and conditions, including its provisions for rates and charges and term, such that a reasonable person would view such modification, alteration or amendment as having influenced the decision whether to have entered into this Agreement.

b. Effect of Issuance of ACC Approval.

i. ACC Approval Without Material Change. If the ACC approves this Agreement without material change, or alternatively, if the ACC determines that it does not have authority to approve this Agreement but approves the rates and charges contained in this Agreement for the term set forth in the Agreement, without material change, then each of the Parties shall submit a Statement of Acceptance within ten (10) business days of such order becoming final and non-appealable.

ii. ACC Approval With Material Change. If the ACC issues an order approving this Agreement but with material changes, or alternatively, if the ACC determines that it does not have authority to approve this Agreement but approves the rates and charges and/or term contained in this Agreement with material change, then each of the Parties shall submit either a Statement of Acceptance or a Statement of Non-Acceptance within ten (10) business days of such order becoming final and non-appealable. If any of the Parties submits a Statement of Non-Acceptance, such statement shall specify the reason for non-acceptance of the ACC order approving the Agreement and, thereafter, the Parties shall meet within ten (10) business days to discuss whether the reason for non-acceptance can be cured. If the Statement of Non-Acceptance is not withdrawn as a result of such meeting and a Statement of Acceptance issued,

the Parties hereby agree that this Agreement not become effective, shall have no force and effect, and that the Parties' existing agreements shall remain in full force and effect.

iii. ACC Denial of Approval. If the ACC issues an order denying approval of this Agreement, or alternatively, if the ACC determines that it does not have authority to approve this Agreement but denies the rates and charges and/or term contained in this Agreement, then the Parties hereby agree that this Agreement shall not become effective, shall have no force and effect, and that the Parties' existing agreements shall remain in full force and effect.

c. Effective Date. This Agreement has been executed as the date first included above. However, the Parties agree that this Agreement shall not be effective until the effective date ("Effective Date"), which shall be defined for purposes of this Agreement as the date upon which all Parties have submitted a Statement of Acceptance indicating that the final and non-appealable ACC decision approving the Agreement is acceptable.

d. Term. The initial term ("Initial Term") of this Agreement shall be thirty-five (35) years commencing upon the Effective Date as defined in Section 11(c) above. Thereafter, the Parties may agree to extend this Agreement and seek additional ACC approval, if necessary, to extend the Initial Term. If the Parties do not mutually agree to extend the Initial Term, then this Agreement shall expire at the end of the Initial Term and ICRWUA shall thereafter bill the Talking Rock Parties for all water delivered at the then currently applicable tariffed rates and charges approved by the ACC for Landscape Irrigation, Lake Fill and other like non-potable purposes.

12. Non-Discrimination Provision. ICRWUA agrees to treat the Talking Rock Parties and all customers in Talking Rock in a non-discriminatory manner.

13. Authority, Representations and Warranties.

a. ICRWUA represents and warrants that:

i. It is a non-profit association and public service corporation, duly organized and existing under the laws of the State of Arizona, and has, and as of the Effective Date will have, full legal right, power and authority to: (i) enter into this Agreement; and (ii) carry out and consummate the transactions contemplated by this Agreement.

ii. The Board of Directors of ICRWUA: (i) has duly authorized and approved the execution and delivery of, and the performance of its obligations under this Agreement; and (ii) has duly authorized and approved the consummation of all other transactions contemplated by this Agreement.

iii. The consummation of the transactions contemplated in this Agreement will not conflict with or constitute a breach of or default under any provision of applicable law or administrative regulation of the State of Arizona or the United States of America or any department, division, agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, bond, note, resolution, ordinance, indenture, agreement or other instrument to which ICRWUA is a party or may be otherwise subject, to the

extent that such conflict, breach or default adversely affects or impacts the terms or performance of this Agreement or any of the transactions contemplated by this Agreement.

iv. There is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or, to the knowledge of ICRWUA, threatened: (i) in any way affecting ICRWUA's powers or the existence of ICRWUA; (ii) in any way contesting or affecting the validity or enforceability of this Agreement or any agreements entered into in connection therewith; or (iii) that may adversely affect ICRWUA or the purposes of this Agreement.

b. The Talking Rock Parties represent and warrant that:

i. Each are duly organized and existing under the laws of the State of Arizona, and have, and as of the Effective Date will have, full legal right, power and authority to: (i) enter into this Agreement; and (ii) carry out and consummate the transactions contemplated by this Agreement.

ii. Each is: (i) duly authorized and approved the execution and delivery of, and the performance of its obligations under this Agreement; and (ii) duly authorized and approved the consummation of all other transactions contemplated by this Agreement.

iii. The consummation of the transactions contemplated in this Agreement will not conflict with or constitute a breach of or default under any provision of applicable law or administrative regulation of the State of Arizona or the United States of America or any department, division, agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, bond, note, resolution, ordinance, indenture, agreement or other instrument to which one or more of the Talking Rock Parties is a party or may be otherwise subject, to the extent that such conflict, breach or default adversely affects or impacts the terms or performance of this Agreement or any of the transactions contemplated by this Agreement.

iv. There is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or, to the knowledge of the Talking Rock Parties, threatened: (i) in any way affecting the Talking Rock Parties' powers or existence; (ii) in any way contesting or affecting the validity or enforceability of this Agreement or any agreements entered into in connection therewith; or (iii) that may adversely affect one or more of the Talking Rock Parties or the purposes of this Agreement.

c. Accuracy of Representations and Warranties. The Parties acknowledge that each and every representation, warranty, term and condition in this Agreement shall be true and accurate as of the date of execution of this Agreement, and as of the Effective Date as defined in Section 11(c) above, and shall constitute a material part of the consideration hereunder, and shall survive the execution of this Agreement.

14. Miscellaneous Provisions.

a. No Right to Challenge Withdrawal of Groundwater. The Talking Rock Parties hereby waive on behalf of themselves and their respective successors and assigns any right to challenge ICRWUA's withdrawal of water from the Talking Rock Wells, or from any Additional Well(s) as long as such Additional Well(s) is under the control of ICRWUA in

accordance with Section 8 of this Agreement, and so long as ICRWUA is not in breach of this Agreement. It is the Parties' mutual understanding and good faith belief that ICRWUA has the legal right and authority to withdraw groundwater from the Talking Rock Wells and any Additional Well(s), and once groundwater is withdrawn from such wells, ICRWUA is the owner of such groundwater.

b. Estoppel Certificate. After the Effective Date as defined in Section 11(c) above, a Party shall at any time and from time to time upon not less than ten (10) days' prior written notice from the other Party execute, acknowledge and deliver to the requesting Party a statement in writing: (i) certifying that this Agreement is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Agreement, as so modified, is in full force and effect), and the date to which amounts due hereunder are paid in advance, if any; (ii) acknowledging that there are not, to the knowledge of the certifying Party, any uncured defaults on the part of the other Party hereunder, or specifying such defaults, if there are any claimed; and (iii) confirming such other matters as the requesting Party may reasonably request. Any such statement may be relied upon by the requesting Party, and any prospective purchaser or encumbrancer of the requesting Party's property. Upon a failure to sign the statement or notify the requesting Party in writing of any inaccuracies in the statement within the time period stated above, the statement submitted by a requesting Party shall be deemed approved.

c. Force Majeure. No Party to this Agreement shall be liable to any other Party for failure, default or delay in performing any of its obligations hereunder, other than for the payment of money obligations specified herein, in case such failure, default or delay is caused by strikes or other labor problems; forces of nature, unavoidable accident, fire, acts of the public enemy, delays in receipt of materials; or any other cause, whether of similar nature, not within the control of the Party affected and which, by the exercise of due diligence, such Party is unable to prevent or mitigate the outcome ("Force Majeure Matters"); provided, however, that the Party's failure, default or delay in performance shall be excused only for so long as such cause or event is present. Should any Force Majeure Matter occur, the Parties hereto agree to proceed with diligence to do whatever is reasonable and necessary with respect to the Force Majeure Matter so that each Party may perform its obligations under this Agreement.

d. Indemnity. After the Effective Date, ICRWUA shall indemnify, save and hold harmless the Talking Rock Parties and their members, officers, directors, partners, principals, employees and agents for, from and against any and all loss or damage arising from or relating to the storage, treatment, delivery or service of water withdrawn from the Talking Rock Wells or any Additional Well(s) by ICRWUA for the purpose of serving ICRWUA's customers in Talking Rock, including any liability resulting from the quality of the water of the Talking Rock Wells or any Additional Well(s), or any violation of laws, rules or regulations relating to human health or the safety or protection of the environment.

e. Assignment.

i. Right of Assignment as Part of Sale. Any of the Talking Rock Parties may assign this Agreement, or any rights and obligations hereunder, to another entity as part of a sale of the Golf Course, or of the Talking Rock development, in whole or in part, or as

part of the sale or merger of any of the entities making up the Talking Rock Parties, but only after notice to ICRWUA of the assignment. The notice required in this Section of the Agreement shall include (i) the assigning Party's written agreement to assign this Agreement, in whole or in part; and (ii) the assignee party's written agreement to be bound by the terms and conditions of this Agreement, including all financial obligations. An assignment under this Section of the Agreement shall be effective ten (10) business days after receipt by ICRWUA.

ii. Right of Assignment by Harvard Simon. The Parties hereby agree that all prospective rights and obligations imposed on Harvard Simon by virtue of this Agreement are hereby assigned by Harvard Simon to TRL and/or TRGC consistent with the material rights and obligations imposed on the Parties under this Agreement, and ICRWUA hereby agrees that, as of the Effective Date, Harvard Simon is released from any and all prospective obligations hereunder.

iii. Right/Duty of Assignment by ICRWUA as Part of Condemnation, Sale of Assets or Other Reorganization Impacting its Non-Profit or Other Corporate Status. ICRWUA shall ensure that all of its obligations under this Agreement are assigned to and accepted by any person or entity, including a restructured association or corporation, acquiring the Talking Rock water system by condemnation, purchase, merger, assignment or other lawful means of acquisition. The notice required in this Section of the Agreement shall include (i) ICRWUA's written agreement to assign this Agreement, in whole or in part; and (ii) the assignee party's written agreement to be bound by the terms and conditions of this Agreement, including all obligations for delivery of water to the Talking Rock Parties for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes. An assignment under this Section of the Agreement shall be effective ten (10) business days after receipt of notice by the Talking Rock Parties.

iv. Other Assignments. Any other assignments shall require the other Party's or Parties' prior written consent to the assignment, such consent not to be unreasonably withheld.

v. Outstanding Amounts Due. On or before the date of assignment under this Agreement, the Talking Rock Parties agree to pay all unpaid charges due under this Agreement.

vi. Responsibility of Talking Rock Parties for System Reservation Charge. In the event of any assignment by the Talking Rock Parties of this Agreement, the Talking Rock Parties shall remain obligated and liable to ICRWUA for payment of all unpaid System Reservation Charges under Section 6(a) of the Agreement. In the event that any assignee of this Agreement fails to pay any System Reservation Charge when due, then ICRWUA shall notify the Talking Rock Parties of such failure in writing (by notice to the Point of Contact), and the Talking Rock Parties shall make such payment to ICRWUA on behalf of the assignee within fifteen (15) days following the date of the receipt of the written notice from ICRWUA.

f. Manner of Giving Notice. Any notice required or permitted to be given hereunder shall be in writing and directed to the address set forth below for the Party to whom the notice is given and shall be deemed delivered: (i) by personal delivery, on the date of delivery;

(ii) by first class United States mail, three (3) business days after being mailed; or (iii) by Federal Express Corporation (or other reputable overnight delivery service), one (1) business day after being deposited into the custody of such service. The address of ICRWUA for all notices under this Agreement shall be:

ICR Water Users Association, Inc.
Attn: Robert M. Busch
P.O. Box 5669
Chino Valley, Arizona 86323

With a copy also provided to:

Jeffrey W. Crockett, Esq.
SNELL & WILMER
One Arizona Center
400 East Van Buren
Phoenix, Arizona 85004-2202

The address of the Talking Rock Parties for all notices under this Agreement shall be:

Harvard Investments
Attn: Craig Krumwiede
17700 North Pacesetter Way
Scottsdale, AZ 85255

With a copy also provided to:

Jay L. Shapiro, Esq.
Fennemore Craig
3003 N. Central Ste. 2600
Phoenix, Arizona 85012-2913

Any Party may designate another person or address for notices under this Agreement by giving the other Party notice at least thirty (30) days prior to the effective date of the new designation.

g. Attorneys Fees and Costs. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing Party or Parties shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such Party or Parties may be entitled.

h. Binding Effect. This Agreement is binding upon and inures to the benefit of the Parties and their respective successors and assigns.

i. Default. If any Party breaches or defaults under this Agreement, and such breach or default continues for a period of two (2) days with respect to any breach or default by ICRWUA under Section 3, or for a period of ten (10) days with respect to any breach or default

in the payment of money, or for a period of thirty (30) days with respect to any other breach or default, in each case after receipt by the defaulting Party of a written notice describing the default, the non-defaulting Party may immediately pursue any and all remedies available for such breach or default at law or in equity, including bringing an action for injunctive relief or for specific performance.

j. Time of the Essence. Time is of the essence of every provision hereof.

k. Governing Law. This Agreement shall be governed by the laws of the State of Arizona.

l. No Waiver. No change in, addition to, or waiver of any provisions of this Agreement shall be binding upon any Party unless in writing and signed by all Parties.

m. Counterparts. This Agreement may be executed in two or more original or facsimile counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

n. Enforceability; Invalidity of Provision or Provisions. In case any provision of this Agreement shall be determined to be invalid, illegal or unenforceable, it shall, to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as most nearly to retain the intent of the Parties. If such modification is not possible, such provision shall be severed from this Agreement. In either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

o. Joint Drafting and Negotiation. The Parties have participated jointly in the negotiation and drafting of this Agreement, and each have been represented by legal counsel. If a question of interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

THE REMAINDER OF THIS PAGE LEFT INTENTIONALLY BLANK

IN WITNESS WHEREOF, the Parties hereto have caused this Water Service Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, INC.

By 
Its: President HUGH C. PRYOR

HARVARD SIMON I, L.L.C.

By _____
Its: Manager

TALKING ROCK LAND, LLC

By: _____
Its: Manager

TALKING ROCK GOLF CLUB, LLC

By: _____
Its: Manager

IN WITNESS WHEREOF, the Parties hereto have caused this Water Service Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, INC.

By _____

Its: President _____

HARVARD SIMON I, L.L.C.,

By: Harvard Talking Rock, L.L.C.,
Its Operating Member,

By: Harvard Investments, Inc.,
Its Manager

By _____

Its: President

TALKING ROCK LAND, LLC,

By: Harvard Simon I, L.L.C.,
Its Manager,

By: Harvard Talking Rock, L.L.C.,
Its Operating Member,

By: Harvard Investments, Inc.,
Its Manager

By: _____

Its: President

TALKING ROCK GOLF CLUB, L.L.C.,

By: Harvard Simon I, L.L.C.,
Its Manager,

By: Harvard Talking Rock, L.L.C.,
Its Operating Member,

By: Harvard Investments, Inc.,
Its Manager

By: _____

Its: President

ATTACHMENT 1

PROCEDURE FOR MEASURING AIR PRODUCTION

Measurement of Allowable Air Production in Talking Rock Well 1 and Well 2

The measurement of the amount of air produced by Talking Rock Well 1 and Well 2 is based on a method developed by Southwest Ground Water for the test conducted in October 2007. The test was designed to establish the approximate volume of air in a given volume of water measured at atmospheric pressure. This percentage is obtained by:

1. Collecting a sample of water from the well in question in a small balloon. The volume collected in the balloon needs to be standardized for repeatability (try for 400 ml +/- 50 ml).
2. This sample is then inserted into a graduated beaker, the beaker is filled with water to a given volume (1,000 ml) and the balloon is removed. The water level in the beaker is measured and subtracted from the given volume thus obtaining the total volume of the balloon.
3. The balloon is then inserted into an Imhoff Cone completely filled with water, inverted and standing in a tank of water nine (9) inches deep.
4. The balloon is ruptured inside the Imhoff Cone and the volume of air released into the Cone is recorded.
5. This air volume is divided by the volume of the balloon obtained in step two above and multiplied by 100 to obtain the percentage of air per unit volume of water produced by the well.

Although only providing an approximate value for the volume of air in a given volume of water measured at atmospheric pressure, the technique does provide results that are consistently comparable and relate directly to the values obtained during the October 2007 well field test. The latter values have been used to set the allowable standard for the approximate volume of air in a given volume of water measured at atmospheric pressure.

ATTACHMENT 2

WELL FIELD PROPERTY LEGAL DESCRIPTION

LEGAL DESCRIPTION

That certain portion of Lot 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, Page 66, Yavapai County Records, Arizona located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Meridian, Yavapai County, Arizona, more particularly described as follows:

COMMENCING at the Southwest Corner of said lot;

Thence North $02^{\circ} 27' 51''$ East along the westerly line of said lot a distance of 303.11 feet to the POINT OF BEGINNING;

Thence continuing North $02^{\circ} 27' 51''$ East a distance of 269.75 feet;

Thence South $79^{\circ} 51' 35''$ East leaving said westerly line a distance of 389.85 feet;

Thence South $04^{\circ} 03' 10''$ West a distance of 619.62 feet to a point on the Northerly Right-of-Way line of the Williamson Valley Road as recorded in Book 11, Page 47, Yavapai County Records;

Thence North $62^{\circ} 07' 46''$ West along said Right-of-Way a distance of 12.98 feet to terminus of said Right-of-Way, the beginning of a 25' easement for public utilities, public roadway, and drainage purposes, and the beginning of a nontangent curve concave to the southwest and having a radius of 1471.23 feet, the radius point of which bears South $28^{\circ} 09' 35''$ West;

Thence northwesterly along said curve thru a central angle of $09^{\circ} 31' 15''$ an arc length of 244.47 feet to a point on an existing well easement as recorded in the said "Amended Record of Survey for Valley View Estates";

Thence North $20^{\circ} 15' 50''$ West along said well easement a distance of 334.90 feet to the POINT OF BEGINNING.

Containing 4.59 acres more or less.

That certain portion of Parcel 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, page 66, Yavapai County Records, Arizona, located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Commencing at the Southwestern most corner of said parcel;

Thence North 02 degrees 27 minutes 51 seconds East along the Westerly line of said Parcel a distance of 25.48 feet to the POINT OF BEGINNING;

Thence continuing North 02 degrees 27 minutes 51 seconds East, a distance of 303.10 feet;

Thence South 20 degrees 15 minutes 50 seconds East leaving said Westerly line a distance of 334.90 feet to a point on the curved Northerly right of way line of a 25 foot wide easement for ingress, egress, utility, roadway and drainage, said curved right of way line being concave to the Southwest and having a radius of 1471.23 feet, the radius point of which bears South 73 degrees 55 minutes 50 West;

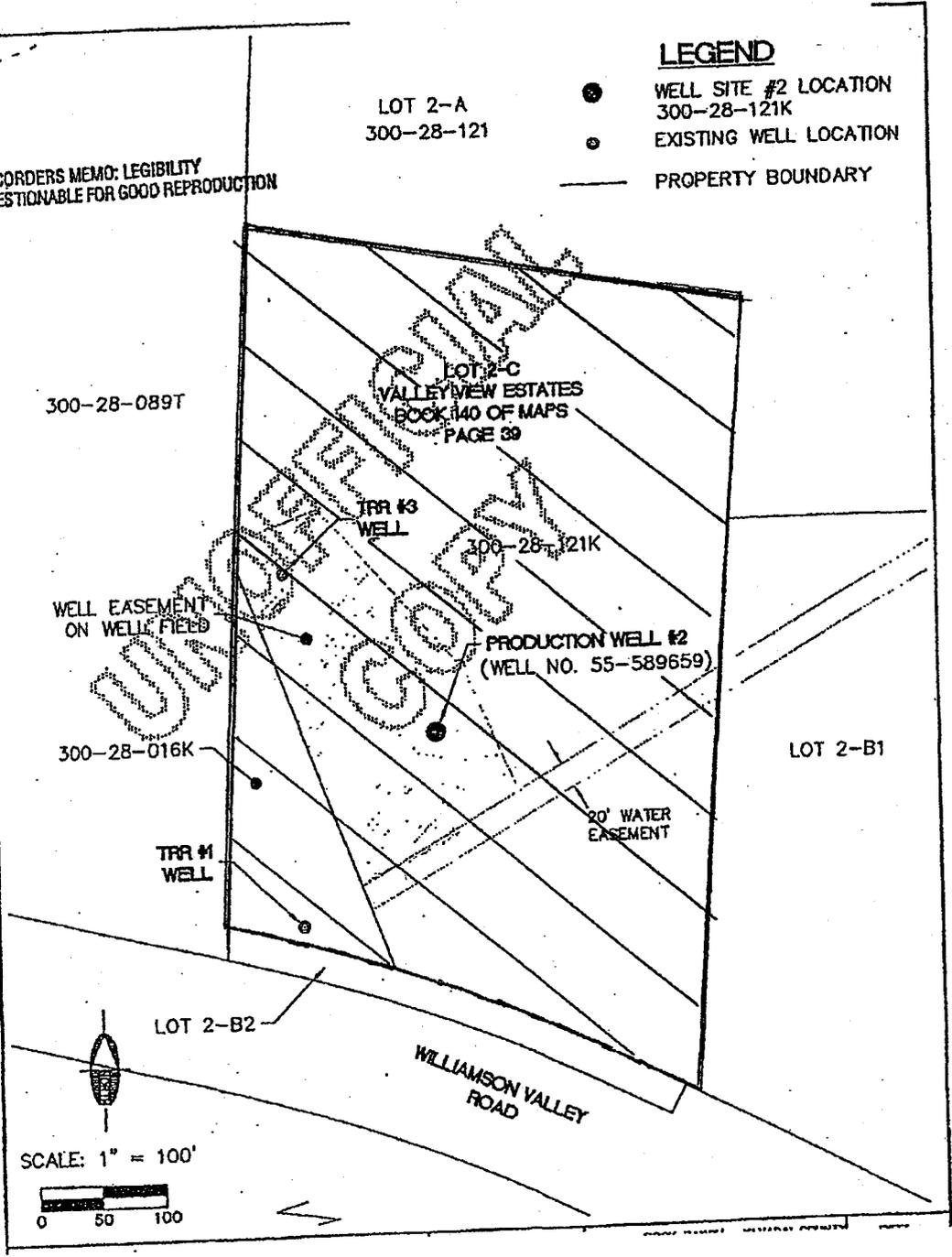
Thence Northwesterly along said last mentioned curve thru central angle of 05 degrees 08 minutes 20 seconds an arc length of 131.95 feet;

Thence continuing along the Northerly right of way line of said 25 foot wide easement South 76 degrees 30 minutes 00 second East, a distance of 1.21 feet to the POINT OF BEGINNING.

Containing approximately 0.45 acres more or less.

king Rock Ranch \DWG\04046 DWG\WELL SITE #2 LOCATION 5-7-06\04046-004 Well site 2 exhibit with easement 5-7-06\04046-004.dwg, 2008-10-14 10:44am

RECORDERS MEMO: LEGIBILITY QUESTIONABLE FOR GOOD REPRODUCTION



LEGEND

- WELL SITE #2 LOCATION 300-28-121K
- EXISTING WELL LOCATION
- PROPERTY BOUNDARY

LOT 2-A
300-28-121

300-28-089T

LOT 2-C
VALLEY VIEW ESTATES
BOOK 140 OF MAPS
PAGE 39

TRR #3
WELL

300-28-121K

WELL EASEMENT
ON WELL FIELD

PRODUCTION WELL #2
(WELL NO. 55-589659)

300-28-016K

LOT 2-B1

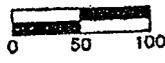
TRR #1
WELL

20' WATER
EASEMENT

LOT 2-B2

WILLIAMSON VALLEY
ROAD

SCALE: 1" = 100'



LEGAL DESCRIPTION

A parcel of land lying within Parcel 2, Amended Record of Survey of Valley View Estates as recorded in Book 49 of Land Surveys, Page 66 in the Yavapai County Recorder's Office (R1), lying in Section 17, Township 16 North, Range 3 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona;

BEGINNING at the Southeast corner of Section 17, from which the East Quarter corner of Section 17 bears North $04^{\circ}56'24''$ East, a distance of 2644.68 feet (Record per a Results of Survey as recorded in Book 53 of Land Surveys, Page 24 in the Yavapai County Recorder's Office (R2) and Basis of Bearings for this description);

Thence North $46^{\circ}18'18''$ West, a distance of 5869.55 feet (R2) to the Southwest corner of said Parcel 2 and the Southwest corner of a Well Easement as recorded in Book 3697 of Official Records, Page 369, Yavapai County Recorder's Office (R3), said point being on the Northerly Right of Way line of Williamson Valley Road;

Thence North $02^{\circ}31'38''$ East, along the Westerly line of said Parcel 2, a distance of 25.48 feet (North $02^{\circ}27'51''$ East, a distance of 25.48 feet R3);

Thence South $76^{\circ}26'12''$ East, along the Northerly line of a 25.00 feet wide Easement for Public Utilities, Public Roadway and Drainage Purposes per R1, a distance of 1.21 feet (South $76^{\circ}30'00''$ East, a distance of 1.21 feet R3), to a point of curvature, the central point of which bears South $13^{\circ}33'48''$ West;

Thence along a curve concave Southwest, having a radius of 1471.23 feet, through a central angle of $05^{\circ}08'20''$, a distance of 131.95 feet (R3);

Thence leaving said Northerly Easement line, North $20^{\circ}12'03''$ West, (North $20^{\circ}15'50''$ West R3), along the Easterly line of R3, a distance of 69.75 feet to the TRUE POINT OF BEGINNING;

Thence continuing along the Easterly line of R3, North $20^{\circ}12'03''$ West (North $20^{\circ}15'50''$ West R3); a distance of 265.15 feet to a point on the West line of said Parcel 2 (per R1);

Thence leaving the Easterly line of R3, North $02^{\circ}31'38''$ East (North $02^{\circ}27'51''$ East R1), along the West line of Parcel 2, a distance of 24.22 feet;

Thence leaving the West line of Parcel 2, North 69°47'57" East, a distance of 65.64 feet;

Thence South 40°37'38" East, a distance of 170.16 feet;

Thence South 22°57'00" East, a distance of 104.63 feet;

Thence South 60°13'27" West, a distance of 141.37 feet to the TRUE POINT OF BEGINNING.

Containing 0.75 Acres, more or less.

That certain portion of Parcel 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, page 66, Yavapai County Records, Arizona, located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Commencing at the Southwestern most corner of said parcel;

Thence North 02 degrees 27 minutes 51 seconds East along the Westerly line of said Parcel a distance of 25.48 feet to the POINT OF BEGINNING;

Thence continuing North 02 degrees 27 minutes 51 seconds East, a distance of 303.10 feet;

Thence South 20 degrees 15 minutes 50 seconds East leaving said Westerly line a distance of 334.90 feet to a point on the curved Northerly right of way line of a 25 foot wide easement for ingress, egress, utility, roadway and drainage, said curved right of way line being concave to the Southwest and having a radius of 1471.23 feet, the radius point of which bears South 73 degrees 55 minutes 50 West;

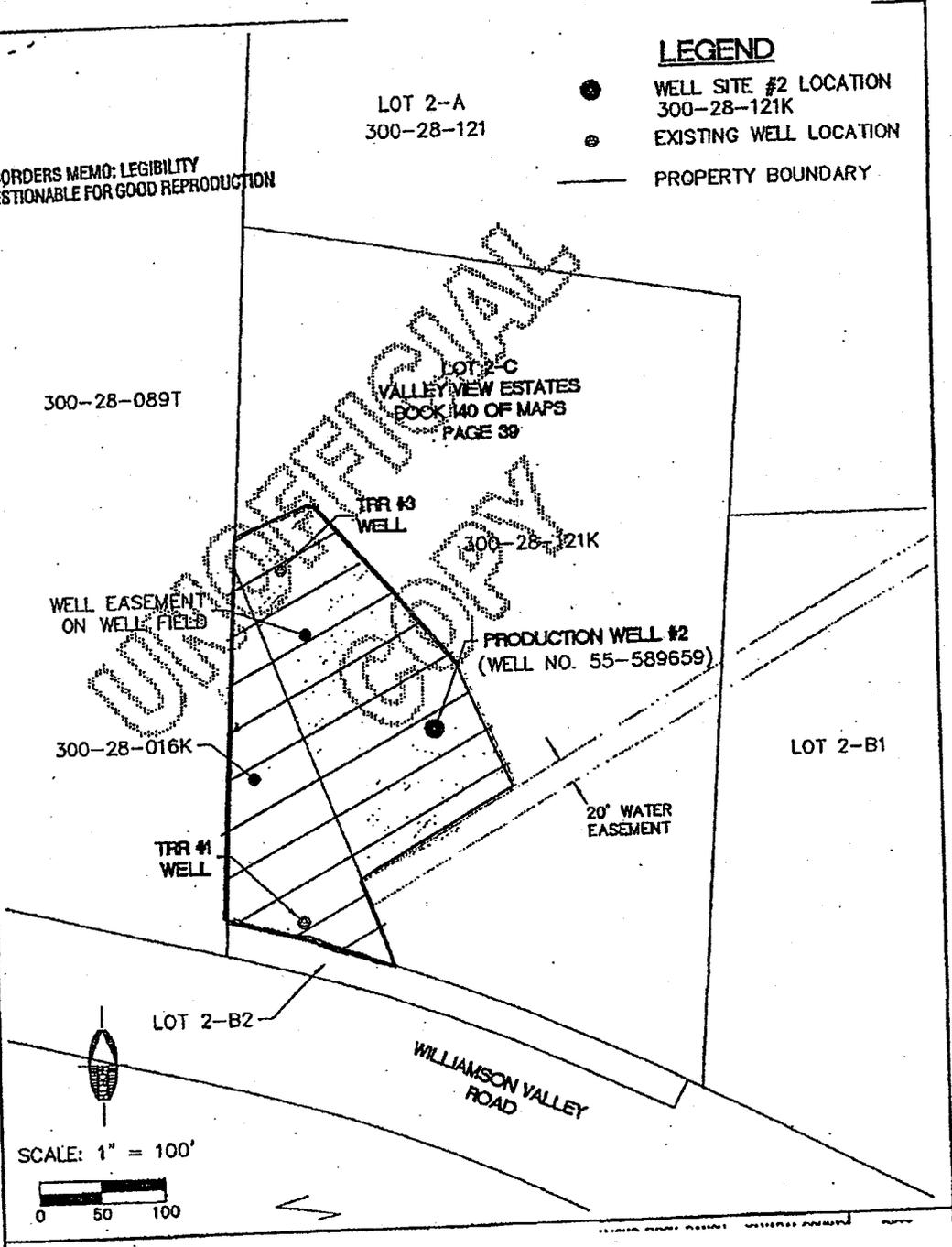
Thence Northwesterly along said last mentioned curve thru central angle of 05 degrees 08 minutes 20 seconds an arc length of 131.95 feet;

Thence continuing along the Northerly right of way line of said 25 foot wide easement South 76 degrees 30 minutes 00 second East, a distance of 1.21 feet to the POINT OF BEGINNING.

Containing approximately 0.45 acres more or less.

King Rock Ranch \DWG\04046 DWG\WELL SITE #2 LOCATION 5-7-08\04046-004 Well site 2 exhibit with easement 5-28-08.dwg, 2008-10-4 4am

RECORDERS MEMO: LEGIBILITY QUESTIONABLE FOR GOOD REPRODUCTION



LEGEND

- WELL SITE #2 LOCATION 300-28-121K
- EXISTING WELL LOCATION
- PROPERTY BOUNDARY

SCALE: 1" = 100'

ATTACHMENT 3

MXA PROVISIONS

**ATTACHMENT 3
MXA PROVISIONS**

Sections 1 – 9 and 14 – 15 of MXA

1. Construction of Water Utility Facilities by Developer.

(a) Construction of Facilities. At its sole expense, Developer shall construct and install, or shall cause to be constructed and installed water utility facilities consisting of water distribution mains and pipelines, valves, hydrants, fittings, service lines and all other related items of utility plant, both on-site and off-site, to be used to extend water service to each lot, building or other customer within the Property (the "Facilities") as more particularly described in Exhibit "C" attached hereto and incorporated herein by this reference. Exhibit "C" also contains an estimated cost of construction for the Facilities. Utility hereby acknowledges and agrees that the Property may be developed in separate phases and that Developer may construct and install the Facilities in phases in a manner that will allow for the provision of water utility services to each phase as necessary and in a timely manner. The size, design, type and quality of materials used to construct the Facilities, as well as the location of the Facilities upon and under the ground, shall be approved by Utility, which approval shall be promptly provided and which shall not be unreasonably withheld.

(b) Utility's Use of the Facilities. Utility covenants and agrees that it shall use its best efforts to ensure that the Facilities are not used to serve customers outside the Property in a manner that adversely impacts the provision of water utility service to the Property. Utility further represents to Developer that, in Utility's judgment, the cost of constructing the Facilities is disproportionate to anticipated revenues to be derived from future customers within the Property.

2. Engineering Plans. Developer has retained Shephard-Wesnitzer, Inc. to prepare engineering plans and specifications for the Facilities to be constructed hereunder. Developer may retain additional engineers or other consultants as determined in Developer's sole discretion to be necessary in connection with the design and installation of the Facilities. All plans and specifications shall be submitted to Utility and its engineers for review and approval, together with a copy of the subdivision plat for the Property and drawings depicting the infrastructure improvements for the subdivision.

3. Design and Construction Standards; Regulatory Approvals. All Facilities designed and constructed by Developer hereunder shall be in strict conformance with the plans and specifications therefor, and the applicable regulations of the Yavapai County Environmental Services Department ("Environmental Services"), Arizona Department of Environmental Quality ("ADEQ"), the Commission and/or any other governmental agency exercising jurisdiction over the design and construction of potable water systems. Prior to construction of any Facilities, Developer shall obtain approval to construct from either Environmental Services or ADEQ. Upon completion of the Facilities, Developer shall obtain approval of construction from either Environmental Services or ADEQ. Developer shall also be responsible for obtaining any additional permits, licenses and/or approvals required for the construction of the Facilities. Utility shall cooperate with and assist Developer promptly, as may be reasonably required, in obtaining such certificates and approvals. All contractors and subcontractors employed by Developer in connection with the construction of the Facilities shall be licensed by the Arizona Registrar of Contractors and shall be qualified in the construction of public water systems.

4. Right of Inspection; Corrective Action. Utility shall have the right to have its engineers, the selection of which shall be subject to Developer's approval, inspect and test the Facilities at reasonable times during the course of construction as necessary to ensure conformance with plans and specifications. If at any time before the final acceptance by Utility of the Facilities any construction, materials or workmanship are found to be defective or deficient in any way, or the Facilities fail to conform to this Agreement, then Utility may reject such defective or deficient construction, materials and/or workmanship and require Developer to fully pay for all necessary corrective construction efforts ("Corrective Action").

Utility reserves the right to withhold approval and to forbid connection of any defective portion of the Facilities to Utility's system unless and until the Facilities have been constructed in accordance with plans and specifications and all applicable regulatory requirements. Further, Developer shall promptly undertake any Corrective Action required to remedy such defects and deficiencies in construction, materials and workmanship upon receipt of notice by Utility. The foregoing notwithstanding, Utility shall not unreasonably withhold or delay acceptance of the Facilities.

5. Transfer of Ownership: As-Built Plans: Warranty.

(a) Transfer of Ownership. Upon proper completion, testing and final inspection of the Facilities by Utility, Utility shall issue a written notice of acceptance to Developer. Immediately thereafter, Developer shall convey to Utility, via a bill of sale in a form satisfactory to Utility, the Facilities together with any permanent easements and/or rights-of-way required pursuant to paragraph 7 below. All Facilities so transferred shall thereafter become and remain the sole property and responsibility of Utility. Developer covenants and agrees that, at the time of transfer, the Facilities shall be free and clear of all liens and encumbrances, and Developer shall provide evidence in the form of lien waivers or other appropriate documents that all claims of contractors, subcontractors, mechanics and materialmen have been paid and are fully satisfied.

(b) As-Built Plans. At the time of transfer, Developer shall provide to Utility three (3) sets of "as-built" drawings and specifications for the Facilities, certified and sealed by Developer's engineers to be true and correct.

(c) Warranty. Developer warrants that, upon their completion, the Facilities will be free from all defects and deficiencies in construction, materials and workmanship for a period of time commensurate with the warranty period provided to Developer by contractors retained by Developer to construct the Facilities, but in no event, for a period of less than one (1) year from the date of Utility's acceptance. During the warranty period, Developer agrees to promptly undertake any Corrective Action required to remedy such defects and deficiencies upon notice by Utility. Upon Utility's acceptance of the Facilities, as provided in this paragraph, Utility shall be deemed to have accepted the Facilities in "as is" and "as-constructed" condition, subject only to the warranty period concerning defects and deficiencies in construction, materials and workmanship provided for herein.

6. Reimbursement for Inspection Costs, Overhead and Other Expenses of Utility. Developer shall reimburse Utility for Utility's reasonable fees, costs and expenses incurred in connection with its review of the engineering plans and specifications for the Facilities, the preparation of this Agreement and other necessary legal services, inspection and testing of the Facilities during their construction, and other fees, costs and expenses reasonably and necessarily incurred by Utility with respect to this project during the course of construction and in connection with obtaining approval of the Commission to extend Utility's CC&N to include the Extension Area (collectively, "Administrative Costs"). Utility covenants to use reasonable efforts to incur Administrative Costs only as necessary and prudent. On a monthly basis, Utility shall provide Developer with a written statement describing with specificity all Administrative Costs incurred by Utility during the preceding month, together with complete copies of all bills, statements and invoices supporting such Administrative Costs. Developer shall make payment on or before the fifteenth (15th) day of the calendar month following the month in which Utility's statement is received. Utility hereby acknowledges its receipt of \$5,000.00 as a deposit, which deposit shall be applied as a credit against Administrative Costs incurred by Utility hereunder.

7. Public Streets and Rights-of-Way: Easements: Spacing of Lines. At the time of transfer of ownership of any Facilities, as provided in paragraph 5 above, Developer shall provide Utility with evidence satisfactory to Utility that all distribution mains and service lines within the Property are located within dedicated streets and/or public rights-of-way. In the event that any distribution mains or service lines are not located within dedicated streets and/or public rights-of-way, then at the time of transfer of ownership of such Facilities, Developer shall grant to Utility, or shall cause to be granted to Utility, easements and/or rights-of-way, free from all liens and security interests thereon, and in a form that is

satisfactory to Utility, over, under, and across all pipeline routes and all portions of the Property necessary to operate, maintain and repair such Facilities. Unless otherwise mutually agreed upon in writing, such easements and/or rights-of-way within the Property shall be free of physical encroachments, encumbrances or obstacles, and shall have a minimum width of ten (10) feet. The distribution mains and service lines constructed and installed by Developer within the Property shall be separated by a reasonable distance from other utility lines and facilities to prevent damage or conflicts in the event of repairs or maintenance.

8. Determination of Amount of Developer Advances. The actual cost of constructing and installing the Facilities described in paragraph 1 above and all amounts paid by Developer pursuant to paragraph 6 above shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9, below. Developer shall provide Utility with a written statement setting forth in detail Developer's actual costs of construction within ten (10) business days following receipt of Utility's notice of acceptance of the Facilities, together with copies of all invoices, bills, statements and other documentation evidencing the cost of construction. The costs of any Corrective Action, as defined in paragraph 4 above, the costs of curing any defects arising during the warranty period, as provided herein, and the costs of any unreasonable overtime incurred in the construction of the Facilities shall not be included in the actual cost of constructing and installing the Facilities, and shall not be subject to refund by Utility hereunder.

9. Refunds of Advances to Developer. Following the District's acquisition of the Facilities pursuant to paragraph 5(a) hereinabove, Utility shall refund annually to Developer an amount equal to fifteen percent (15%) of the gross annual operating revenues from water sales to bona fide customers of Utility within the Property. Such refunds shall be paid by Utility on or before August 31 of each calendar year for the preceding July 1 to June 30 period, commencing in the fifth calendar year immediately following the initiation of water utility service to the first customer within the Property by Company, continuing thereafter in each succeeding calendar year for a total of twenty (25) years. No interest shall accrue or be payable on the amounts to be refunded for the Facilities hereunder, and any unpaid balance remaining at the end of such twenty-five year period shall become a non-refundable contribution in aid of construction to Utility and be recorded as such in the Utility's books and records of account. In no event shall the total amount of the refunds paid by Utility pursuant to this Agreement exceed the total amount of all refundable advances paid by Developer in connection with the construction of the Facilities.

14. Right of Assignment. Developer may assign this Agreement, or any of its rights and obligations hereunder, to another party provided that written notice of such assignment is given to Utility prior to the effective date of assignment and that the assignee agrees in writing to fully perform Developer's obligations hereunder and to be bound by this Agreement.

15. Condemnation or Sale of Utility. In the event of the condemnation or sale of the Facilities, Utility shall promptly pay to Developer any unrefunded portion of Developer's advances in aid of construction. Payment by Utility shall be made on or before thirty (30) days from the date on which Utility receives payment.

First Amendment to MXA: Provisions amending Sections 1 – 9 or 14 – 15 of MXA.

1. Amendment to Agreement.

(a) Off-Site Facilities. Paragraph 1(a) of the Agreement is amended to provide that the "Facilities" include two production wells that have been installed and constructed by Developer and are described as Production Well 3 and Production Well 2 in that Well Agreement to be executed by Company, Developer and Talking Rock Golf, L.L.C. concurrently with the execution of this Agreement (the "Well Agreement"). A Revised Exhibit "C" reflecting the actual costs of the two production wells is attached hereto and incorporated herein by this reference.

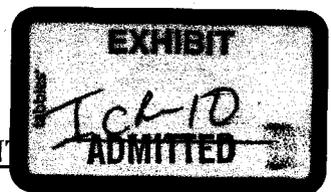
(b) Utility's Use of the Facilities. Paragraph 1(b) of the Agreement is amended to provide that Company covenants and agrees that Company shall use and operate the production wells

installed and constructed by Developer and transferred to Company pursuant to the Well Agreement only in accordance with the use restrictions contained in the Well Agreement and the conditions and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona, pursuant to which Developer's affiliate acquired the location of the production wells.

(c) Transfer of Ownership. Paragraph 5(a) of the Agreement is amended to provide that, pursuant to the Well Agreement, (i) immediately after the approval of this First Amendment by the Commission or its staff, Developer will transfer and convey Production Well 3 to the Company, via Bill of Sale in form attached to the Well Agreement; and (ii) on or before the date that the Company provides water service to the 800th single-family residence at the Property, Developer's affiliate, Talking Rock Golf, will transfer and convey Production Well 2 to the Company, via Bill of Sale in form attached to the Well Agreement. All other Facilities shall be conveyed in accordance with the terms of the Agreement.

(d) Determination of Amount of Developer Advances. Paragraph 8 of the Agreement is amended to provide that the actual costs of Production Well 3 and Production Well 2, including all equipment, pumps, motors, valves, pipes, electrical system and other appurtenances installed and constructed by Developer and transferred and conveyed by Developer or by Talking Rock Golf to Company, shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9 of the Agreement.

FIRST AMENDMENT TO WATER SERVICE AGREEMENT



On September 12, 2008, that certain Water Service Agreement ("Agreement") was executed between ICR Water Users Association, Inc., an Arizona public service corporation ("ICRWUA"), Harvard Simon I, LLC ("Harvard Simon"), Talking Rock Land, L.L.C., an Arizona limited liability company ("TRL"), and Talking Rock Golf Club, L.L.C., an Arizona limited liability company ("TRGC"). The parties may be referred to collectively herein as the "Parties" or individually as a "Party," and one, two or all three of "Harvard Simon," "TRL" and "TRGC" may be referred to collectively as the "Talking Rock Parties." By this First Amendment to Water Service Agreement ("First Amendment") dated this 1st day of December, 2008, the Parties now desire to amend the Agreement, as provided herein.

1. Effective Date. This First Amendment shall be effective as of the Effective Date defined in amended Section 11(c) of the Agreement as set forth in this First Amendment.

2. Statement of Purpose and Extent of Amendment. This First Amendment is entered into by the Parties as a further effort to address and resolve issues raised in ACC Docket No. W-02824A-07-0388 (the "Docket") and to further set forth agreements that will govern their relationship on a going-forward basis. The further agreements between the Parties set forth in this First Amendment are expressly intended by the Parties to make their agreements more consistent with the recommendations by ACC Utilities Division Staff ("Staff"), including the recommended special commodity rate set forth in Staff's November 14, 2008, filing in the Docket, and to further address issues raised by the interveners in the Docket and through public comment. This First Amendment amends only those provisions of the Agreement that are specifically addressed herein, and the Parties hereby agree that those provisions of the Agreement not specifically addressed herein remain materially unaffected by this First Amendment. "Materially Unaffected" shall mean that the provisions of this First Amendment shall supersede any provision of the Agreement that is inconsistent with this First Amendment.

3. Recital O. Recital "O" of the Agreement is hereby deleted.

4. Section 4. Section 4 of the Agreement is hereby amended by deleting the following sentence from Section 4:

The Talking Rock Parties shall not be required to take any minimum amount of water under this Agreement, and retain the right to provide their own water supply without any provision by ICRWUA as long as such self-supply is not in violation of Arizona and/or federal law; provided, however, that ICRWUA shall remain solely responsible for supplying water to customers of ICRWUA within Talking Rock requesting water service from ICRWUA.

5. Section 6. Section 6 of the Agreement is hereby deleted in its entirety and replaced with the following:

6. Commodity Charge; Meter Reading; Access to Meters; Point of Contact; No Other Charges.

a. Commodity Charge. During the Term of this Agreement, the Talking Rock Parties shall pay the "special commodity" rate ("Special Commodity Rate") set forth in ICRWUA's tariff on file with the ACC for all water delivered by ICRWUA for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes. In the Docket, Staff recommended an initial Special Commodity Rate of \$1.40 per one-thousand gallons of water as set forth in the Direct Testimony of Charles R. Myhlhousen dated November 14, 2008. In the event the ACC approves a Special Commodity Rate that is greater than \$1.40 per one-thousand gallons or that is otherwise inconsistent with this First Amendment in the Docket, then this First Amendment and the Agreement shall not become effective, shall have no force and effect, and the Parties' existing agreements shall remain in full force and effect. Subject to Section 6(a)(ii) below, the Talking Rock Parties acknowledge that the Special Commodity Rate is subject to change by the ACC in future rate case proceedings.

i. No Monthly Minimum Charge or Monthly Meter Charge. The Talking Rock Parties shall not be required to pay a monthly minimum charge or monthly meter charge for water delivered by ICRWUA for Landscape Irrigation, Lake Fill, Construction and other non-potable purposes.

ii. Moratorium on Increases in Rate and Charges. ICRWUA agrees that it will not file with the ACC any application or other request to increase any rate or charge, including but not limited to the Special Commodity Rate, which increase would become effective before the date which is five (5) years from the date of a final decision in the Docket (the "Moratorium Period"). This Section 6(a)(ii) shall terminate immediately upon the date that the Talking Rock Parties cease taking water from ICRWUA for Landscape Irrigation and/or Lake Fill, and ICRWUA shall thereafter have the unrestricted right to file with the ACC to increase any rate or charge.

iii. Obligation to Purchase Water. The Talking Rock Parties shall not be required to take any minimum amount of water under this First Amendment or the Agreement; provided, however, that the Talking Rock Parties agree that during the Moratorium Period, the Talking Rock Parties shall purchase all water required for Landscape Irrigation, Lake Fill, Construction and other non-potable purposes from ICRWUA, less available effluent that the Talking Rock Parties may use for Landscape Irrigation, Lake Fill, Construction and other non-potable purposes. The Parties further acknowledge and agree that the Talking Rock Parties may leave the ICRWUA water system at any time consistent with Arizona law.

iv. New Treatment Requirement; Contamination. The Talking Rock Parties acknowledge that ICRWUA might be required to seek interim rate relief from the ACC during the Moratorium Period in the event that: (a) a Federal, State or County entity (excluding any special taxing district established under A.R.S. Title 48) imposes upon ICRWUA a new rule, requirement, regulation, ordinance, judgment, order or similar decree (collectively, a "New Treatment Requirement"); and/or (2) the groundwater withdrawn by ICRWUA from the Talking Rock Wells becomes contaminated ("Contamination") with any pollutant regulated by any Federal, State or County entity (excluding any special taxing district established under A.R.S. Title 48), and such New Treatment Requirement or Contamination requires additional treatment and/or remediation ("Treatment and/or Remediation") by ICRWUA which: (a) increases ICRWUA's capital and/or operational costs of delivering water through the Talking Rock water system; and (b) was not required as of the Effective Date of this Agreement. In the event that ICRWUA is required to seek interim rate relief during the Moratorium Period, ICRWUA hereby agrees not to seek to increase any rates, including but not limited to the Special Commodity Rate, beyond that needed to recover from all of its customers the costs of the Treatment and/or Remediation on the same cost-of-service basis ICRWUA has employed in the Docket.

b. Meter Readings; Access to Meters. On a monthly basis, ICRWUA shall provide the Talking Rock Parties with meter readings of all meters measuring the delivery of water for Landscape Irrigation, Lake Fill and Construction Purposes. The Talking Rock Parties shall allow representatives of ICRWUA reasonable access to property owned and/or controlled by the Talking Rock Parties as necessary for ICRWUA to read the water meters. The Talking Rock Parties may request that ICRWUA calibrate and adjust the meter recording devices under this Agreement not more frequently than once per calendar year, at the cost of the Talking Rock Parties, unless the meter is found to be in error by more than 3%, in which event no costs of the meter reading and repair shall be charged to the Talking Rock Parties.

c. Point of Contact. The Talking Rock Parties shall identify a single point of contact ("Point of Contact") for receipt of all invoices to the Talking Rock Parties under this Agreement and shall notify ICRWUA in writing of the identity of the Point of Contact at the address set forth in Section 14(f) below. The Point of Contact shall be responsible for remitting payment on behalf of the Talking Rock Parties for all invoices received by the Talking Rock Parties. Late fees shall be assessed in accordance with ICRWUA's tariff.

d. No Other Charges. ICRWUA agrees that it will not bill or otherwise require payment from the Talking Rock Parties for water for purposes of Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable

purposes except as provided for in this Agreement. This Agreement does not relate to or impact the rates and charges for water service by ICRWUA to other customers of the Talking Rock water system, including for example, the Talking Rock health and fitness center and clubhouse.

6. Section 8. Section 8 of the Agreement is hereby deleted in its entirety.

7. Section 11 Section 11 of the Agreement is hereby deleted in its entirety and replaced with the following:

a. Cooperation of the Parties; ACC Approval. The Parties agree to cooperate fully and in good-faith to take all steps necessary and reasonable to seek ACC approval of the Special Commodity Rate defined in Section 6(a) of this First Amendment. The Parties further agree to seek approval of the Agreement and First Amendment, however, the Parties agree that unless the ACC specifically approves the Agreement and First Amendment without material change, each of the Parties shall submit either a Statement of Acceptance or a Statement of Non-Acceptance within ten (10) business days of the ACC decision in the Docket becoming final and non-appealable. If any of the Parties submits a Statement of Non-Acceptance, such statement shall specify the reason for non-acceptance of the ACC order approving the Agreement and, thereafter, the Parties shall meet within ten (10) business days to discuss whether the reason for non-acceptance can be cured. If the Statement of Non-Acceptance is not withdrawn as a result of such meeting and a Statement of Acceptance issued, the Parties hereby agree that the Agreement and this First Amendment shall not become effective, shall have no force and effect, and that the Parties' existing agreements shall remain in full force and effect.

b. Effective Date. The Agreement has been executed as the date first included therein, and this First Amendment has been executed as of the date included above. However, the Parties agree that the Agreement and First Amendment shall not be effective until the effective date ("Effective Date"), which shall be defined for purposes of this Agreement as the date upon which all Parties have submitted a Statement of Acceptance indicating that the final and non-appealable ACC decision approving the Agreement is acceptable.

c. Term. The Term of the Agreement, as amended, shall be thirty-five (35) years unless terminated earlier by the Parties.

8. Section 14(a). Section 14(a) is hereby deleted in its entirety and replaced with the following:

a. No Right to Challenge Withdrawal of Groundwater. The Talking Rock Parties hereby waive on behalf of themselves and their respective

successors and assigns any right to challenge ICRWUA's withdrawal of water from the Talking Rock Wells. It is the Parties' mutual understanding and good faith belief that ICRWUA has the legal right and authority to withdraw groundwater from the Talking Rock Wells, and once groundwater is withdrawn from such wells, ICRWUA is the owner of such groundwater.

9. Section 14(d). Section 14(d) of the Agreement is hereby amended by deleting the words "or any Additional Well(s)" where those words appear on the fifth line and the seventh line of the section.

10. Section 14(e)(vi). Section 14(e)(vi) of the Agreement is hereby deleted in its entirety.

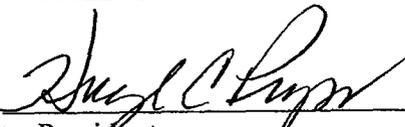
11. Non-Opposition. Subject to the limitations contained in Section 3(a) of the Agreement and the amended Section 6(a)(iii) set forth above in this First Amendment, ICRWUA shall not oppose the construction of a well or wells and/or a water transmission main by the Talking Rock Parties to enable the Talking Rock Parties to supply their own water for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes. ICRWUA shall provide such cooperation as may reasonably be requested by the Talking Rock Parties in connection with this Section; provided, however, that in no event shall such cooperation require the expenditure of money by ICRWUA unless such costs are reimbursed by the Talking Rock Parties.

12. Emergency Temporary Back-Up Supply. Not later than one hundred twenty (120) days after the Effective Date of the Agreement, as amended, the Parties shall agree upon a Second Amendment to the Agreement whereby ICRWUA shall provide emergency temporary back-up water on a bulk basis to the Talking Rock Parties for Landscape Irrigation and Lake Fill in the event the Talking Rock Parties cease to obtain water from ICRWUA under the tariff and require emergency temporary back-up water.

13. Additional Notifications. ICRWUA shall provide the Talking Rock Parties notice of the filing of any request with the ACC that could impact the Special Commodity Rate at least ninety (90) days before such filing is made. The Talking Rock Parties shall provide ICRWUA notice at least ninety (90) days before ceasing to take water from ICRWUA during the Moratorium Period.

IN WITNESS WHEREOF, the Parties hereto have caused this First Amendment to the Water Service Agreement to be executed as of the day and year first above written.

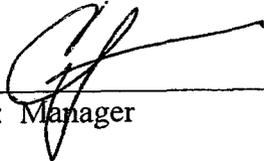
ICR WATER USERS ASSOCIATION, INC.

By  _____
Its: President

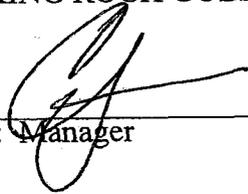
HARVARD SIMON I, L.L.C.

By 
Its: Manager

TALKING ROCK LAND, LLC

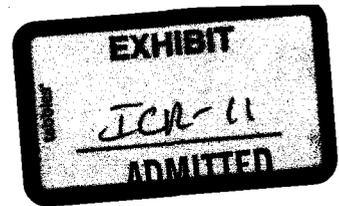
By: 
Its: Manager

TALKING ROCK GOLF CLUB, LLC

By: 
Its: Manager

ORIGINAL

BEFORE THE ARIZONA CORPORATION
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COMMISSIONERS

2008 MAY 14 P 4: 46

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

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION
OF ICR WATER USERS ASSOCIATION,
INC. FOR DETERMINATION OF THE
CURRENT FAIR VALUE OF ITS UTILITY
PLANT AND PROPERTY AND FOR
INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICES

DOCKET NO. W-02824A-07-0388

**NOTICE OF FILING
ENVIRONMENTAL
COMPLIANCE STATUS REPORTS**

In this rate proceeding, Arizona Corporation Commission Staff has recommended several compliance conditions for ICR Water Users Association, Inc. ("ICR") to meet. One of Staff's recommendations requires ICR to demonstrate that it is in compliance with the Arizona Department of Environmental Quality ("ADEQ") before ICR's new rates can go into effect. (J. Liu's Direct Testimony, Exhibit JWL at 4-5 (November 30, 2007) and Surrebuttal Testimony at 2 (December 21, 2007).) To comply with Mr. Liu's recommendation, ICR encloses copies of Compliance Status Reports for its two water systems, System Nos. 13-263 and 13-303, showing that it is in full compliance with ADEQ. (Exhibit A.)

By satisfying this recommendation before the hearing date, ICR requests that Mr. Liu's recommendation be removed as a compliance condition to any future recommended opinion and order and decision in this matter.

RESPECTFULLY submitted this 14th day of May, 2008.

Arizona Corporation Commission
DOCKETED

MAY 14 2008

DOCKETED BY NR

Snell & Wilmer

LLP
LAW OFFICES
One Arizona Center, 400 E. Van Buren
Phoenix, Arizona 85004-2202
(602) 382-6000

Snell & Wilmer

LLP
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Phoenix, Arizona 85004-2202
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SNELL & WILMER



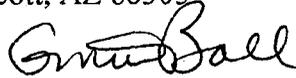
Robert J. Metli
Marcie A. Shuman
One Arizona Center
Phoenix, Arizona 85004-2202
Attorneys for ICR Water Users Association, Inc.

ORIGINAL AND THIRTEEN (13) copies
filed this 14th day of May, 2008, with:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

COPY of the foregoing mailed
this 14th day of May, 2008, to:

Mr. Dayne Taylor
13868 North Grey Bears Trail
Prescott, AZ 86305



8768928.2

EXHIBIT A

Arizona Department of Environmental Quality
 Drinking Water Monitoring and Protection Unit
 Mail Code 5415B-2
 1110 West Washington Street
 Phoenix, AZ 85007

Drinking Water Compliance Status Report

System Name	System Type	Is system consecutive?
ICR TALKING ROCK	X Community	Yes, to PWS #
System ID #	Non-transient Non-community	
13263	Transient Non-community	X No

Overall compliance status	X No major deficiencies	Major deficiencies
Monitoring and Reporting status	X No major deficiencies	Major deficiencies
Comments: None		

Operation and Maintenance status	X No major deficiencies	Major deficiencies
Date of last Sanitary Survey	N/A	Inspector
		N/A
Major unresolved/ongoing operation and maintenance deficiencies:		
<input type="checkbox"/> unable to maintain 20psi	<input type="checkbox"/> inadequate storage	
<input type="checkbox"/> cross connection/backflow problems	<input type="checkbox"/> surface water treatment rule	
<input type="checkbox"/> treatment deficiencies	<input type="checkbox"/> approval to construct/of construction	
<input type="checkbox"/> certified operator	<input type="checkbox"/> other	
Comments: None		

Is an ADEQ administrative order in effect?		Yes	X	No
Comments: None				

System Information				
Population Served	550			
Service Connections	275			
Number of Entry Points to the Distribution System	1			
Number of Sources	3			
Initial Monitoring Year	2008			
Monitoring Assistance Program (MAP) System	X	Yes		No

Evaluation completed by	Donna Calderon, Manager <i>DC</i> Drinking Water Monitoring and Protection Unit		
Phone	602-771-4641	Date	April 25, 2008
X	Based upon data submitted by the water system, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.		
	Based upon the monitoring and reporting deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.		
	Based upon the operation and maintenance deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.		

This compliance status report does not guarantee the water quality for this system in the future, and does not reflect the status of any other water system owned by this utility company.

Arizona Department of Environmental Quality
 Drinking Water Monitoring and Protection Unit
 Mail Code 5415B-2
 1110 West Washington Street
 Phoenix, AZ 85007

Drinking Water Compliance Status Report

System Name	System Type	Is system consecutive?
INSCRIPTION CANYON RANCH SYSTEM	X Community	Yes, to PWS #
System ID #	Non-transient Non-community	
13303	Transient Non-community	X No

Overall compliance status	X No major deficiencies	Major deficiencies
Monitoring and Reporting status	X No major deficiencies	Major deficiencies
Comments: None		

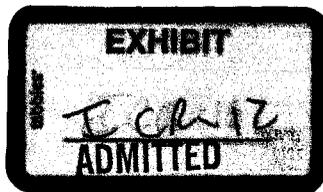
Operation and Maintenance status	X No major deficiencies	Major deficiencies
Date of last Sanitary Survey	10/05/05	Inspector
		Jim Jones, NRO
Major unresolved/ongoing operation and maintenance deficiencies:		
<input type="checkbox"/> unable to maintain 20psi	<input type="checkbox"/> inadequate storage	
<input type="checkbox"/> cross connection/backflow problems	<input type="checkbox"/> surface water treatment rule	
<input type="checkbox"/> treatment deficiencies	<input type="checkbox"/> approval to construct/of construction	
<input type="checkbox"/> certified operator	<input type="checkbox"/> other	
Comments: None		

Is an ADEQ administrative order in effect?	Yes	X	No
Comments: None			

System Information			
Population Served	100		
Service Connections	100		
Number of Entry Points to the Distribution System	1		
Number of Sources	2		
Initial Monitoring Year	1999		
Monitoring Assistance Program (MAP) System	X	Yes	No

Evaluation completed by	Donna Calderon, Manager  Drinking Water Monitoring and Protection Unit		
Phone	602-771-4641	Date	April 25, 2008
X	Based upon data submitted by the water system, ADEQ has determined that this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.		
	Based upon the monitoring and reporting deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.		
	Based upon the operation and maintenance deficiencies noted above, ADEQ cannot determine if this system is currently delivering water that meets water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.		

This compliance status report does not guarantee the water quality for this system in the future, and does not reflect the status of any other water system owned by this utility company.



RECEIVED

NOV 25 2008

MEMORANDUM

SNELL & WILMER

TO: Docket Control Center

FROM: Brian K. Bozzo *BKB*
Manager, Compliance and Enforcement
Utilities Division

DATE: November 21, 2008

RE: ICR WATER USERS ASSOCIATION, INC. - COMPLIANCE REQUIREMENT
TRANSFER ISSUE OF WELLS FROM HARVARD SIMON I, LLC TO UTILITY
PER DECISION NO. 64360 (DOCKET NO. W-02824A-01-0450)

On January 15, 2002, the Arizona Corporation Commission ("Commission") issued Decision No. 64360, approving the application of ICR Water Users Association, Inc. ("ICR" or "Company") for an extension of its Certificate of Convenience and Necessity ("CC&N"), subject to several conditions. The Commission expressed concern regarding "the fact that ICR does not own or have its own production facilities". Therefore, one of the conditions under which the extension was granted was that ICR arrange to have Harvard Simon I, LLC ("Harvard") transfer to ICR "the wells which it has drilled for the purposes of providing water to the extension area". The Commission stated that the purpose of the transfer was "to ensure that the utility has adequate water for its customers and to ensure that they are not subject to relying for their water on a third party over which the Commission lacks jurisdiction." The decision did not specifically identify any particular well. All that is clear is that the Commission ordered that two wells should be transferred.

On March 7, 2003, the Company filed a document titled "ICR Water Users Association, Inc. Notice of Compliance" which purported compliance with the above requirement. This item was accepted by Staff at that time. However, an intervenor in the instant docket challenged that compliance. As a result, Staff re-evaluated ICR's previous compliance filing. As a result of that re-evaluation, on January 15, 2008, Staff docketed a memorandum of compliance stating that the March 7, 2003 filing "did not result in the timely transfer of two wells to ICR and therefore the Company did not achieve compliance", since the agreement submitted in the Company's compliance filing only resulted in the *immediate* transfer of one well.

In response to Staff's January filing, Harvard transferred a second well to ICR. Staff has reviewed the documents submitted by ICR which indicate that transfer was accomplished on May 21, 2008. Staff is now satisfied that ICR is in compliance with the requirements of Decision No. 64360.

EGJ:BKB:lhmm

Originator: Brian K. Bozzo

Attachment

SERVICE LIST FOR: ICR WATER USERS ASSOCIATION, INC.
DOCKET NO. W-02824A-01-0450

Mr. Robert Metli
SNELL & WILMER, LLP
One Arizona Center
Phoenix, Arizona 85004-2202
Attorney for ICR Water Users Association, Inc.

Mr. Robert Busch
ICR Water Users Association
Post Office Box 5669
Chino Valley, Arizona 86323

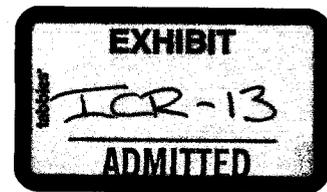
Mr. Dayne Taylor
13868 North Grey Bears Trail
Prescott, Arizona 86305-1516

Mr. Jay Shapiro
FENNEMORE CRAIG
3003 North Central Avenue, Suite 2600
Phoenix, Arizona 85012-2913
Attorneys for Harvard Simon I, L.L.C.

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

Ms. Janice M. Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007



From: Crockett, Jeff [mailto:jcrockett@swlaw.com]
Sent: Friday, August 29, 2008 5:34 PM
To: daymartay@cableone.net; Kevin Torrey
Cc: SHAPIRO, JAY
Subject: Draft Water Service Agreement

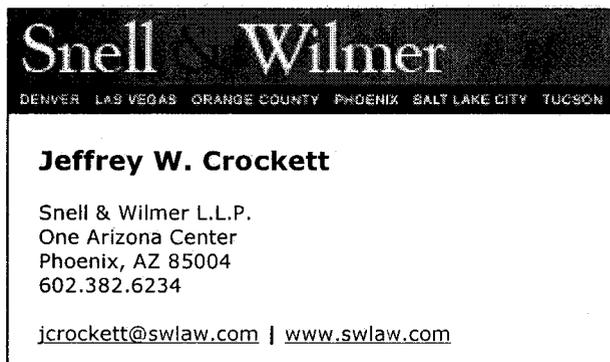
Confidential Settlement Document Provided in Furtherance of Settlement Negotiations
Subject to Rule 408 of the Arizona Rules of Evidence

Messrs. Taylor and Torrey:

Attached for your review and comment is a draft of a Water Service Agreement between ICRWUA and Harvard Simon I, Talking Rock Land, and Talking Rock Golf Club. The draft agreement is a confidential settlement document, and it is being provided to you in furtherance of settlement discussions in connection with Docket W-02824A-07-0388. You may not distribute this agreement publicly.

Perhaps it might be helpful if we scheduled a meeting or conference call to walk through the draft agreement and answer any questions you may have. Please let me know if you would like to schedule such a meeting.

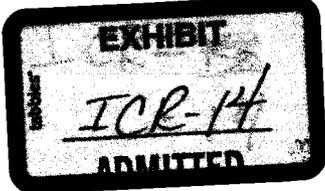
Regards,



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Circular 230 Disclaimer: To ensure compliance with Treasury Regulations governing written tax advice, please be advised that any tax advice included in this communication, including any attachments, is not intended, and cannot be used, for the purpose of (i) avoiding any federal tax penalty or (ii) promoting, marketing, or recommending any transaction or matter to another person.

12/1/2008



ICR WATER USERS ASSOCIATION
TALKING ROCK SYSTEM USE
NOV 2003 thru MAY 2005

	TOTAL WATER PUMPED	TOTAL WATER SOLD	GOLF COURSE	RESIDENTIAL USE	UNACCOUNTED FOR WATER
Nov 03	5,457,000	4,412,800	4,320,000	92,800	1,044,200
Dec	937,000	877,840	851,000	26,840	59,160
Total	6,394,000	5,290,640	5,171,000	119,640	1,103,360
Jan 04	1,722,000	1,683,420	1,640,000	43,420	38580
Feb	1,397,000	1,235,620	1,197,000	38,620	161,380
Mar	8,815,000	8,592,300	8,514,000	78,300	222,700
Apr	13,331,000	12,980,830	12,888,000	92,830	350,170
May	22,898,000	21,991,070	21,815,000	176,070	906,930
Jun	29,398,000	28,194,390	27,950,000	244,390	1,203,610
Jul	20,044,000	20,385,550	20,187,000	198,550	-341,550
Aug	13,686,000	13,042,160	12,939,000	103,160	643,840
Sep	19,206,000	19,091,800	18,847,000	244,800	114,200
Oct	10,298,000	10,041,490	9,881,000	160,490	256,510
Nov	919,000	814,340	736,000	78,340	104,660
Dec	883,000	771,970	701,000	70,970	111,030
Total	142,597,000	138,824,940	137,295,000	1,529,940	3,772,060
Jan 05	278,000	54,120	0	54,120	223880
Feb	204,000	55,240	0	55,240	148760
Mar	505,000	233,240	152,000	81,240	271760
Apr		10,335,910	10,209,000	126,910	
May		14,366,470	14,190,000	176,470	
Total		25,044,980	24,551,000	493,980	

ICR WATER USERS ASSOCIATION

TALKING ROCK SYSTEM

Data in Gallons

MONTH	Well #1	PUMPED Well #2	Well #3	TOTAL PUMPED	TOTAL WATER DELIVERED	WATER TO TRR GOLF	NOT ACCOUNTED FOR	RESIDENTIAL USE
JAN 2007	656,000	0	1,107,000	1,763,000	1,331,778	1,084,000	431,222	247,778 JAN
FEB	1,083,000	2,000	1,382,000	2,467,000	1,978,093	1,691,000	488,907	287,093 FEB
MAR	5,641,000	214,000	4,212,000	10,067,000	9,768,843	8,948,000	298,157	820,843 MAR
APR	7,015,000	771,000	5,049,000	12,835,000	13,493,047	12,642,000	-658,047	851,047 APR
MAY	10,343,000	3,370,000	8,137,000	21,850,000	20,185,185	19,310,000	1,664,815	875,185 MAY
JUNE	8,477,000	8,444,000	7,297,000	24,218,000	24,908,025	23,611,000	-690,025	1,297,025 JUN
JULY	12,146,000	6,795,000	7,678,000	26,619,000	24,956,202	23,277,000	1,662,791	1,679,202 JUL
AUG	5,096,000	2,717,000	4,839,000	12,652,000	14,616,870	13,753,000	-1,964,870	863,870 AUG
SEP	10,137,000	55,000	6,522,000	16,714,000	15,349,960	14,196,000	1,364,040	1,153,960 SEP
OCT	5,989,000	445,000	4,016,000	10,450,000	10,040,408	9,169,000	409,592	871,408 OCT
NOV	5,682,000	1,578,000	4,365,000	11,625,000	11,436,358	10,415,000	188,642	1,021,358 NOV
DEC	866,000	781,000	926,000	2,573,000	1,300,668	767,000	1,272,332	533,668 DEC
	73,131,000	25,172,000	55,530,000	153,833,000	149,365,437	138,863,000	4,467,556	10,502,437
ACRE FT	224.4	77.3	170.4	472.1	458.4	426.2	13.7	

1 FENNEMORE CRAIG
Jay L. Shapiro (No. 014650)
2 Patrick J. Black (No. 017141)
3003 N. Central Ave.
3 Suite 2600
Phoenix, Arizona 85012
4 Attorneys for Talking Rock Golf Club, LLC

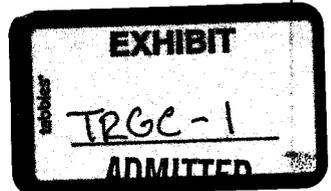
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6
7 **BEFORE THE ARIZONA CORPORATION COMMISSION**

8
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10 IN THE MATTER OF THE APPLICATION
OF ICR WATER USERS ASSOCIATION, AN
11 ARIZONA CORPORATION, FOR A
DETERMINATION OF THE CURRENT
12 FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
13 RATES AND CHARGES FOR UTILITY
SERVICE

DOCKET NO: W-02824A-07-0388

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18 **TESTIMONY OF CRAIG L. KRUMWIEDE**

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1 **I. INTRODUCTION.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Craig L. Krumwiede, 17700 North Pacesetter Way, Scottsdale, AZ 85255.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Harvard Investments, Inc. and am its President. Headquartered
6 in Scottsdale, Arizona, Harvard Investments is the United States investment and
7 development arm of the Hill Companies – one of the oldest land development
8 companies in Canada, operated as a privately held company since its inception in
9 1903. We currently have investment and development projects in Texas, Colorado
10 and Arizona. In my capacity as President, I am responsible for and oversee all
11 planning, acquisition, development and sale of Harvard Investments real estate
12 investments.

13 **Q. WHAT IS YOUR RELATIONSHIP TO THE INTERVENER?**

14 A. Harvard Investments is the manager of Harvard Talking Rock, LLC, which is the
15 operating member of Harvard Simon I, LLC. Harvard Simon I is the manager of
16 Talking Rock Land, LLC and Talking Rock Golf Club, LLC (“TRGC”), the
17 intervener. That brings up something we would ask the Commission to correct in
18 the record. The correct name of the golf course owner and the party intervening is
19 “Talking Rock Golf Club, LLC”, not “Talking Rock Golf Course, LLC” as
20 reflected in the motion filed April 3, 2008.

21 **Q. PLEASE SUMMARIZE YOUR WORK HISTORY?**

22 A. I have been employed by Harvard Investments for over 25 years, the last 15 as
23 President. Prior to working for Harvard Investments, I worked in the tax
24 department for Deloitte Haskins and Sells.

25 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND.**

26 A. I graduated from ASU with a Bachelors Degree in Accounting and a Law Degree.

1 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE ARIZONA
2 CORPORATION COMMISSION?

3 A. No.

4 II. PURPOSE OF TESTIMONY AND SUMMARY.

5 Q. WHY HAS TRGC NOW INTERVENED IN THIS PROCEEDING?

6 A. We had been aware of the rate case but did not feel compelled to intervene until we
7 learned that the Commission Staff modified its initial testimony and findings and
8 now recommends that the water company, ICR Water Users Association or ICR,
9 should not have a rate increase because TRGC should be treated as a "tariffed"
10 customer. We strongly disagree and felt compelled to intervene to protect our legal
11 and contractual rights. At the same time, we also wish to present the Commission
12 with evidence demonstrating that, not only is the Talking Rock development good
13 for the community, but also that under the existing agreements both Talking Rock
14 and TRGC have paid and will continue to pay their fair shares.

15 Q. HOW IS YOUR TESTIMONY ORGANIZED?

16 A. First, I provide an overview of the Talking Rock mater-planned community and
17 golf club. Next, I discuss the parties' existing extension and well transfer
18 agreements. Then, I provide a response to the positions of Staff and Mr. Taylor
19 that impact TRGC. Finally, I will present TRGC's recommendations to the
20 Commission in this proceeding.

21 Q. MR. KRUMWIEDE, CAN YOU PLEASE SUMMARIZE TRGC'S
22 RECOMMENDATION TO THE COMMISSION?

23 A. Yes. We respectfully request that the Commission respect the parties' existing
24 rights and not approve the recommendations of Staff and Mr. Taylor to the extent
25 those recommendations abrogate TRGC's legal and contractual rights.
26

1 **III. OVERVIEW OF TALKING ROCK GOLF CLUB?**

2 **Q. ARE YOU FAMILIAR WITH THE OPERATION OF THE GOLF CLUB?**

3 A. Yes.

4 **Q. WHERE IS THE TALKING ROCK COMMUNITY AND GOLF CLUB**
5 **LOCATED?**

6 A. In the Talking Rock master planned community approximately 12 miles north of
7 Prescott, Arizona. The championship course is the centerpiece of the Talking Rock
8 community. It was designed by a top designer, Jay Moorish, who also co-designed
9 the course in Scottsdale on which the Phoenix Open is played. Every effort was
10 and is made to preserve the existing landscape and conform to the natural contours
11 of the land. The Talking Rock golf course is the first course in Arizona recognized
12 for being designed, built and maintained in compliance with the Environmental
13 Principles of Golf under the Talking Rock Integrated Golf Course Management
14 Plan, a plan that embraces the concepts for a sustainable future by adopting the
15 strategies outlined in "Golf & The Environment, Environmental Principles for Golf
16 Course in the United States".

17 **Q. PLEASE DESCRIBE THE TALKING ROCK COMMUNITY?**

18 A. The Talking Rock project is approximately 3150 acres, but it is planned for only
19 1598 homes. The Club has over 475 members and 130 families have built homes
20 to date. Another 17 homes are under construction. The lots at Talking Rock
21 surround and incorporate the golf course. In total, there is approximately 950 acres
22 of open space in the project, approximately 30% of the Talking Rock community.
23 With the exception of the turfed areas of the golf course, roughly 90 acres, these
24 areas use natural vegetation and do not require irrigation. Talking Rock received
25 the 2002 Heritage Preservation Award for the work we've done in preserving a
26 cultural resource at the project known as *The Inscription Canyon Petroglyph Site*.

1 Talking Rock deeded 4.2 acres containing over 1,200 petroglyphs back to the
2 Yavapai Prescott Indian Tribe.

3 The project as a whole has also had a positive economic impact on the larger
4 community. The golf club employs approximately 80 people. Since the
5 construction of homes in Talking Rock started, over \$72 million dollars have been
6 injected into the local economy. At full build out, an estimated \$800 million will
7 have been injected into the local economy. I believe Talking Rock is good for
8 Yavapai County and the State of Arizona.

9 **Q. WHEN IS FULL BUILD-OUT ANTICIPATED?**

10 A. Sales began in 2002, and to date we have sold approximately 570 lots and homes,
11 or approximately one-third of the project. We anticipate the project will sell out
12 over the next 10 to 20 years. We would anticipate that the homes will be built at an
13 accelerating rate as the project matures.

14 **Q. HOW IS THE GOLF COURSE IRRIGATED?**

15 A. Currently, primarily with groundwater from wells we own or in which we have
16 reserved rights. We also use all of the effluent made available to us by the local
17 sanitary district. The sanitary district treats effluent from 4 different projects;
18 Talking Rock, Inscription Canyon, Whispering Canyon and the Preserve. The four
19 projects total approximately 2500 lots and we are the primary means by which the
20 sewer utility disposes of its effluent. At full build-out, the 4 projects will generate
21 enough effluent to meet nearly all of the golf course's irrigation needs.

22 **Q. ARE THESE THE WELLS PROVIDING WATER TO ICR'S**
23 **CUSTOMERS?**

24 A. Yes, to ICR's domestic water use customers in Talking Rock. The well known as
25 Well No. 3 (DWR Well # 55-589660) was transferred to ICR pursuant to the Well
26 Agreement dated February 25, 2003. The well known as Well No. 2 (DWR Well #

1 55-589659) is owned by TRGC and is currently scheduled to be transferred to ICR
2 by the time the 800th lot at Talking Rock receives water service pursuant to the
3 Well Agreement and the First Amendment to Main Extension Agreement, both
4 dated February 25, 2003. The well known as Well No. 1 (DWR Well # 55-
5 584177) is currently owned by Talking Rock Land, LLC, an affiliate of TRGC.
6 All three of these wells were drilled and paid for by Talking Rock.

7 **Q. IS TRGC A CUSTOMER OF ICR?**

8 A. No. The relevant language from our agreement with ICR makes it clear that TRGC
9 does not purchase water utility service for irrigation from ICR. The language is as
10 follows:

11 5. Water Service. After Developer or Talking Rock Golf
12 transfers and conveys a Production Well to Utility under
13 paragraph 2 or paragraph 3, Utility will deliver water to the
14 Property from the transferred and conveyed Production Well
15 for the purpose of providing domestic water service to
16 customers within the Property for all purposes, including
17 common area landscape watering, but excluding (i) water
18 service to the Golf Course for landscape irrigation and lake
19 fill purposes at the Golf Course, until such time as Talking
20 Rock Golf requests water service to the Golf Course pursuant
21 to the Main Extension Agreement, and (ii) water service for
22 construction purposes. All deliveries by Utility from the
23 transferred and conveyed Production Well shall be subject to
24 the terms, conditions, covenants and restrictions of this
25 Agreement. This paragraph does not limit Utility's
26 obligations under paragraphs 14 and 15 to allow Developer to
use unused capacity in the transferred and conveyed
Production Well for golf course irrigation and for
construction purposes, as provided in those paragraphs.

21 So, in summary, under the well and extension agreements with ICR, we either own
22 the wells or have rights to the production from the wells that provide water for
23 irrigation of the golf course and pay both a wheeling fee and a pro rata share of the
24 pumping and other costs to ICR.

1 Q. **WHY DIDN'T YOU WAIT TO BUILD THE GOLF COURSE?**

2 A. The simple answer is that buyers don't buy in a project like this unless the golf
3 course is built (or at least under construction). In my 25 years of experience, I am
4 not aware of a golf project that was successfully sold without the golf course being
5 built.

6 Q. **WHAT IS TALKING ROCK DOING TO CONSERVE WATER?**

7 A. On the development side, we follow strict design standards. As I mentioned above,
8 a significant portion of the project is natural, open space. In the developed areas,
9 we have minimized the disturbance of the natural areas by requiring building
10 envelopes for each lot. Outside of the building envelopes, the lot is to remain
11 natural and no turf landscaping is allowed. Very limited turf, if any, is used inside
12 the building envelopes. These efforts to conserve water appear to be working--
13 Talking Rock residents use on the average 50% less water than users in the
14 surrounding Inscription Canyon, Whispering Canyon, and Preserve. *See Staff*
15 *Engineering Report, Exhibit JWJ, at page 4.*

16 At the golf club, we are constantly striving to reduce our water usage. For
17 example, we are currently reconfiguring the course to reduce our overall turfed
18 areas by 10%. This is expected to reduce our annual water uses by approximately
19 10%. The areas where turf is eliminated will be re-vegetated with natural materials
20 that will not require irrigation when established. We are also using effluent to
21 irrigate the golf course.

22 Q. **WHY DON'T YOU JUST USE EFFLUENT TO IRRIGATE THE GOLF**
23 **COURSE?**

24 A. Because more effluent isn't currently available. The plan was, is, and will continue
25 to be to use as much effluent as possible to irrigate the golf course. As the Talking
26

1 Rock project and the other projects are built out, more effluent will be available
2 and groundwater use will decrease.

3 **IV. THE MAIN EXTENSION AND WELL TRANSFER AGREEMENTS.**

4 **Q. YOU MENTIONED AGREEMENTS WITH ICR. WOULD YOU PLEASE**
5 **IDENTIFY THE RELEVANT AGREEMENTS BETWEEN TRGC OR ITS**
6 **AFFILIATES AND ICR?**

7 A. There are several agreements between the parties:

8 *Main Extension Agreement, March 5, 2001 (later amended)*

9 *Water Purchase Agreement, April 27, 2001 (superseded by Well*
10 *Agreement)*

11 *First Amendment to Main Extension Agreement, February 25, 2003*

12 *Well Agreement, February 25, 2003 (later amended)*

13 *First Amendment to Well Agreement, October 23, 2003 (correction to name)*

14 *Second Amendment to Well Agreement, September 15, 2005*

15 I understand that the Main Extension Agreement is a fairly standard extension
16 agreement with Talking Rock constructing 100% of the plant, both on- and off-site,
17 needed for ICR to extend service to the Talking Rock community. The Well
18 Agreement replaced a wholesale purchase agreement after the Commission issued
19 Decision No. 64360 and wanted the wells to be transferred. The Well Agreement
20 provided for the immediate transfer of Well No. 3 and the transfer of Well No. 2
21 when service to the 800th lot in Talking Rock is established. The extension
22 agreement was amended the same date to reflect the transfer of the wells. Finally,
23 the second amendment to well agreement conferred some additional protection to
24 ICR regarding sufficiency of water to serve Talking Rock.¹

25 ¹ TRGC believes that the relevant agreements are on file at the Commission in one form or another and some already
26 appear to be in the record in this docket. While no copies of the mentioned agreements are attached to this filing,
TRGC will bring copies of all of the agreements to the hearing in this docket.

1 **Q. WHO NEGOTIATED ALL THESE AGREEMENTS, MR. KRUMWIEDE?**

2 A. Representatives of Talking Rock and representatives of ICR. Both parties were
3 represented at all times by legal counsel.

4 **Q. WERE THESE AGREEMENTS SUBMITTED TO THE COMMISSION**
5 **FOR APPROVAL?**

6 A. The Main Extension Agreement and the First Amendment to Main Extension
7 Agreement were submitted and approved. Busch Supplemental Rebuttal
8 Testimony at 4. The Well Agreement was docketed by ICR as a compliance item
9 on March 7, 2003, and I am not aware of any party voicing any objection until
10 recently during the latter stages of this rate case. *Id.*

11 **Q. WHAT PLANT HAS BEEN OR WILL BE BUILT BY THE TALKING**
12 **ROCK DEVELOPER AND CONVEYED TO THE UTILITY UNDER THE**
13 **MAIN EXTENSION AGREEMENT?**

14 A. Everything necessary for the water utility, ICR, to serve the Talking Rock
15 development. We've always accepted that growth needed to pay for itself. We
16 entered into a similar agreement with the sewer utility provider. In fact, Talking
17 Rock is currently in the process of working with the sanitary district to design and
18 build a new 250,000 gpd water reclamation facility. This state-of-the-art facility
19 which will produce A+ effluent water for the golf course. The plant will be
20 expandable to 1 mgd.

21 **Q. YOU TESTIFIED THAT THE MAIN EXTENSION WAS "FAIRLY**
22 **STANDARD". IF THAT IS THE CASE, WHY ARE THE REFUNDS**
23 **HIGHER THAN 10% AND FOR LONGER THAN 10 YEARS?**

24 A. I understand the Commission's rules provide for a "minimum" of 10% refunds for
25 10 years. In this case, we built more than just an on-sight distribution system; we
26 are responsible for designing, building and paying for the entire supply,

1 transmission, storage and distribution infrastructure needed for ICR to serve
2 Talking Rock. We felt, and ICR agreed, that something more than the "minimum"
3 was appropriate.

4 **Q. HAS ALL OF THE PLANT BEEN BUILT?**

5 A. No, not all, although a number of major components have been built. First, not all
6 of the plant needed to serve the Talking Rock community has been built because it
7 is not yet needed for service. This would include subdivision water distribution
8 lines in future phases, for example. Second, all of the transmission, treatment,
9 storage and distribution infrastructure being used today has been constructed by
10 Talking Rock and has either been conveyed or is in the process of being conveyed
11 to ICR. Third, the well known as Well No. 3 was drilled and equipped by Talking
12 Rock and conveyed to ICR in 2003. Transfer of a second well, known as Well No.
13 2, is currently pending until the extension of service to the 800th lot in Talking
14 Rock pursuant to the Well Agreement.

15 **Q. WHAT ABOUT THE WELL KNOWN AS WELL NO. 1?**

16 A. There has never been any agreement by TRGC or any of its affiliates to transfer the
17 well known as Well No. 1 to ICR, and we don't agree that a transfer of Well No. 1
18 was required by the Commission. I will address Mr. Taylor's contrary view in the
19 next section of my testimony.

20 **Q. WHO OPERATES ALL OF THESE WELLS?**

21 A. ICR and its system operators do. Initially, TRGC was to control and operate the
22 wells, however, over time ICR took over operation of the wells that were being
23 used to serve its customers. This gives ICR greater control over its water supply
24 sources and has worked so far.

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1 Q. WHY DIDN'T TALKING ROCK JUST AGREE TO TRANSFER
2 OWNERSHIP OF ALL THE WELLS TO ICR IN THE FIRST PLACE?

3 A. It was clear from the outset that the golf course would use the bulk of the water
4 from the wells for a number of years, especially relative to domestic use. So, when
5 we secured the water we needed for our development, we made the decision to
6 retain rights to those water sources sufficient to irrigate our golf course. It was a
7 business decision.

8 But, it was never our intent to leave the water utility short of water or
9 without adequate access to the sources used for residential water utility service. In
10 order to have a successful development, it is in our best interest that ICR has
11 adequate sources of water for residential water utility service. The Well
12 Agreement requires us to transfer Wells 3 and 2 to ICR for domestic use, we have
13 always paid at least our fair share of the costs to operate the wells and the rest of
14 the backbone system, and, as I testified above, in practice we have allowed ICR to
15 operate all three wells to meet the demands of its customers and TRGC.

16 Q. AND YOU BELIEVE THIS ARRANGEMENT IS FAIR TO ICR AND ITS
17 CUSTOMERS?

18 A. Yes, we think it is fair. ICR agreed to it and must have thought it was fair. The
19 Commission approved the parties' agreements. We paid for all of the needed
20 infrastructure and are paying our fair share of the costs. So, I agree with Mr. Busch
21 who testified on behalf of ICR that the agreements are reasonable. Busch
22 Supplemental Rebuttal Testimony at 7.

23 Q. BUT DOESN'T THIS ARRANGEMENT VIOLATE THE COMMISSION'S
24 ORDER GRANTING THE CC&N?

25 A. No, I also agree with Mr. Busch on this issue for the reasons explained in more
26 detail in the next section of my testimony. *Id.* at 4. The timing for the transfer of a

1 second well was clearly spelled out in the agreements submitted and approved by
2 the Commission, particularly the First Amendment to the Main Extension
3 Agreement. We hid nothing from the Commission. ICR has been operating all
4 three of the wells, including the two Talking Rock wells. They have a great deal of
5 control over their supply sources, which was the concern the Commission
6 expressed with the prior "wholesale" supply arrangement.

7 Additionally, we already had reserved rights in the water we found for our
8 project and in the use of the wells, and we have been paying our proportionate
9 share of the operating costs. Bourassa Supplemental Rebuttal Testimony at 33.
10 This means that delaying the effect of the transfer of a second well did not harm
11 ICR and its ratepayers in any way, and conferred no additional benefit to TRGC.
12 Basically, we've paid the same amount to ICR for the use of water from Well No.
13 2, as we would have paid if we had transferred Well No. 2 to ICR under our
14 contractual arrangements.

15 **V. RESPONSE TO TESTIMONY BY DAYNE TAYLOR AND ACC STAFF**

16 **Q. HAVE YOU REVIEWED THE FILINGS IN THIS CASE MADE BY STAFF**
17 **AND MR. TAYLOR?**

18 A. I have reviewed these filings focusing primarily on issues that implicate the
19 Talking Rock development, and TRGC and the operation of its golf course. There
20 are a lot of other issues that involve Commission regulation and ratemaking that I
21 do not claim to understand and which do not appear to involve TRGC.

22 **Q. WHAT TESTIMONY AND POSITIONS ADVANCED BY MR. TAYLOR**
23 **AND STAFF ARE YOU RESPONDING TO IN THIS SECTION OF YOUR**
24 **TESTIMONY?**

25 A. I will focus primarily on addressing Mr. Taylor's claim that ICR and TRGC have
26 violated a Commission order and must transfer Well No. 1 immediately to achieve

1 compliance and his claim that TRGC must be treated as a tariffed customer of ICR.
2 I will also address Staff's claim that the Commission requires that two wells be
3 transferred and that TRGC should be treated as a tariffed customer. I will try to
4 keep my response as direct and concise as possible, especially given that there are
5 clearly some technical, ratemaking matters in dispute between the other parties,
6 such as the rate impact of treating TRGC as a customer of ICR. I would only point
7 out that my failure to address specific testimony by Staff's witnesses or Mr. Taylor,
8 or to address an issue in dispute, should not be taken to signal our agreement with
9 such testimony or position.

10 **Q. HOW DO YOU RESPOND TO THE CLAIM BY STAFF AND MR.**
11 **TAYLOR THAT ICR IS IN VIOLATION OF DECISION NO. 64360**
12 **BECAUSE TRGC HAS NOT TRANSFERRED TWO WELLS TO ICR?**

13 **A.** I don't agree. Again, we need to put things into the proper context. At the time of
14 the CC&N proceeding, we were a seller of a wholesale water supply to ICR so it
15 could serve the residents of Talking Rock. After the decision and in response to it,
16 we changed direction substantially and transferred two wells to ICR, one
17 immediately and one effective when the 800th house received service. The Well
18 Agreement refers collectively in its language and effect to the transfer of two wells.
19 *See, e.g.,* Well Agreement at § 4. ICR gave both the Well Agreement and the
20 companion amended extension agreement to the Commission and received
21 approval of the transaction in September, 2003. In October, 2003, we transferred
22 Well No. 3 to ICR, as provided in the agreements. After that, every one went about
23 their business until Mr. Taylor intervened. It appears to me though that ICR was
24 found to be in compliance twice, once five years ago and a second time in the first
25 chapter of this rate case. *See* Staff Engineering Report, Exhibit JWJ, at page 7.

26

1 The very recent claim by Mr. Taylor and modified filings by Staff are the only
2 allegation of non-compliance.

3 **Q. BUT DOESN'T THAT MEAN YOU LEFT ICR WITHOUT A BACK-UP**
4 **WATER SUPPLY?**

5 A. No, Mr. Taylor is incorrect. Taylor Surrebuttal Testimony at 2, 5. First, the wells
6 we drilled only serve Talking Rock. Well Agreement at § 13. The customers
7 living outside Talking Rock, which include Mr. Taylor, were unaffected. They rely
8 on the same third-party water source ICR had before the agreements with Talking
9 Rock. Second, as I testified above, ICR operates all three wells and has, in fact,
10 used water from any and all of them to serve its domestic needs. To my
11 knowledge, no one in Talking Rock, or anywhere in ICR's CC&N, has been short
12 of water because of the golf course.

13 **Q. HOW DO YOU RESPOND TO MR. TAYLOR'S CLAIM THAT YOU HAVE**
14 **TO TRANSFER WELL NO. 1 TO ICR?**

15 A. Mr. Taylor argues that the Commission could only have meant Well No. 1 because
16 that was the only well in existence at that time. Taylor Surrebuttal at 4. But it was
17 always contemplated that there would be multiple wells drilled in Talking Rock.
18 Decision No. 64360 at 4; Water Purchase Agreement at § 2. Within several
19 months after the Commission's decision, Wells 2 and 3 were drilled. The
20 Commission directed that the wells intended for domestic purposes be transferred
21 to ICR, and I believe it reasonable to conclude that the Commission expected that
22 the wells would provide an adequate supply for the intended customers. The Well
23 Agreement transfers Well 2 and 3 fulfilling that requirement.

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1 Q. DO WELLS TWO AND THREE PROVIDE ICR ADEQUATE SUPPLY TO
2 SERVE THE TALKING ROCK PORTION OF ITS CC&N?

3 A. Yes, according to our estimated build out and estimates of water usage, including
4 the recent analysis conducted by our hydrologist.

5 Q. WHAT ABOUT THE CLAIM THAT YOUR FAILURE TO CONVEY THE
6 WELLS IS LEADING TO HIGHER RATE INCREASES?

7 A. Not to my understanding. We have been operating the golf club and paying our
8 pro rata share of operation and maintenance expenses pursuant to the agreements
9 with ICR. My understanding is also that ICR has not had a rate increase in over 13
10 years. Operation and maintenance costs have gone up significantly in that time and
11 those increases would likely necessitate a rate increase.

12 Q. WHAT ABOUT MR. TAYLOR'S CLAIM THAT THE DECISION AND
13 THE MAIN EXTENSION AGREEMENT REQUIRE ICR TO TREAT THE
14 GOLF COURSE AS A CUSTOMER?

15 A. I don't agree that either imposes such a requirement. The Commission decision
16 contains what I suspect will prove to be boilerplate CC&N language that says the
17 utility shall charge its customers in the extension area its existing rates. TRGC is
18 not a customer. The extension agreement likewise contains standard language
19 making the utility's provision of service subject to Commission regulation. Main
20 Extension Agreement at 11. To my knowledge, the Commission does not regulate
21 ICR's provision of wheeling services.

22 In addition to sections 5 of the well agreement which I testified to in the
23 section above, a critical provision of the Commission-approved extension
24 agreement appears to have been ignored. Section 12, entitled *Utility's Obligation*
25 *to Serve*, contains subsection (c), entitled *Water Supply to Golf Course*. In this
26 agreement, the parties recognized the developer's intent to "supply water to the

1 Golf Course for landscape irrigation” and ICR’s “unconditional consent”. *Id.* at
2 10. In fact, the Commission had already acknowledged that ICR would serve the
3 TRGC as a customer only if TRGC requested that service in the future. *See*
4 Decision No. 64360 at 3. Given that the main extension agreement was approved
5 through the Commission’s normal process for approval, and the lack of any
6 evidence that the Commission attempted to order the developer and golf course to
7 abrogate their legal and contractual rights, Mr. Taylor’s claims do not appear
8 correct to me.

9 Rather, it is our belief, and we believe that belief is supported by the
10 evidence, that Talking Rock and TRGC retained the legal right to irrigate the golf
11 course with water from their own wells and from wells conveyed to ICR, that these
12 rights were set out in the agreement agreed to by the parties and approved by the
13 Commission, and that this arrangement is not in any way improper or illegal or
14 otherwise harmful to ICR or its residential customers.

15 **Q. WHAT HARM WOULD RESULT FROM MR. TAYLOR’S**
16 **RECOMMENDED CANCELLATION OF THE CC&N FOR TALKING**
17 **ROCK?**

18 **A.** I don’t believe it would impact TRGC’s rights to use water from any of the wells to
19 irrigate the golf course. But it would be contrary to the interests and rights of
20 homeowners and lot purchasers in Talking Rock and likely create additional
21 burden and expense on ICR and its volunteer Board.

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VI. CONCLUSIONS AND RECOMMENDATIONS.

Q. MR. KRUMWIEDE, IN LIGHT OF YOUR TESTIMONY, WHAT DO YOU AND TRGC RECOMMEND THE COMMISSION DO WITH RESPECT TO THE GOLF COURSE?

A. Respectfully, I urge the Commission to respect the legal and contractual rights of TRGC and its affiliates to continue to use water from the Talking Rock wells to irrigate the golf course. Doing so does not harm ICR or any of its other ratepayers, in fact, based on the testimony submitted by ICR, and the evidence in my testimony and that we will present in this case, I believe that the Commission will be able to conclude that the wheeling arrangement between TRGC and ICR is beneficial to ICR and in the public interest.

Q. IS TRGC WILLING TO WORK WITH ICR AND ANY OF THE OTHER PARTIES TO ADDRESS THE CONCERNS THAT HAVE BEEN RAISED ABOUT THE WHEELING ARRANGEMENT?

A. Yes, we have done so already and are willing to continue. Unfortunately, however, nothing definitive was accomplished before the deadline for filing this testimony.

Q. DOES THAT CONCLUDE YOUR TESTIMONY, MR. KRUMWIEDE?

A. Yes, however, I wish to reiterate that my silence on something addressed in the testimony of another party should not be taken as TRGC's consent.

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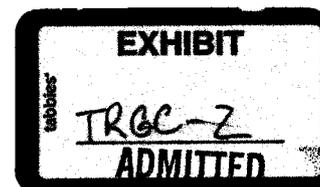
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5 **BEFORE THE ARIZONA CORPORATION COMMISSION**

6
7 IN THE MATTER OF THE APPLICATION
8 OF ICR WATER USERS ASSOCIATION, AN
9 ARIZONA CORPORATION, FOR A
10 DETERMINATION OF THE CURRENT
11 FAIR VALUE OF ITS UTILITY PLANT AND
PROPERTY AND FOR INCREASES IN ITS
RATES AND CHARGES FOR UTILITY
SERVICE

DOCKET NO: W-02824A-07-0388

12
13
14
15 **SUPPLEMENTAL TESTIMONY**
16 **OF**
17 **CRAIG L. KRUMWIEDE**
18 **TO SUPPORT REQUEST FOR APPROVAL OF**
19 **WATER SERVICE AGREEMENT**
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1 **I. INTRODUCTION, PURPOSE AND SUMMARY OF TESTIMONY.**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. Craig L. Krumwiede, 17700 North Pacesetter Way, Scottsdale, AZ 85255.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed by Harvard Investments, Inc. as President. In that capacity, I am
6 responsible for and oversee all planning, acquisition, development and sale of
7 Harvard's (and its affiliates' and subsidiaries') real estate investments, including
8 the Talking Rock master planned community in Yavapai County, Arizona.
9 Harvard Investments, Inc. is the manager of Harvard Talking Rock, LLC, which is
10 the operating member of Harvard Simon I, LLC, which is the sole member and
11 manager of Talking Rock Land LLC and Talking Rock Golf Club, LLC.

12 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS**
13 **PROCEEDING?**

14 A. Yes. My testimony was filed on April 14, 2008 on behalf of intervener Talking
15 Rock Golf Club, LLC ("TRGC"). My earlier testimony presented an overview of
16 the Talking Rock master-planned community and discussed the existing
17 agreements between ICR Water Users Association ("ICRWUA") and TRGC (and
18 its affiliates). I also provided a response to the positions of Staff and Mr. Taylor as
19 expressed in their prefiled testimony to date, and made recommendations to the
20 Arizona Corporation Commission ("Commission") in this proceeding on behalf of
21 TRGC.

22 **Q. WHY ARE YOU FILING SUPPLEMENTAL TESTIMONY AT THIS**
23 **TIME?**

24 A. A lot has happened since my testimony was filed on April 14, 2008, and those
25 events impact TRGC's positions in this proceeding and our recommendations to
26 the Commission. Most notably, a Water Service Agreement ("WSA") between

1 ICRWUA and TRGC was signed on September 12, 2008 and a copy filed with the
2 Commission on the same date, along with ICRWUA's request for approval. TRGC
3 joins in ICRWUA's request for approval of the WSA.

4 **Q. PLEASE SUMMARIZE WHY YOU JOIN IN AND SUPPORT ICRWUA'S**
5 **REQUEST THAT THE COMMISSION APPROVE THE WSA.**

6 A. It is in our interest as both developer and golf course owner/operator to have a
7 financially healthy water utility. To that end, the WSA addresses many of the
8 concerns that have been raised in this rate case and strikes a balance between the
9 needs and interests of the utility, the developer, and the golf course such that
10 ICRWUA can be financially sound without having to seek a substantial increase in
11 residential rates. At the same time, TRGC can move forward with certainty as to
12 its cost for irrigation water for the golf course that is a central part of the Talking
13 Rock Community. I will discuss what we believe are specific benefits of the WSA
14 in more detail in this testimony.

15 **II. THE WATER SERVICE AGREEMENT.**

16 **Q. PLEASE DESCRIBE THE EVENTS LEADING UP TO THE EXECUTION**
17 **OF THE WSA.**

18 A. TRGC entered into a Letter of Understanding ("LOU") with ICRWUA on
19 April 18, 2008. The LOU set forth a framework for a Special Contract to govern
20 the parties' prospective relationship by largely superseding prior agreements and
21 addressing issues that have been raised in this rate case. The LOU was non-
22 binding. Nevertheless, under the LOU we agreed to immediately transfer a second
23 well, Well No. 2, to ICRWUA, despite the existing Commission approved Main
24 Extension Agreement ("MXA") that called for that transfer to take place when
25 ICRWUA extended service to the 800th lot in Talking Rock. The transfer of Well
26 No. 2 was recorded on May 27, 2008.

1 After the LOU was executed, we began efforts to negotiate a special
2 contract. Given ICRWUA's deteriorating financial situation, we would have
3 preferred to complete the agreement sooner than late August; however, given the
4 importance of this agreement to all parties, we wanted to get it right. This led to
5 lengthy negotiations between the parties where the concerns and issues that had
6 been raised were discussed and all of that took a great deal of time and effort.

7 **Q. WERE MR. TAYLOR AND STAFF INVOLVED IN THE**
8 **NEGOTIATIONS?**

9 A. Not directly, but their input was sought early on in the process. I personally
10 participated in a meeting with several members of the Commission Staff and
11 Mr. Taylor on May 29, 2008. I also attended ICRWUA's presentation to its
12 customers on June 3, 2008, during which ICRWUA presented the LOU and its
13 reasons for pursuing a special contract with TRGC to its customers, including
14 Mr. Taylor. Many customers provided comments, and I believe that input
15 influenced the negotiations. The final draft agreement was provided to Staff and
16 Mr. Taylor on August 29, 2008, two weeks before it was executed.

17 **Q. THE WSA IS BETWEEN ICRWUA AND TRGC, AND TWO OTHER**
18 **PARTIES, TALKING ROCK LAND AND HARVARD SIMON I. WHO**
19 **ARE THESE OTHER ENTITIES AND WHY ARE THEY ALSO PARTIES**
20 **TO THE AGREEMENT?**

21 A. These two other entities are affiliates of TRGC and are involved in the
22 development of Talking Rock. In order to effectuate the intent of the WSA,
23 including superseding prior agreements and transferring assets, these other entities
24 needed to join in the WSA. I will refer to the three Talking Rock parties to the
25 WSA collectively as the "TR Parties" in this testimony.
26

1 Q. WOULD YOU PLEASE SUMMARIZE WHAT YOU VIEW TO BE THE
2 CRITICAL TERMS OF THE WSA?

3 A. Yes, the critical provisions are summarized as follows:

- 4 • Well Transfers, Well Improvements and Warranties-under the WSA, the
5 remaining Talking Rock well, Well No. 1, will be transferred to ICRWUA
6 following Commission approval. Additionally, we have agreed to replace
7 the pump on Well No. 2, and to warranty Well Nos. 1 and 2.
- 8 • Water Service for Landscape Irrigation, Lake Fill, Construction and Other
9 Non-Potable Purposes; Residential Priority-under the WSA, TRGC and its
10 affiliates will retain the right to a maximum of 525 acre-feet of water
11 annually for these non-potable purposes. However, in times of water
12 shortage, ICRWUA will have the right to curtail deliveries of water under
13 the WSA to ensure sufficient water is available for residential deliveries.
14 WSA at §§ 4, 5.
- 15 • Payment for Water Service-the WSA establishes two charges for water
16 service—a System Reservation charge that will be paid annually for 10
17 years irrespective of the amount of water delivered; and a Commodity
18 Charge, a per gallon charge based on cost of service methodology and
19 designed to allow ICRWUA to recover the cost of providing water service
20 under the WSA, plus a reserve margin. The WSA further contains
21 mechanisms to adjust the Commodity Charge on a going-forward basis.
22 WSA at § 6.
- 23 • Financial Assistance-under the WSA, TRGC has agreed to provide
24 ICRWUA \$80,000 to help defray the costs incurred to reach an agreement
25 and seek Commission approval. \$30,000 of this amount has already been
26 paid, and the remaining \$50,000 will be paid upon receipt of Commission
approval of the WSA. WSA at § 7.
- Prior Agreements-with limited exceptions dealing primarily with the
transfer of water utility infrastructure the TR Parties finance and construct,
the WSA will supersede the parties' existing agreements. In addition,
ICRWUA now has the right to characterize substantial amounts of
infrastructure transferred by the TR Parties as CIAC rather than AIAC if it
believes such characterization is more favorable to its ratepayers. WSA at §
9.
- Conservation-under the WSA, we have agreed to continue to make
reasonable efforts to promote conservation and limit the use of groundwater
for non-potable purposes within Talking Rock. Notably, TRGC has already
reduced its water use over the past year by approximately 15%.

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I would note, however, that the WSA remains a proposed agreement that will not become effective until it is approved by the Commission. I will discuss this approval further in the last section of this testimony.

III. CONCERNS ADDRESSED BY THE WATER SERVICE AGREEMENT.

Q. YOU TESTIFIED ABOVE THAT THE WSA ADDRESSES MANY OF THE CONCERNS THAT HAVE BEEN EXPRESSED IN THIS RATE CASE. WHAT DO YOU MEAN?

A. There are a number of concerns that have been raised in the rate proceeding by Mr. Taylor, ICRWUA's customers, Commission Staff, Judge Stern and the Commissioners. We do not agree with all of the concerns that have been raised. Nevertheless, in negotiating the LOU first and then the WSA, the goal was to enter into an agreement that would address these concerns to the greatest extent possible.

Q. CAN YOU PROVIDE EXAMPLES OF THE CONCERNS THAT THE WSA INTENDS TO ADDRESS?

A. Yes. Seemingly, the two primary concerns continue to be compliance with Decision No. 64360 (January 15, 2002) and whether TRGC is supposed to be a customer of ICRWUA subject to tariffed rates.

Regarding the first, Staff concluded that ICRWUA was out of compliance with Decision No. 64360 because only one well had been transferred by the TR Parties. As I explained in my testimony, we do not agree with this claim. Testimony of Craig L. Krumwiede ("Krumwiede Dt.") at 13-15. Nonetheless, as explained above, upon execution of the LOU we agreed to transfer Well No. 2 to ICRWUA. That well transfer was completed a short time later on May 27, 2008. See Additional Supplemental Testimony of Robert M. Busch ("Busch St.") at 6.

1 Q. IF THE LOU WAS NON-BINDING, WHY DID YOU AGREE TO
2 TRANSFER A SECOND WELL BEFORE ENTERING INTO A BINDING
3 AGREEMENT WITH ICRWUA?

4 A. Because we wanted to demonstrate our desire to work with ICRWUA in good faith
5 to address concerns that have been voiced since this proceeding was initiated,
6 including the claim that ICRWUA was not in compliance with Decision No.
7 64360. Again, while we do not agree with this position, by transferring a second
8 well, we believe we have eliminated this issue.

9 Q. WHAT ABOUT MR. TAYLOR'S CLAIM THAT ICRWUA AND THE TR
10 PARTIES CIRCUMVENTED DECISION NO. 64360 BY NOT
11 TRANSFERRING A SECOND WELL EARLIER?

12 A. I don't find this allegation credible. Candidly, Mr. Taylor appears to believe that
13 we tried to mislead the Commission. *See* Taylor Response to TRGC Data Request
14 1.7, copy attached hereto as **Krumwiede Supplemental Testimony Exhibit 1**
15 (First Amendment submitted on a "false basis"). The First Amendment to the
16 Main Extension Agreement and the Well Agreement were submitted by ICRWUA
17 to the Commission for approval. Each of these agreements explicitly called for
18 the transfer of two wells: the first, Well No. 3, was effective immediately; and the
19 second, Well No. 2, was to be effective when ICRWUA established service to the
20 800th lot in Talking Rock. If ICRWUA and the TR Parties were engaged in a
21 scheme to circumvent the Commission's decision, we certainly wouldn't have
22 submitted the agreements to the same body whose orders we were allegedly trying
23 to thwart.

24 It also bears remembering that Staff approved the First Amendment along
25 with the MXA in September 2003, and ICRWUA was only found to be out of
26 compliance several years later when Staff changed its position earlier this year after

1 Mr. Taylor complained in this rate case. Busch St. at 5. We had no idea there was
2 an issue, but that does not mean that we attempted to pull one over on the
3 Commission.

4 **Q. HASN'T MR. TAYLOR ALSO CLAIMED THAT TRGC WAS REQUIRED**
5 **TO TRANSFER THE WELL KNOWN AS WELL NO. 1 TO ICRWUA?**

6 A. Yes, although we also do not agree with this claim. According to Mr. Taylor, at
7 the time Decision No. 64360 was issued, only one well had been drilled in the
8 Talking Rock well field. See Taylor Response to TRGC Data Request 1.17, copy
9 attached hereto as **Krumwiede Supplemental Testimony Exhibit 1**. Since the
10 Commission ordered that two wells be transferred at a time only one well existed, I
11 do not see how they could have specified which wells were to be transferred. In
12 fact, because the Commission was aware that it was always intended that additional
13 wells would be drilled for Talking Rock (Decision No. 64360 at 4), I think it makes
14 sense to conclude that the Commission was simply directing that two Talking Rock
15 wells be transferred so that ICRWUA would have ownership of the wells it would
16 use to serve the residents in Talking Rock.

17 Additionally, I believe two other points need to be made. First, for several
18 years now, ICRWUA has had operational control over all three of the Talking
19 Rock wells, including the two wells owned by the TR Parties. Second, if the
20 Commission approves the WSA as requested, Well No. 1 will also be transferred to
21 ICRWUA. WSA at § 2. This means that, in addition to operational control,
22 ICRWUA would also have ownership of all three of the wells, rendering
23 Mr. Taylor's complaint moot.

24 **Q. WOULD YOU PLEASE EXPLAIN HOW THE WSA PROPOSES TO**
25 **ADDRESS THE ISSUE OF TRGC BEING A "CUSTOMER"?**

26 A. Throughout this proceeding, Mr. Taylor has steadfastly maintained that Decision

1 No. 64360 made TRGC a customer of ICRWUA subject to the Commission-
2 approved tariffed rates. I addressed why I do not believe this claim is accurate in
3 my direct testimony, including noting the Commission's recognition that we would
4 only become a tariffed customer upon our written request to ICRWUA.
5 Krumwiede Dt. at 15-16 *citing* Decision No. 64360 at 3. *See also id.* at 6; Busch
6 St. at 3-4. Despite his claims in this proceeding, Mr. Taylor has now admitted this
7 to be the case. *See* Taylor Responses to TRGC Data Requests 2.11(a) and 2.11(b),
8 copies attached hereto as **Krumwiede Supplemental Testimony Exhibit 1**.

9 From the time we began developing Talking Rock, it has been our intent to
10 use our own water sources to irrigate the golf course and provide for other non-
11 potable uses like construction water. When we built the transmission line that
12 would deliver water from the Talking Rock well field to the golf course and to the
13 subdivision for construction water, it was with the understanding that there would
14 be a cost sharing arrangement between ICRWUA and the TR Parties with respect
15 to use of that line and the pumping of the wells. This agreement was reflected in
16 Section 12 (c) of the March 2001 MXA, which Commission Staff approved, and
17 then further memorialized in Section 5 of the parties' February 2003 Well
18 Agreement. Both of these agreements reflect that, because we owned our own
19 water supply, TRGC would not become a customer of ICRWUA subject to tariffed
20 rates unless we made a specific request, which, again, the Commission
21 acknowledged in Decision No. 64360. As Mr. Busch notes in his testimony, the
22 Commission had section 12 of the MXA before it and did not require any change.
23 Busch St. at 4-5. Therefore, I do not see how Mr. Taylor can possibly argue that
24 Decision No. 64360 made TRGC a tariffed customer of ICRWUA. Prior to the
25 execution of the WSA, which is not yet effective, none of the TR Parties has ever
26 requested to be a "customer" subject to tariffed rates.

1 Q. BUT MR. KRUMWIEDE, ISN'T THE GOLF COURSE GETTING WATER
2 UTILITY SERVICE FROM ICRWUA?

3 A. No. ICRWUA wheels our water to our golf course through the transmission line
4 we built for the purposes of delivering water from our water source for irrigation
5 and other non-potable uses.

6 Q. IS THIS THE SAME TRANSMISSION LINE THAT ICRWUA USES TO
7 SERVE ITS CUSTOMERS IN TALKING ROCK?

8 A. Yes, the line we built and conveyed to ICRWUA. With regard to the golf course
9 and construction water, there is a cost sharing arrangement with respect to the use
10 of that line. In this way, we pay our share of the costs of operating the line, just as
11 we have paid our share of the costs of pumping the wells so we can get water from
12 our water source.

13 Q. WHY DIDN'T YOU JUST BUILD SEPARATE TRANSMISSION LINES?

14 A. Because it would have been significantly more expensive at the time we planned
15 the subdivision, planned for a means of irrigating the golf course, and entered into
16 agreements with ICRWUA. It wasn't until Mr. Taylor intervened in the rate case
17 that anyone complained about the cost sharing arrangement with respect to the
18 transmission main.

19 Q. IF ALL THE OTHER CUSTOMERS ARE SUBJECT TO THE
20 COMMISSION'S RATEMAKING PROCESS, WHY SHOULDN'T TRGC
21 ALSO BE SUBJECT TO THE RATEMAKING PROCESS?

22 A. Because, as I discussed above, I believe the Commission recognized in Decision
23 64360 that we would not be a "customer" of ICRWUA unless we asked in writing
24 to be made a customer. Furthermore, we are here now asking the Commission to
25 approve a "Special Contract" relationship between ICRWUA and the TR Parties,
26 including, the mechanism for determining the amounts to be charged by ICRWUA

1 for services provided under the WSA, as such charges will be adjusted from time-
2 to-time over the life of the WSA.

3 Beyond that, it must be remembered that the TR Parties have built and paid
4 for all of the water utility infrastructure that we use to obtain water to irrigate the
5 golf course, the same facilities used by ICRWUA to provide residential water
6 utility service to Talking Rock. We also have considerable rights under the
7 existing agreements, including the Commission approved MXA. We have invested
8 tens of millions of dollars in the Talking Rock community in express reliance on
9 the existing agreements that explicitly reserve the TR Parties' rights to obtain water
10 from the Talking Rock well field for landscape irrigation, lake fill, construction and
11 other non-potable purposes.

12 As expressed in the proposed WSA, we are willing to modify, and to a great
13 extent, reduce our existing rights in order to provide ICRWUA with ownership and
14 control of the water sources, as well as all the other consideration provided to
15 ICRWUA under the WSA, but only in exchange for long-term certainty that we
16 will be able to continue to obtain water for non-potable purposes at a rate that
17 reflects ICRWUA's costs of service.

18 **Q. SO THE WSA MAKES TRGC A CUSTOMER OF ICRWUA IF THE WSA**
19 **IS APPROVED BY THE COMMISSION?**

20 A. Yes, TRGC would be a "Special Contract" customer of ICRWUA if the WSA
21 receives the requested approval from the Commission. WSA at Recital O, § 1.

22 **Q. WHAT DOES "SPECIAL CONTRACT" MEAN?**

23 A. I am not a regulatory expert, although I have certainly learned more than I ever
24 thought I would in this process. I understand "special contracts" are used when
25 special circumstances warrant an arrangement that would not be subject to the
26 uncertainty of repeated ratemaking. We believe our circumstances fit this type of

1 arrangement for the reasons I have explained—we built the facilities, we have
2 relied on our right to serve ourselves, we have significant rights that we are giving
3 up in the WSA with respect to our interest in the Talking Rock wells, and we are a
4 large user of water that has and will continue to subsidize the rates paid by
5 ICRWUA's other customers.

6 **Q. EXCUSE ME MR. KRUMWIEDE, BUT YOU'RE TESTIFYING THAT**
7 **TRGC, WHICH IS NOT YET A CUSTOMER, HAS BEEN SUBSIDIZING**
8 **SERVICE BY ICRWUA TO ITS RATEPAYERS?**

9 A. My understanding is that this is the conclusion reached by Mr. Bourassa in his cost
10 of service study. Supplemental Rebuttal Testimony of Thomas J. Bourassa at 20.
11 Mr. Bourassa testified that the cost sharing arrangement we have been utilizing has
12 provided ICRWUA with a substantial operating margin, more than 40%. *Id.*

13 **Q. YOU TESTIFIED THAT YOU WILL PAY ICRWUA'S COST OF SERVICE**
14 **UNDER THE WSA. DOESN'T THIS MEAN THE SUBSIDIZATION WILL**
15 **END IF THE WSA IS APPROVED?**

16 A. No. The Commodity Charge is based on cost of service and intended to ensure that
17 ICRWUA recovers its cost of service, plus a reserve margin. In addition, for the
18 first ten years, TRGC will pay the System Reservation Charge which will place our
19 costs above ICRWUA's cost of service. Additional Supplemental Testimony of
20 Thomas J. Bourassa ("Bourassa Add. St.") at 5, 8-9.

21 **Q. WHY WOULD TRGC AGREE TO RATES THAT SUBSIDIZE ICRWUA'S**
22 **OTHER CUSTOMERS?**

23 A. Because, as I testified, we share an interest in a healthy and viable water utility
24 service. By agreeing to the System Reservation Charge for a period of ten years at
25 a total cost of \$340,000, in addition to the annual Commodity Charge, we will
26 make ICRWUA such a water utility.

1 **Q. BUT WHY NOT LET THE COMMISSION REVIEW AND RESET THE**
2 **RATES AT A LEVEL IT DETERMINES TO BE APPROPRIATE EACH**
3 **TIME ICRWUA FILES A RATE CASE?**

4 A. We understand and accept the Commission's role in setting rates in Arizona.
5 However, in order for the TR Parties to relinquish their existing rights, we require
6 long-term certainty that our costs will be based on ICRWUA's cost of service, as
7 was the case under the existing agreements. We mean no disrespect to the
8 Commission, but we simply cannot accept the risk that the Commission will set
9 rates for irrigation and other non-potable service based on other factors that might
10 lead to substantially higher costs to TRGC and its 505 paying members. As
11 evidenced by the terms of the WSA, we have gone a long way already and believe
12 that we cannot go any further.

13 **Q. IF THE COMMISSION APPROVES THE COMMODITY CHARGE**
14 **METHODOLOGY, WILL IT BE A FIXED CHARGE FOR THE LIFE OF**
15 **THE AGREEMENT?**

16 A. No, there are several adjustment mechanisms proposed in the WSA. Mr. Bourassa
17 explains these in his testimony in support of ICRWUA's request for approval of
18 the WSA. Bourassa Add. St. at 4-5.

19 **Q. THANK YOU. ARE THERE OTHER CONCERNS THAT HAVE BEEN**
20 **RAISED IN THIS PROCEEDING THAT THE PARTIES HOPE TO**
21 **ADDRESS IF THE WSA IS APPROVED?**

22 A. Yes, as I have discussed in this testimony, by paying more than ICRWUA's cost of
23 service under the WSA, we are subsidizing service. This subsidy will lead to a
24 lower increase in rates for the other customers. Bourassa Add. St. at 11-12.
25 Certainly, the magnitude of the rate increases ICRWUA requires is of concern to
26 all of the stakeholders.

1 Additionally, the WSA creates a residential priority and allows ICRWUA to
2 curtail irrigation and construction water service in the event of a shortage. Water
3 shortage was a concern that the Commission first noted in Decision No. 64360 (at
4 3-4) and it is being addressed by the WSA.

5 **Q. DO YOU BELIEVE THAT THE PROVISION FOR CURTAILMENT**
6 **SATISFIES ANY CONCERNS OVER THE LACK OF RESIDENTIAL**
7 **PRIORITY?**

8 A. Yes. As proposed, Section 5 of the WSA states that in times of water shortage,
9 which is defined as insufficient water to meet both residential demand and demand
10 from the TR Parties under the WSA, residential customers shall have priority as
11 long as such shortage lasts. WSA at § 5. Unfortunately, Mr. Taylor is still not
12 satisfied. See Taylor Response to TRGC Data Request 1.37, copy attached hereto
13 as **Krumwiede Supplemental Testimony Exhibit 1**. But Mr. Taylor's belief that
14 no one has priority is unfounded. The point of this provision is that residential
15 customers have priority when there is not enough water to go around. I fail to see
16 how this does not protect ICRWUA's residential customers.

17 **IV. REQUEST FOR APPROVAL OF THE WSA.**

18 **Q. IS THE WSA CONSISTENT WITH THE FRAMEWORK ESTABLISHED**
19 **IN THE LOU?**

20 A. Yes, however, ICRWUA has actually obtained even greater concessions from us
21 than were contemplated in the LOU.

22 **Q. WHY WOULD YOU AGREE TO MORE CONSIDERATION THAN THE**
23 **LOU REQUIRED?**

24 A. As I explained at the beginning of this testimony, we share an interest in having a
25 financially viable water provider to serve Talking Rock with ICRWUA and its
26 ratepayers. In order to achieve this common goal, we have elected to provide

1 ICRWUA with a great deal of consideration, even more than envisioned in the
2 LOU. In exchange, we have asked for long-term certainty that our costs for water
3 for landscape irrigation and other non-potable purposes will remain closely tied to
4 the cost of providing such service. Given our significant investment in the
5 infrastructure, and our existing rights, we believe this arrangement is more than
6 reasonable.

7 **Q. WHAT APPROVAL DOES TRGC SEEK FROM THE COMMISSION**
8 **WITH RESPECT TO THE WSA?**

9 A. Under the WSA, TRGC joins ICRWUA in asking the Commission to approve the
10 agreement without material change or, in the alternative, to approve the rates and
11 charges and methodology for adjustment for the term of the WSA. WSA at §11.
12 *See also* Busch St at 2.

13 **Q. WHY DO THE PARTIES REQUIRE APPROVAL WITHOUT MATERIAL**
14 **CHANGE?**

15 A. From the TR Parties' perspective, we are giving up significant rights and providing
16 ICRWUA with substantial consideration. In exchange, we require long-term
17 certainty regarding our rights and the cost of water for irrigation and other non-
18 potable purposes. The WSA would provide us this certainty if approved as
19 requested.

20 **Q. COULD THE COMMISSION DETERMINE THAT THE WSA SHOULD**
21 **NOT BE APPROVED AS REQUESTED?**

22 A. Yes, and we understand that the Commission must exercise its discretion
23 independent of the express language of the WSA. As a result, the parties have
24 provided for the possibility of a material change to the WSA, and thereafter, the
25 parties will have the right to accept the WSA as modified. WSA at § 11.b.ii.
26 However, if the critical terms and conditions of the WSA are rejected, it is unlikely

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that we would be able to accept the WSA as modified, for the reasons I have discussed in this testimony.

Q. WHAT HAPPENS IF THE PARTIES DO NOT ACCEPT CHANGES TO THE WSA, OR IF THE COMMISSION DOES NOT APPROVE THE AGREEMENT AS REQUESTED?

A. The WSA will not become effective, the TR Parties will retain ownership of Well No. 1, and continue to provide their own water for irrigation and other non-potable purposes under the parties' existing agreements, which we will expect ICRWUA to honor without change.

Q. MR. KRUMWIEDE, DO YOU HAVE ANYTHING ELSE TO ADD TO YOUR TESTIMONY IN SUPPORT OF APPROVAL OF THE WSA AT THIS TIME?

A. Just that we join ICRWUA in urging the Commission to approve the WSA, without material change, as soon as possible. A lot of effort by a number of capable and well-intentioned persons went into the agreement, and while no agreement is ever "perfect", I can state without reservation that the WSA is an equitable agreement that serves the interests of the parties, and the public interest at large.

Q. DOES THAT CONCLUDE YOUR TESTIMONY IN SUPPORT OF APPROVAL OF THE WSA?

A. Yes.

**KRUMWIEDE
SUPPLEMENTAL TESTIMONY
EXHIBIT 1**

Docket No. W-02824A-07-0388
Dayne Taylor Response to TRGC's Data Request

TRGC DR 1.7

Admit that the ACC Approved First Amendment to Main Extension Agreement, which agreement is dated February 25, 2003, required the Talking Rock Parties to transfer the two wells known as Well No. 2 and Well No. 3 to ICRWUA.

Response:

I agree that the First Amendment to the Main Extension Agreement was approved by the Commission and that this agreement required Harvard, not the Talking Rock parties, to transfer Well 2 and 3. I also believe that the First Amendment was submitted to the Commission in a manner that indicated that the First Amendment met the requirements of Decision 64360 and was accepted by the Commission on this false basis. As stated in Mr. Bozzo's non-compliance letter to ICRWUA of January 15, 2008, the Agreement was submitted by ICRWUA in a document titled "ICR Water Users Association, Inc. Notice of Compliance" which purported compliance with the requirement for well transfer. The item was marked as complied in the Compliance data base and has continued to maintain that classification until recently.

Docket No. W-02824A-07-0388
Dayne Taylor Response to TRGC's Data Request

TRGC DR 1.17

How many of the Talking Rock wells were drilled before January 15, 2002? Explain the bases for your answer.

Response:

An examination of the State's Well Records shows that only well 1 (the same well as in 1.16 above) was drilled by Harvard before January 15, 2002.

Docket No. W-02824A-07-0388
Dayne Taylor Response to TRGC's Data Request

TRGC DR 1.37

Admit that the WSA provides for residential priority?

Response:

I don't agree that the issue of priority is as factual or straight forward as you state. If curtailment can only occur when there is insufficient water to meet both demands then given the manner that the well field is operated, one way to view the issue of priority is that this can only be determined once both demands are not met. For this time period, no one has priority. The question then becomes how one determines that there is an insufficient amount of water.

Docket No. W-02824A-07-0388
Dayne Taylor Response to TRGC's Data Request

TRGC DR 2.11

For this data request, please refer to the following language from the MXA you referenced in your response to TRGC Data Request 1.30.

“(c) Water Supply to Golf Course. Utility acknowledges that Developer intends to construct the Golf Course. Utility further acknowledges that Developer intends to supply water to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes and hereby provides its unconditional consent for Developer to supply water to the Golf Course for such purposes. Utility further agrees to provide water utility service to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes at a future date but only upon receipt of Developer’s written request at which time such service would be provided consistent with the rules and regulations of the Commission and Utility’s Commission approved tariffs.”

- a. Admit that this provision of the MXA contains ICRWUA’s consent to Developer providing its own water to the Golf Course for irrigation landscape, lake fill and other non-potable services.

Response: I agree.

Docket No. W-02824A-07-0388
Dayne Taylor Response to TRGC's Data Request

TRGC DR 2.11

For this data request, please refer to the following language from the MXA you referenced in your response to TRGC Data Request 1.30.

“(c) Water Supply to Golf Course. Utility acknowledges that Developer intends to construct the Golf Course. Utility further acknowledges that Developer intends to supply water to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes and hereby provides its unconditional consent for Developer to supply water to the Golf Course for such purposes. Utility further agrees to provide water utility service to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes at a future date but only upon receipt of Developer’s written request at which time such service would be provided consistent with the rules and regulations of the Commission and Utility’s Commission approved tariffs.”

b. Admit that this provision of the MXA contains ICRWUA’s consent to only provide water utility service to the Golf Course upon receipt of Developer’s written request?

Response:

I admit that is what is written in the MXA Paragraph 12 (c).

TALKING ROCK RANCH WELL FIELD EVALUATION

Yavapai County, Arizona

Prepared for:

Talking Rock Land, LLC
17700 North Pacesetter Way
Scottsdale, Arizona 85255

Prepared by:

Southwest Ground-water Consultants, Inc.
1750 East Villa Drive, Suite E
Cottonwood, Arizona 86326

December 11, 2007

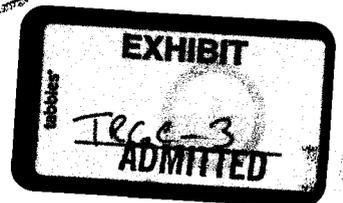
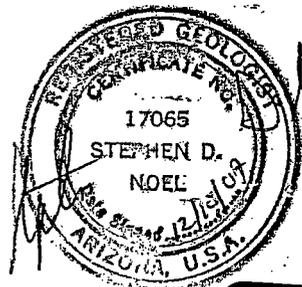
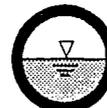
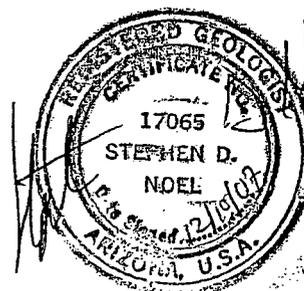


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1.0 INTRODUCTION

Southwest Ground-water Consultants, Inc. (SGC) has prepared the following evaluation of the recently completed (October 31 – November 2, 2007) multiple well aquifer test at the Talking Rock Ranch (TRR) well field. This evaluation of the three TRR pumping wells was conducted following a request from the Inscription Canyon Ranch (ICR) Water Company to:

- 1) evaluate the maximum capacity of the well field, and
- 2) try to identify the source of air that has been detected in the discharge water.

The ICR Water Company operates and maintains the TRR well field, which provides domestic and irrigation water to the TRR subdivision and golf course.

1.1 BACKGROUND

The TRR well field currently consists of four water production wells. Three of the four wells (TRR Wells 1, 2, and 3) are equipped with pumps and are currently the supply wells for the TRR subdivision and golf course. Well 4 was recently completed and does not have a pump installed. The location of the four TRR wells is presented in Figure 1. During the well field test, Well 4 was used as an observation well. The location of the wells may be further defined as being located in the northwest quarter of Section 17 of Township 16 North, Range 3 West of the Gila and Salt River Base and Meridian.

The Williamson Valley regional aquifer has been previously defined by SGC in their initial Analysis of Water Adequacy Application for the Talking Rock development. Based on this report and noted references, it is our opinion that the TRR well field is under localized artesian conditions that transitions into water table conditions when multiple wells are pumping and water levels fall below the confining basalt layer. This opinion is supported by the fact that when Well 1 was drilled using the air rotary method, water was not encountered until beneath the confining basalt unit which then rose to approximately 26 feet of land surface. (Note: Wells 2 and 3 were drilled using the mud rotary method) The extent of the artesian area is not believed to be extensive and the basalt unit is not reported to exist in the two ICR wells.

Regionally, the water table is sloping to the north at a gradient of approximately 0.0037 ft/ft (Manera, 1988, Geohydrologic Evaluation of the Williamson Valley basin, Yavapai County, Arizona) (Figure 2). The ground-water flux for Williamson Valley was estimated by Manera (August, 1988,) to be approximately 5,800 acre feet per year (ac-ft/yr), and by SGC (2001) to range from 4,955 to 8,672 ac-ft/yr, depending on the percentage of precipitation used to calculate recharge. As a result, approximately 5,800 ac-ft/yr of ground-water is discharging out of Williamson Valley to the north minus whatever volume of water is being pumped. The



significance of this condition is that the TRR well field impacts (cone of depression) will expand to a radial distance where the well field pumping is equal to the encountered ground-water flux. At this point in time, ground-water level declines at the well field will reach equilibrium conditions.

Talking Rock Land, LLC (TRL), the owners of TRR, contracted with SGC to work with the ICR Water Company during the planning and testing of the well field.

1.2 WELL FIELD TESTING PROCEDURE

SGC and the ICR Water Company prepared a test procedure to evaluate the TRR well field. Based on a general well field testing procedure provided by the ICR Water Company, SGC and the ICR Water Company refined the procedure into a mutually accepted document. The "*Procedure for Testing and Evaluating Air Entrapment and Well Field Yield at the Talking Rock Land Well Field*" (Well Field Testing Procedure) document has been attached for reference (Appendix A). A brief summary of the procedure is presented below.

1.2.1 Water Level Monitoring

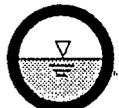
The well field testing procedure states that the well field will be tested by running the pumps in three production wells simultaneously at their maximum rate for three days. The water levels in the three pumping wells and the observation well will be continuously monitored using downhole pressure transducers and data loggers. Following the three days of pumping, water level recovery measurements will be made in all 4 wells. While on site, SGC will manually record water levels in all of the wells, the discharge rate for each pumping well, and the amperage for the pumps in the pumping wells.

1.2.2 Air Entrainment

Air bubbles in the discharge water will be monitored throughout the pumping test based on the method outlined in the Well Field Testing Procedure (Appendix A). The concentration of the air bubbles will be monitored every six hours or when a noticeable change has been observed.

1.2.3 Project Management

Following the conclusion of the test, TRL, ICR Water Company, and SGC have agreed to share all data collected during the test. In addition, it has been agreed that SGC and ICR Water Company would independently analyze the collected data and complete a report summarizing the activities that occurred during the test. These reports would also be shared with all parties involved in this project. This report is SGC's summarization of the activities that occurred during the well field evaluation, and includes our analyses of the data collected during the test and our conclusions and recommendations.



2.0 WELL FIELD TESTING PROGRAM

2.1 PRE-TEST PREPARATION

Starting on October 15, 2007, Pump Tech, Inc. (Pump Tech) removed the existing downhole pumps from each of the pumping wells in order to install downhole sounding tubes. The reinstalled equipment included:

- 1) pump (4.5-inch outside diameter (OD) with 5-inch OD couplings;
- 2) two 1.0-inch inside diameter (ID) sounding tubes with 1.5-inch OD couplings;
- 3) one 0.313 inch OD airline; and,
- 4) power supply wire approximately 1.25 inches wide and 0.375 inches thick

The sounding tubes were strapped to the column pipe during re-installation into the 8 inch ID casing.

ICR Water Company entered into a separate agreement with Pump Tech to install an air line along side the sounding tubes in each of the pumping wells. The air lines were installed to further monitor the water levels in the wells using downhole air pressure. Pump Tech completed the re-installation of the pumps, sounding tubes, and air lines on October 17, 2007.

The bottom of the sounding tubes in Well 1, Well 2, and Well 3 were installed at 242, 247, and 230 feet below ground surface (ft-bgs), respectively. The bottom twenty feet of each of the sounding tubes was perforated, and an end cap was fastened to the bottom of the tubes. The top of the pumps in each of the wells was installed approximately seven feet below the bottom of the sounding tubes. For reference, SGC has attached As-Built drawings for Well 1, Well 2, and Well 3 (Appendix B).

SGC installed four Level TROLL 500 transducers and data loggers in each of the TRR wells. The data loggers (In-Situ, Inc.) were setup to record water levels in the wells every minute throughout the test. An electric water level monitoring device was installed in the second sounding tube in order to collect manual water level measurements.

On October 18, 2007, SGC started recording pre-test water level measurements in the four TRR wells. Graphs of the measured pre-test water level data are presented in Figure 3. The complete transducer water level data measurements for all four wells are presented in Appendix C for reference.



2.2 WELL FIELD TEST - PUMPING AND RECOVERY

On October 24, 2007 representatives of the ICR Water Company and SGC met at the TRR well field at 7:00 am to start the well field test. Prior to turning on the pumps, manual water level and transducer measurements were collected from each TRR well and are presented in the chart below. The pumps in the TRR wells did not pump water for approximately 12 hours prior to the start of the test in attempt to achieve static water level conditions. Review of the data logger water level measurements (Figure 3) indicates that the water levels in each of the wells were approximately equal to static water level conditions. At 8:00 am, the TRR well field test began by starting all three TRR pumping wells.

Water Level Prior to Test Start	Well #1 (ft-bgs)	Well #2 (ft-bgs)	Well #3 (ft-bgs)
Static Water Level (electric sounder reading)	50.54	58.4	52.45
Static Water Level (transducer)	52.50	61.93	53.31
Time Pump Turned On (minutes)	8:00:00	8:00:30	8:01:00

This pumping scenario is somewhat different from the pre-monsoon pumping of July, 2007. During that period, Well 1 and Well 2 were pumped 24 hours per day and Well 3 was pumped approximately 16 hours per day. As a result, the yields of the wells and the PWL's are different from the yields and PWL's of the October 3 day test.

2.2.1 Pumping Test

During the pumping portion of the well field test, it was noted that the pasture across Mint Wash was being irrigated. These observations were documented only during daylight hours when visual confirmation of the irrigation was attainable, however, review of the water level measurements documents the pumping of the JBT well and the subsequent impact on the TRR well field (Figures 3 and 4).

The three TRR wells pumped continuously for three days with the exception of Well 2 on October 23, 2007 at 5:23 pm. At that point in time, a representative of the ICR Water Company was attempting to measure the water level in the well using the air line and inadvertently added too much air resulting in the pump to shut off. The well was immediately turned back on, only to shut off again. After a second restart, the pump remained on for the duration of the test. This production down time had no impact on the test.

The data logger measurements have been plotted in a graph presenting the time versus drawdown for each well (Figure 4) and pumping water level versus time for each well (Figures 5, 6, and 7). Review of the graphs shows a very consistent trend between the three pumping wells and the one



observation well. This common trend supports relatively consistent aquifer coefficients in and around the well field.

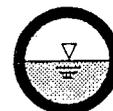
Manual water level measurements were also collected from all wells throughout the test to verify the data logger data. Each time a manual water level measurement was collected, the discharge rate for the associated well was also recorded. These manual field measured data have also been attached for reference (Appendix D). The individual wells pumping rates (flow meter) at the beginning and end of the test are shown in the following chart.

Test Period	Well #1 (gpm)	Well #2 (gpm)	Well #3 (gpm)	Total
Start-up Pumping Rate	480 (t = 5 min)	450 (t = 20 min)	270 (t = 3 min)	1,200
End of Test Pumping Rate	390	350	200	940

2.2.2 Pumping Rates

During the pumping test, SGC monitored the discharge rates from all of the pumping wells. Each well was equipped with an inline flow meter. The discharge from the wells was monitored based on measurements collected from the flow meters. Each time the flow meters were read, two measurements were documented. First the discharge rate based on the needle reading was recorded as the "flow meter reading". Second, the totalizer number was recorded. The totalizer readings were used to calculate an average discharge rate over a period of time. The two measurements were collected and compared to each other for accuracy purposes. Based on review of the flow meter data and the totalizer data, the flow meter data are more consistent than the totalizer data throughout the pumping test (Figures 8, 9, and 10).

Similarly to the measured drawdown in the wells during the pumping test, the discharge rate declined most significantly during the first approximately 300 minutes. From approximately 300 minutes to the end of the pumping test (4,320 minutes) the discharge rates, as well as the drawdown, continued a less significant downward trend (Figure 12). Review of the flow meter data indicates a gradual and consistent decline where the totalizer data show an overall decline with several significant peaks and valleys over a relatively short time frame. As an example, the maximum change in discharge as measured from the flow meter at Well 1 during the period 318 minutes to the end of the test (4,320 minutes) was 35 gpm. There were several times during that same time period where the calculated discharge based on the totalizer readings changed 30 gpm from one reading to the next. In many instances following these changes, the calculated discharge rate changed back to the previous discharge rate at the very next reading. These types of inconsistencies in the calculated discharge measurements based on the totalizer readings lead SGC to conclude that the flow meter data is more reliable than the totalizer.



To further support the inconsistencies of the totalizer data, SGC compared the plotted data of time versus the drawdown to the time versus discharge rate for the three pumping wells (Figure 12). As expected, the drawdown in the wells mimics that of the decline in pumping rate for the TRR wells. As the drawdown in the wells decreased over time, the discharge from the wells also began to stabilize. If the calculated drawdown based on the totalizer readings was accurate, it would be expected that the increase or decrease in discharge would be reflected with a decrease or increase in pumping water level. This was not observed in the PWL data.

2.2.3 Recovery Test

At 8:00 am on October 27, 2007 the pumping portion of the TRR well field test was concluded by turning off the pumps in Wells 1, 2, and 3. At this point, the water level recovery portion of the TRR well field test began. The installed data loggers continued to measure water levels in the wells at one minute intervals throughout the recovery portion of the test. SGC and ICR Water Company representatives were on site part time during the recovery test to manually measure water levels in the wells. The recovery data that were collected with the data loggers have been plotted and are presented in Figures 3 and 13.

The manual data collected during the recovery portion of the test have also been attached for reference (Appendix D). The recovery portion of the well field test lasted for 48 hours, at which time the pumps had to be turned on to meet the domestic demands of the subdivision. After 48 hours, the water in the well field wells had recovered to the pre-test static water level (100% recovery).

2.3 WELL FIELD TEST - AIR MEASUREMENTS

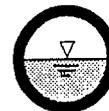
The volume of air in the discharge water was measured in Wells 1, 2, and 3 throughout the pumping test. The air volume measurements were collected every six hours or when a noticeable change occurred. The field data sheets that document the air volume in the discharge water have been attached for reference (Appendix E).

The discharge water in all of the wells appeared clear initially. After approximately one and a half hours, the discharge water from Well 2 noticeably changed from clear to white. Between the second hour and fifth hour (1:00 pm) of the test, a visual change from clear to white was observed for the discharge water from Well 1 and Well 3. The white appearance of the water was caused by very small bubbles in the discharge water. After changing to white the concentration of air in the discharge water from Well 2 and Well 3 remained fairly constant for the remainder of the pumping test. The discharge water from Well 1 changed from clear to white and from white to clear a couple times throughout the pumping test.

Observed air in the discharge water, time period of pumped air, and pumping water level are summarized in the chart below.



Well	Air First Observed in Discharge Water (time into test, minutes)	Pumping Water Level When Air First Observed (feet)	Remarks
1	295	153	No observed air from 7:50 am on 10/25/07 to 7:30 am on 10/26/07, and from 7:37 am on 10/27/07 to the end of the test.
2	80	180	Air observed to end of test
3	320	175	Air observed to end of test



3.0 DATA ANALYSIS

3.1 PRE-TEST DATA

Prior to the start of the aquifer test, SGC monitored the water levels in the four TRR production wells for approximately five and a half days (October 18th through October 23rd). During this period, the wells were pumped as needed to meet the domestic and irrigation demands, and were also pumped to fill the reservoir that would be used to supply the domestic demands during the aquifer test.

A summary of the pumping durations for the three wells prior to the test is presented in the following chart.

Day	Pump 1 (minutes)	Pump 2 (minutes)	Pump 3 (minutes)	Total Well Field Pumping (minutes)	Percent Pumping Time vs Total Pumping Time
10/23/07	0	0	89	89	2.1
10/22/07	495	0	735	1230	28.5
10/21/07	735	0	855	1590	36.8
10/20/07	660	0	810	1470	34
10/19/07	675	0	825	1500	34.7
10/18/07	0	0	86	86	2.0
10/17/07	86	0	1200	1286	29.8

Source: Mr. William Meyer, ICR, November 15, 2007.

Based on review of the pre-test data, only Well 1 and Well 3 were pumped during the pre-test period. The wells appeared to cycle on for approximately 40 to 50 minutes to meet demand and then turned off for approximately 150 to 180 minutes. During the "off demand" period prior to the start of the test, water levels in the wells recovered to static water level conditions.

During the pre-test period, water level trends in Well 2 and Well 4 mimicked those of the pumping wells. Based on review of the pre-test data, the influence of off-site pumping (JBT well) was not observed.

3.2 PUMPING TEST DATA

3.2.1 Drawdown Versus Time

The pumping portion of the TRR well field aquifer test began on October 24th and concluded on October 27th. The rate of decline of the water levels in all of the TRR wells was most significant during the first 300 minutes of the start of the test. After the first 200 to 300 minutes, the water



level decline rates appeared to follow a linear trend (Figure 4). This decline in the rate of drawdown is also consistent with the decline in the rate of discharge over time.

The influence on the water levels in the TRR Wells from other nearby pumping well(s) was observed in the test data (Figures 3 and 4). Review of the drawdown data indicates that the JBT well, which is located west of Mint Wash, had an approximate 10 foot impact on the water levels measured in the TRR wells. The influence on the TRR wells can be seen between approximately minute 1,500 and 1,900, and between minute 2,800 and 3,300 of the pumping test. Irrigation of the pasture west of Mint Wash from the JBT well was visually confirmed during these periods.

3.2.2 Specific Capacity

The specific capacity is the relationship between a well's pumping rate and ground-water level (drawdown). Plots of the specific capacity versus pumping time for the three pumping wells are presented in Figures 11. Review of the specific capacity graphs shows that the late time curve (portion not impacted by off-site pumping) continues to decline over time, but at a decreasing rate. By projecting this specific capacity decline trend, a projected pumping rate can be determined based on the relationship:

$$\text{Specific Capacity} = \text{Pumping Rate} / \text{Drawdown}$$

This projection is important because of the historic use of the well field and how the well field demands increase up to the seasonal "monsoon" rains. Since the well field test was conducted during a period of limited pumping, it was important to project the discharge rate, to an equivalent time of historic maximum pumping (pre-monsoon summer pumping). For this evaluation, we have calculated the pumping rate for each well after a period of 90 days of continuous pumping. The projected 90 day drawdown is based on the drawdown versus time plots for the pumping wells.

Projected 90 Day Pumping Rates TRR Well Field			
TRR Well	Projected 90 Day* Specific Capacity (gpm/ft)	Projected 90 Day** Drawdown (ft)	Projected 90 Day Discharge Rate (gpm)
1	2.9	128	371
2	1.9	149	283
3	1.47	136	200
Total			854

* Figure 11

** Figure 12

These pumping rate projections are consistent with the observed pumping rates prior to the 2007 monsoon season, which is representative of "worse case" peak pumping conditions. The well field pumping rate during this period was 852 gpm (July 4, 2007, 1,227,500 gallons or 852 gpm, Bill Meyer, December 10, 2007).



3.3 RECOVERY TEST DATA

On October 27th, precisely 72 hours after the start of the pumping portion of the TRR aquifer test began, the pumps in the TRR pumping wells were shut off to mark the end of the pumping test and the start of the recovery test. The recovery portion of the aquifer test was conducted for 48 hours (Figure 7). The goal of the recovery test was to monitor the water levels for a period of time equal to the pumping portion of the test. However, after 48 hours, the domestic demand of the TRR subdivision required that the wells be turned-on which basically ended the recovery test.

Observed recovery in each of the wells is summarized in the following chart.

Well	Static Water Level (ft,bgs)*	Pumping Water Level at End of Test (ft,bgs)*	Time into Recovery (minutes)*	Residual Drawdown (ft,bgs)*	Percent Recovery
1	52.50	163.1	60	36.8	67
			1440	4.3	96
			2850	0	100
2	61.93	205.0	60	38.4	73
			1440	4.5	97
			2850	0	100
3	53.31	176.6	60	39.4	68
			1440	4.7	96
			2850	0	100
4	43.72	101.2	60	38.9	33
			1440	4.5	92
			2850	0.02	100

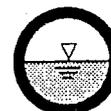
* all data based on the transducer readings

Based on review of the water level recovery data for the TRR wells, all of the recovery curves follow the same trend. Any pumping influence from the JBT well on the TRR wells is not observed in the recovery data indicating that the irrigation well was not operating during this period. A visual inspection of irrigating the pasture with the JBT well documented that irrigation was not occurring on October 28th.

Review of the recovery data (Figure 13) indicates that the water levels recover well within the pumping test time frame. This relatively quick recovery supports the potential for variations in the storage coefficient and/or the impact of recharge.

3.4 AIR VOLUME DATA

During the pumping portion of the TRR aquifer test, SGC measured the volume of air in the discharge water from all pumping wells (Appendix E). Discharged water from Well 2 and Well



3 contained a measurable amount of air after approximately 80 minutes and 320 minutes respectively from the start of the test. Discharge water from Well 1 was noticed to have a measurable amount of air at 295 minutes from the start of the test.

3.4.1 Well 1

Throughout the test, visual inspection of the discharge water from Well 1 revealed that the concentration of air increased and decreased periodically. The water began clear and changed to white with an air concentration of approximately 2 to 2.5 percent. After approximately 24 hours of pumping, the discharge water from Well 1 was detected to be clear. After the visual inspection detected that the discharge water was clear, SGC measured the concentration of air at approximately 0.2 percent. The measured air volume stayed consistently low for approximately 24 hours at which point it was noticed that the clarity changed back to white. The resulting air volume measurement confirmed that the air volume had increased to over 2 percent. The air volume in Well 1 remained just under 2 percent for approximately the next 24 hours, at which point it decreased back to approximately 0.2 percent. At the time the pumps were turned off, the volume of air measured in Well 1 was 0.2 percent and the clarity of discharged water was clear.

3.4.2 Well 2

Well 2 consistently contained the highest volume of air in the discharge water. The measured volume of air in the discharge water from Well 2 increased gradually during the first 24 hours of the pumping test. During this time period, the measured volume of air in the discharge water ranged from 0.11 to 12.31 percent. After the first 24 hours and for the remainder of the pumping test the measured volume of air in the discharge water from Well 2 remained fairly consistent ranging from approximately 12.5 to 15.5 percent.

3.4.3 Well 3

The measured air volume in the discharge water from Well 3 remained consistent at approximately 2 to 3.5 percent after approximately five hours into the pumping test. At these volumes the visual appearance of the water was white. The air dissipated after approximately 15 seconds of standing in an open ended vessel, at which point the water was clear.

The visual observation of air in all three wells correlated very well with the percentage of air content measured, where the air content of less than 1 percent would correlate to no visual identification of air entrainment in the water.



4.0 CONCLUSIONS

Southwest Ground-water Consultants, Inc completed a five day pumping and recovery test at the Talking Rock Ranch well field on November 2, 2007. The test also included water level monitoring approximately 5 days before the start of the test. All three TRR Wells 1, 2, and 3 were turned on at design capacity and ran for three continuous days.

Ground-water level measurements were made in the three pumping wells and one observation well (Well 4) throughout the ten days of monitoring. A summary of the measured water levels and discharge rates (meter reading) and projections are presented in the following chart.

TRR Well #	Initial Static Water Level – Pre Testing (ft, bgs)	Static Water Level – Prior to Pumps On (ft, bgs)	Drawdown at End of Test (ft, bgs)	Pumping Water Level at End of Test (ft, bgs)	End of Constant Rate Test Discharge Rate (gpm)	Projected 90 Day Discharge Rate (gpm)
1	50.5	52.5	110.5	163	390	371
2	58.4	61.9	143.1	205	350	283
3	52.5	53.3	123.7	177	200	200
4	42.9	43.8	57.3	101	no pump	no pump
Total					940	854

Throughout the test, air entrainment in the pumped water was visually monitored and physically tested. Review of the air data indicates that Well 2 contained the greatest percentage of air followed by Well 3. Well 1 contained air, but during a portion of the test, when water levels and pumping rates were relatively constant, air entrainment was not visibility observed or measured above 1 percent. In all three wells, air entrainment did not occur until the pumping water level was below the confining formation.

In Summary:

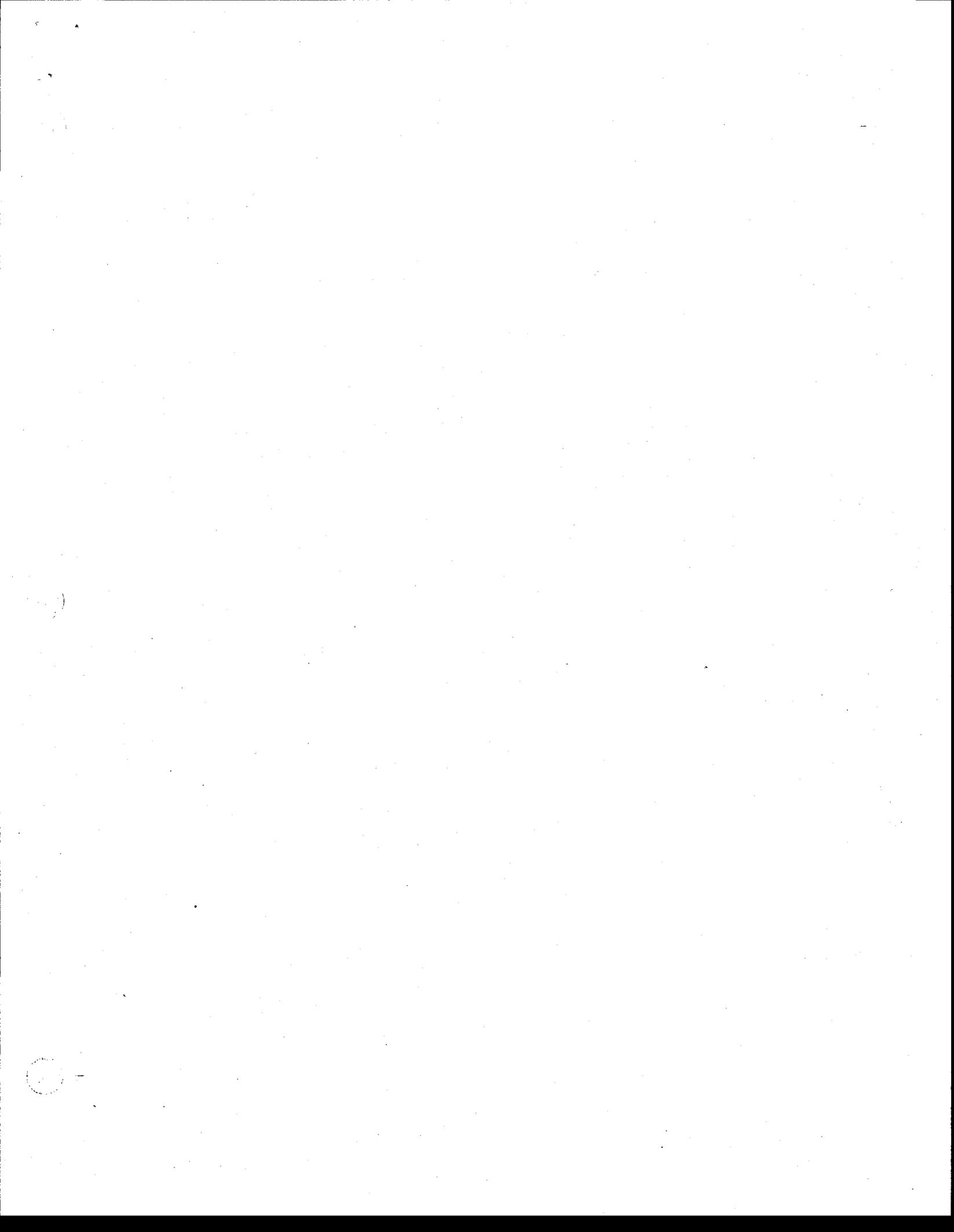
- The TRR well field is capable of producing 940 gpm for extended periods of time with all three wells pumping during the non-peak pumping season, and approximately 854 gpm during the peak pumping season.
 - More than one well pumping at the well field will directly and immediately impact the water levels in all other wells in the well field.
 - Once pumping stops, water levels recover rapidly.
 - Off-site pumping at the JBT well impacts the water levels at the TRR well field.
 - Well field pumping average from June 1, 2007 to July 11, 2007 was 893 gpm.



- The source of the air entrainment is still in question. Cascading water from above the confining layer is a possible cause, but due to the amount of equipment in the well casing, free falling water is not occurring.
 - Entrained air in the pumped water was observed in all three wells.
 - Well 2 was observed to contain the most entrained air and was the well with the greatest pumping water level.
 - Air entrainment in the pumped water was observed in the pumping wells once the pumping water level extended below the basalt confining layer.
 - Entrained air in the confining layer appears to be the source of air in the pumped water.

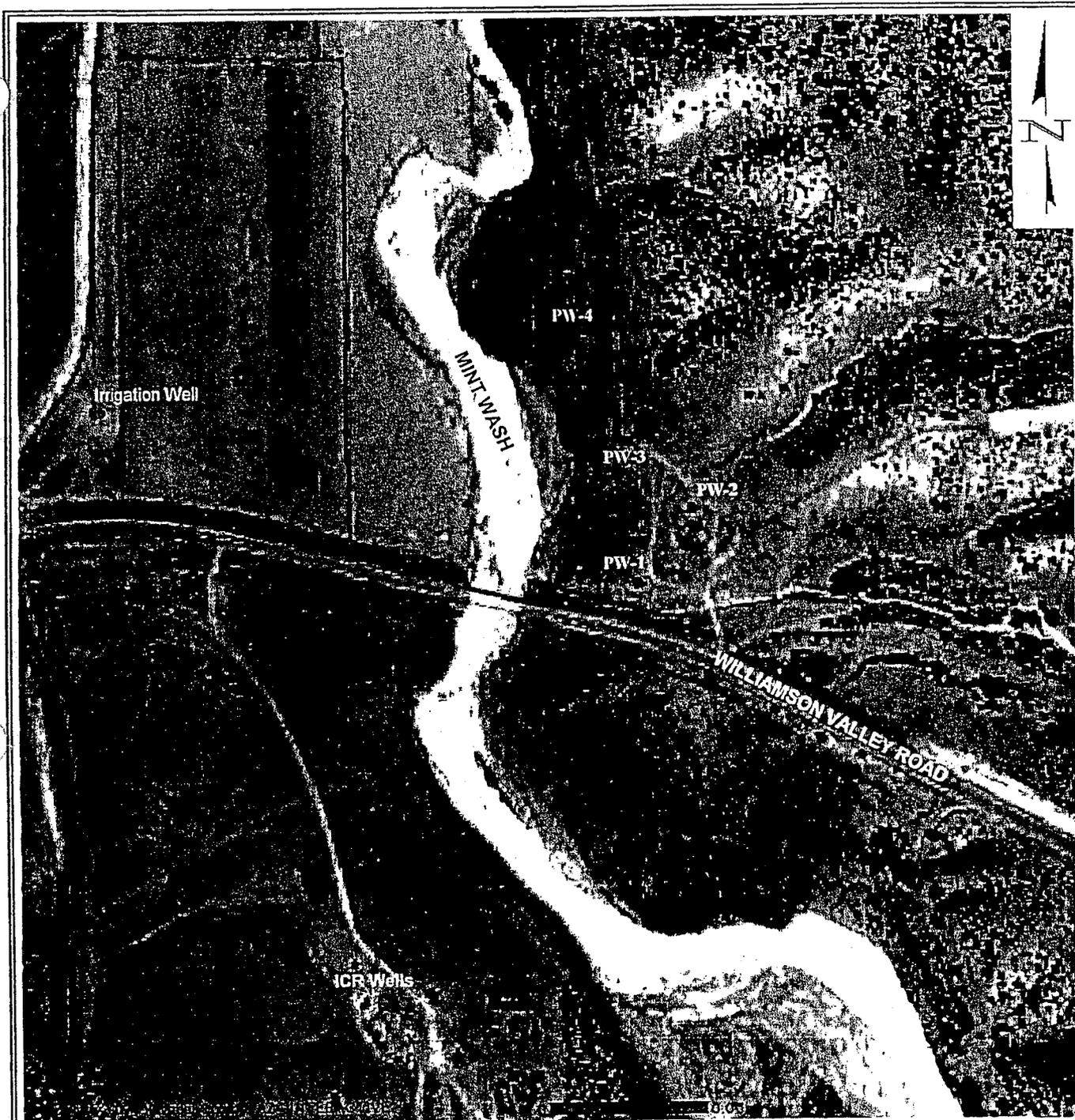
The projected maximum pumping rate during peak pumping season of 854 gpm is equivalent to the observed maximum water demand in 2007 of 852 gpm. This maximum pumping rate is supported by historic pre-monsoon pumping rates as well as the results of the October 2007 three day test.





FIGURES





1 inch = 300 feet

Source: Yavapai County Interactive GIS, Aerial Photo from 2005

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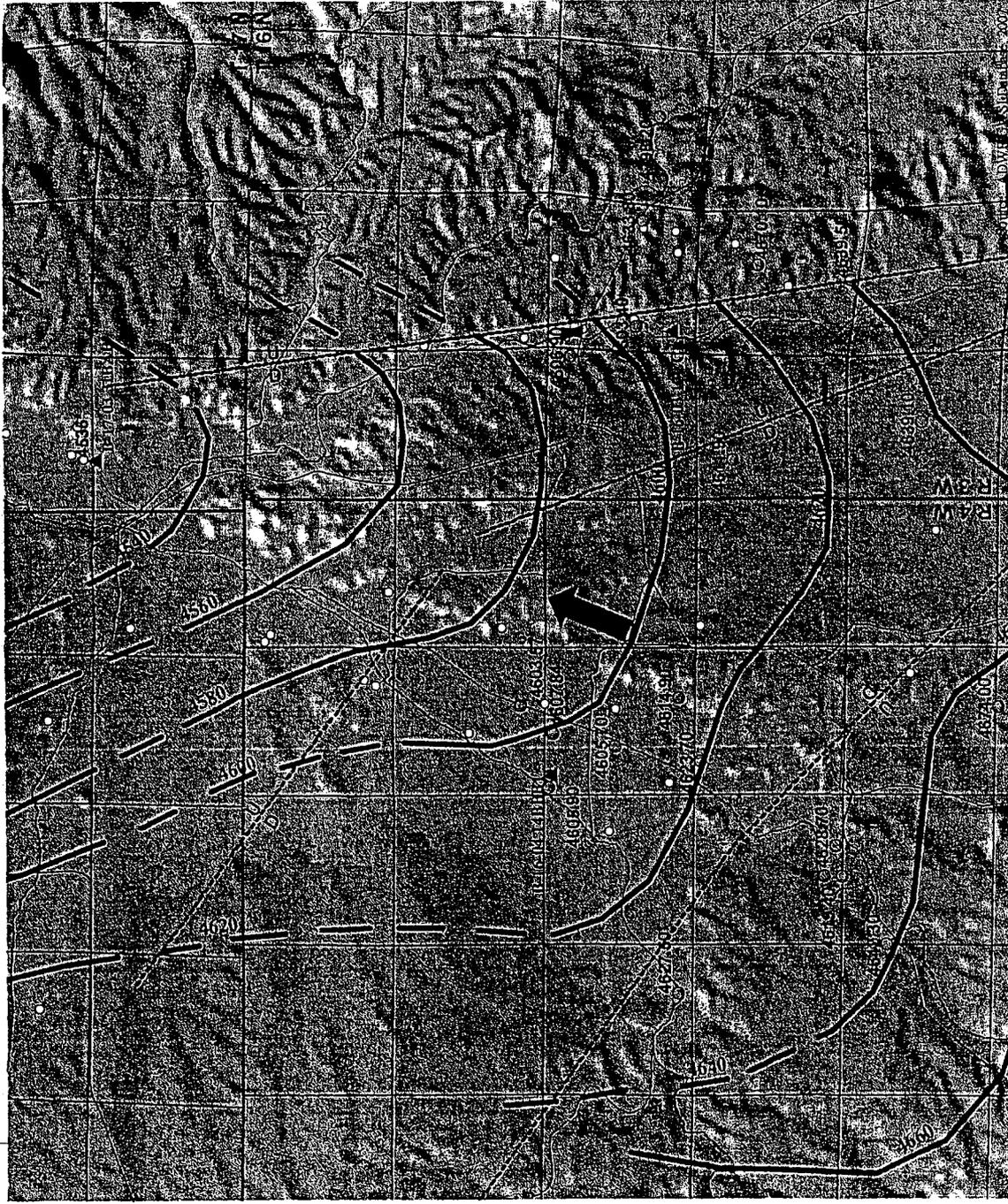
November 8, 2007 Project B.1471

SITE MAP

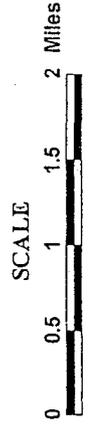
Talking Rock Ranch, Prescott, Arizona

Figure

1



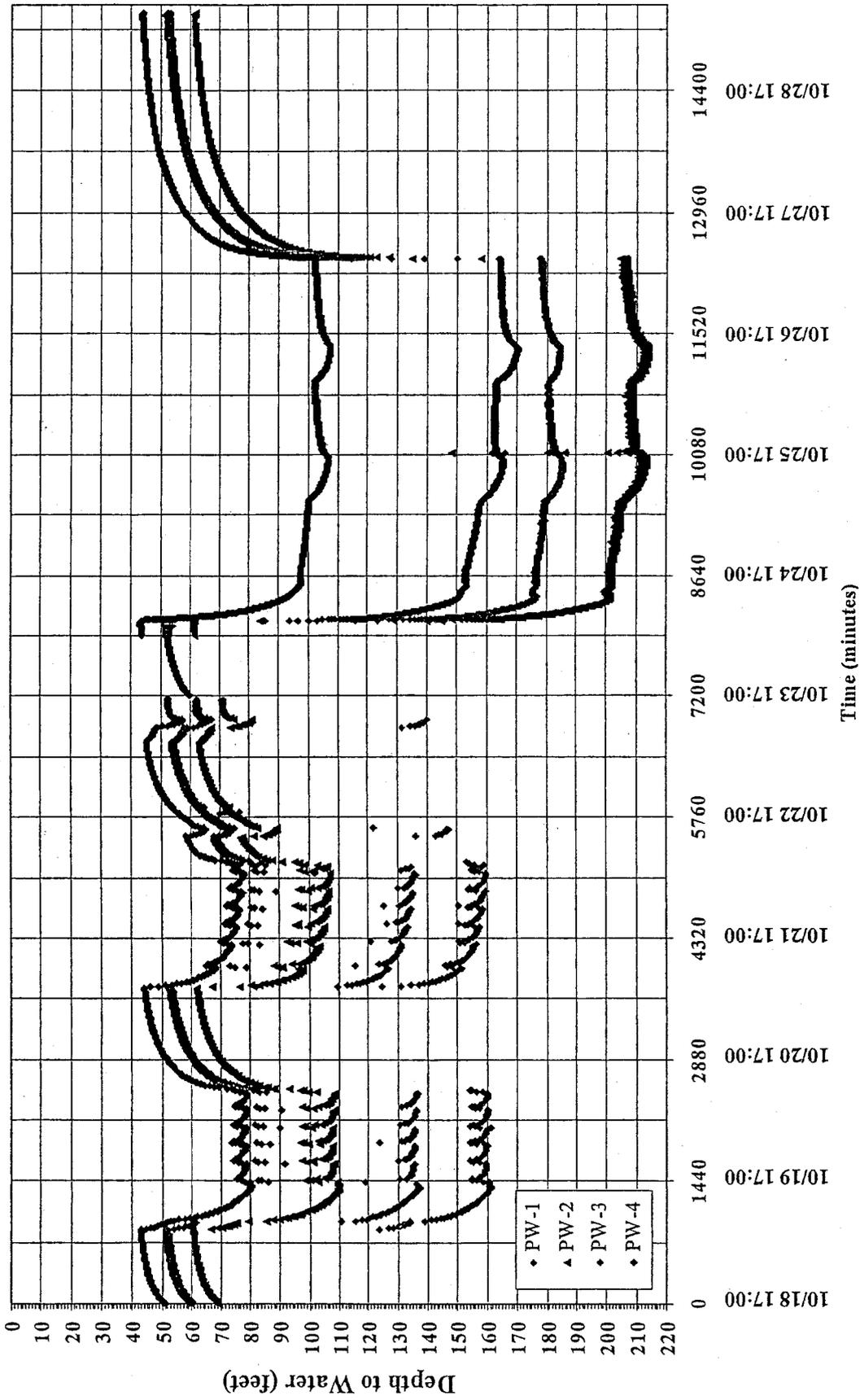
EXPLANATION	
	TRR WELL FIELD
	2004 WATER LEVEL
	HISTORIC WATER LEVEL DATA Cadastral Location
	GWSI WATER LEVEL WELL
	WATER ELEVATION CONTOUR
	FAULT (Approx.) (Source: USGS, 2005; Navamo, 2002)
	GROUND-WATER FLOW DIRECTION




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Consultants, Inc.**
 December 10, 2007 Project B.1471

WATER LEVEL MAP
 Talking Rock Ranch, Yavapai County, Arizona

Figure
2



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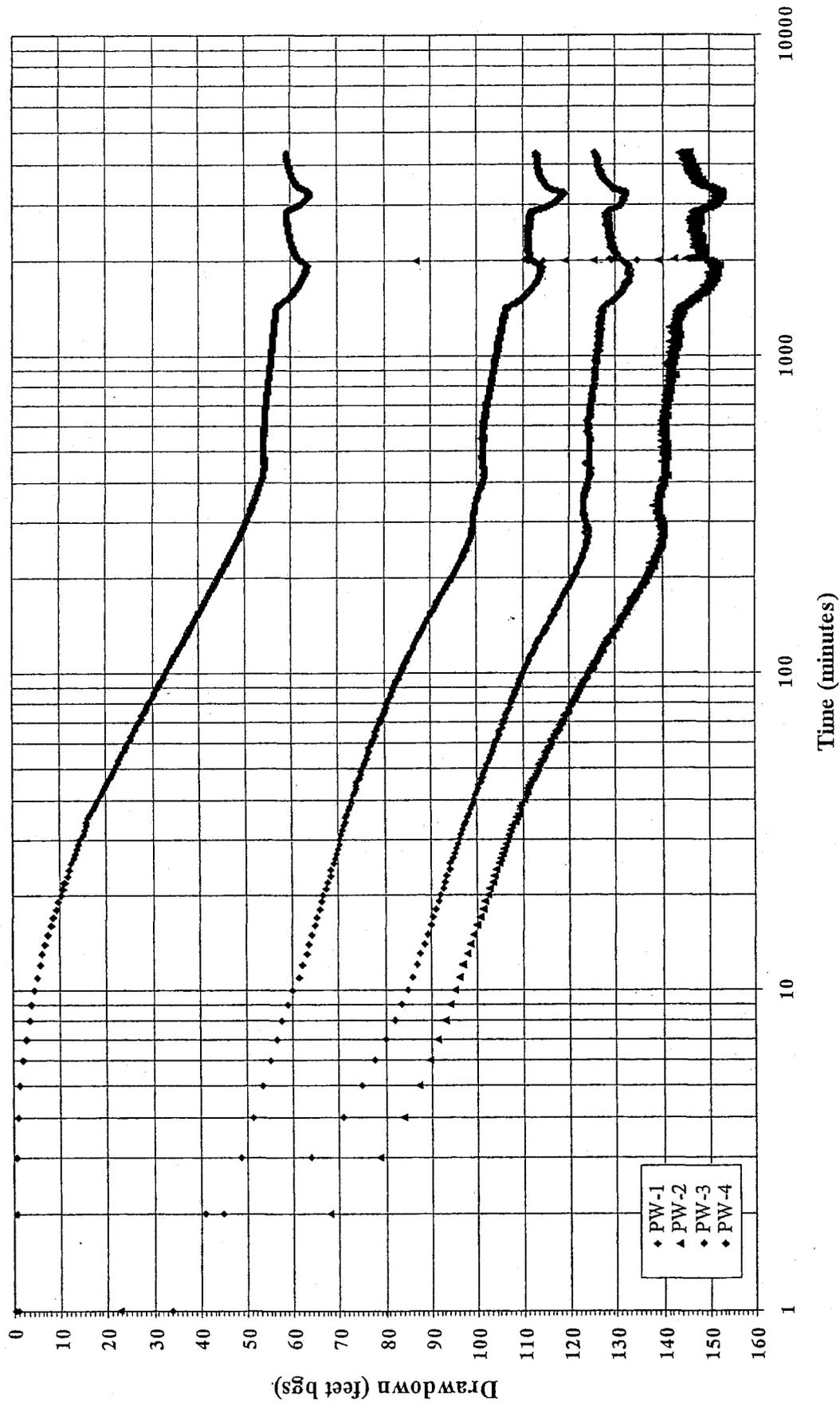


November 26, 2007 Project B.1471

WATER LEVEL

Talking Rock Ranch, Prescott, Arizona

Figure
 3

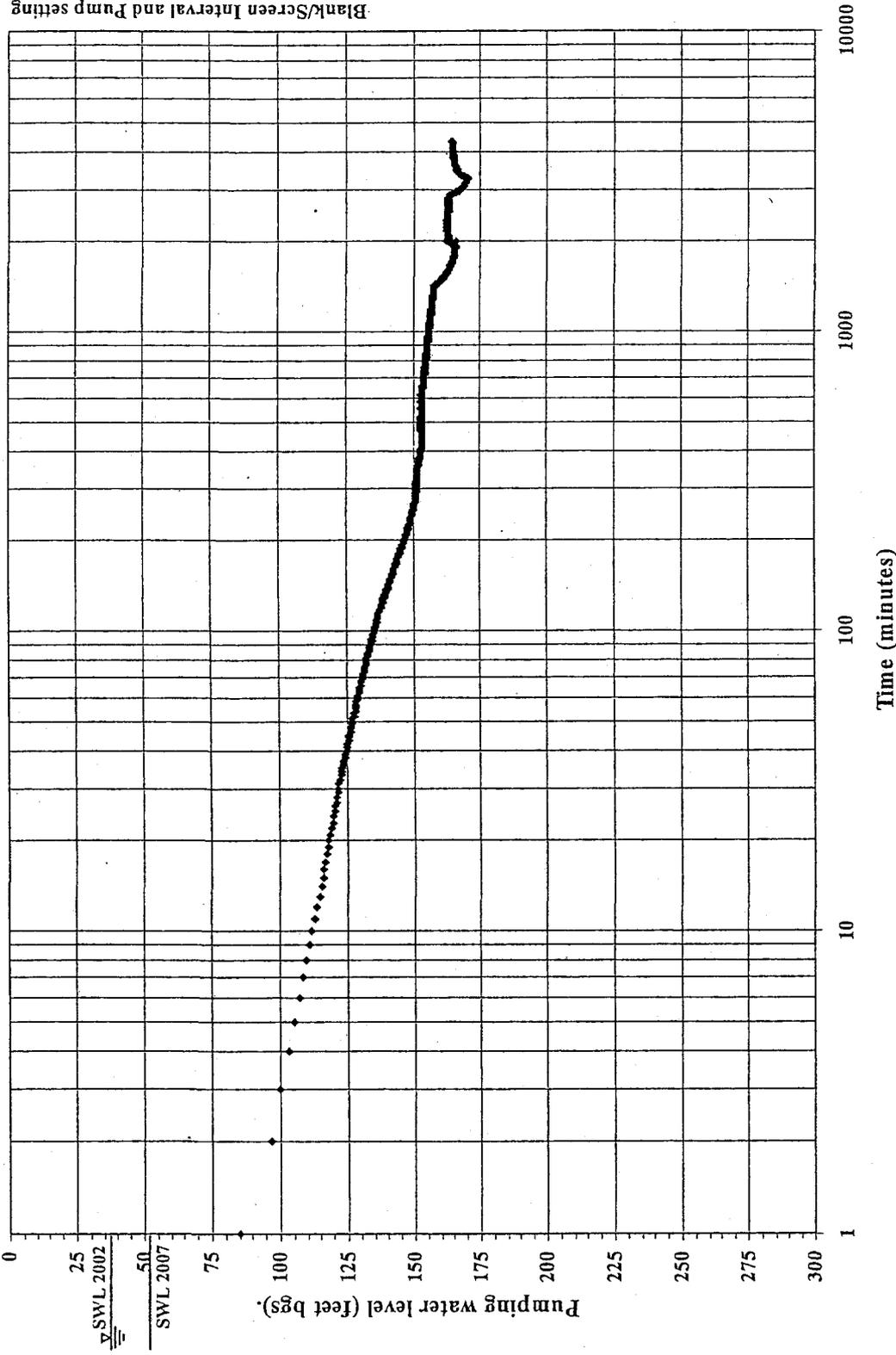


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CONSTANT RATE PUMPING

Talking Rock Ranch, Prescott, Arizona

Figure
 4



Southwest Ground-water
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 November 7, 2007 Project B.1471

PW-1 – CONSTANT RATE PUMPING
 Talking Rock Ranch, Prescott, Arizona

Figure
 5

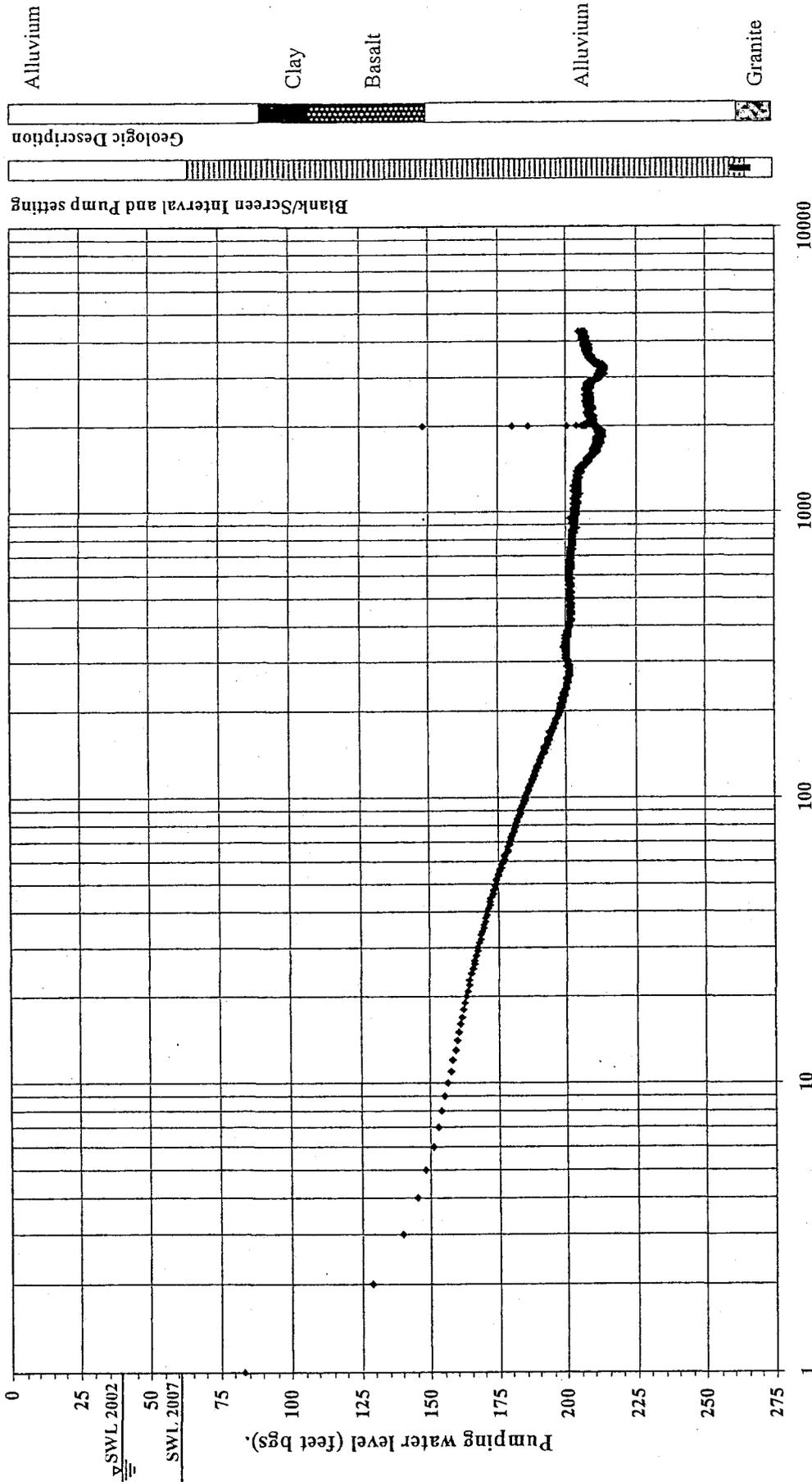


Figure
6

PW-2 - CONSTANT RATE PUMPING

Talking Rock Ranch, Prescott, Arizona

Southwest Ground-water
Consultants, Inc.



November 7, 2007 Project B.1471

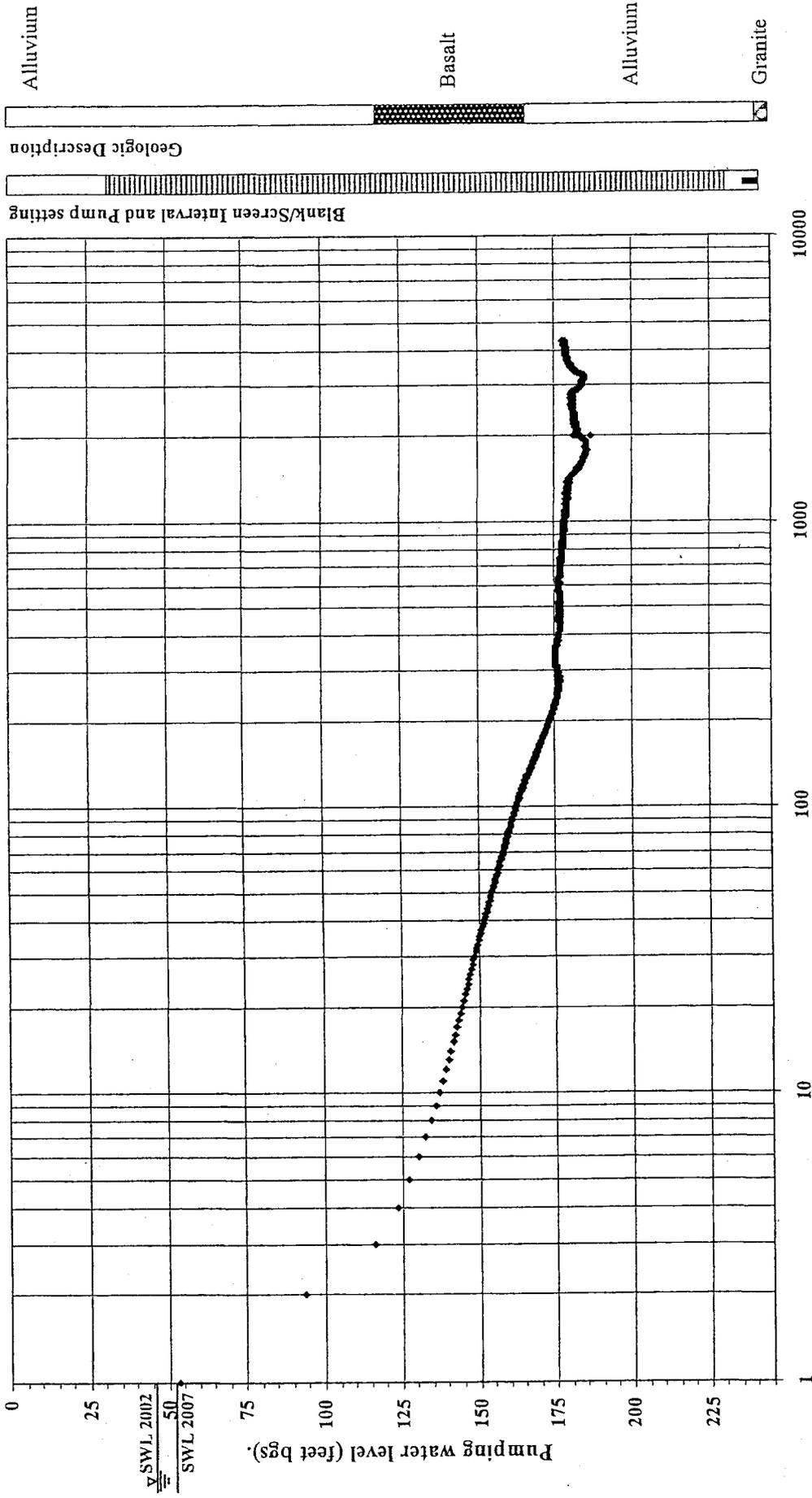


Figure 7

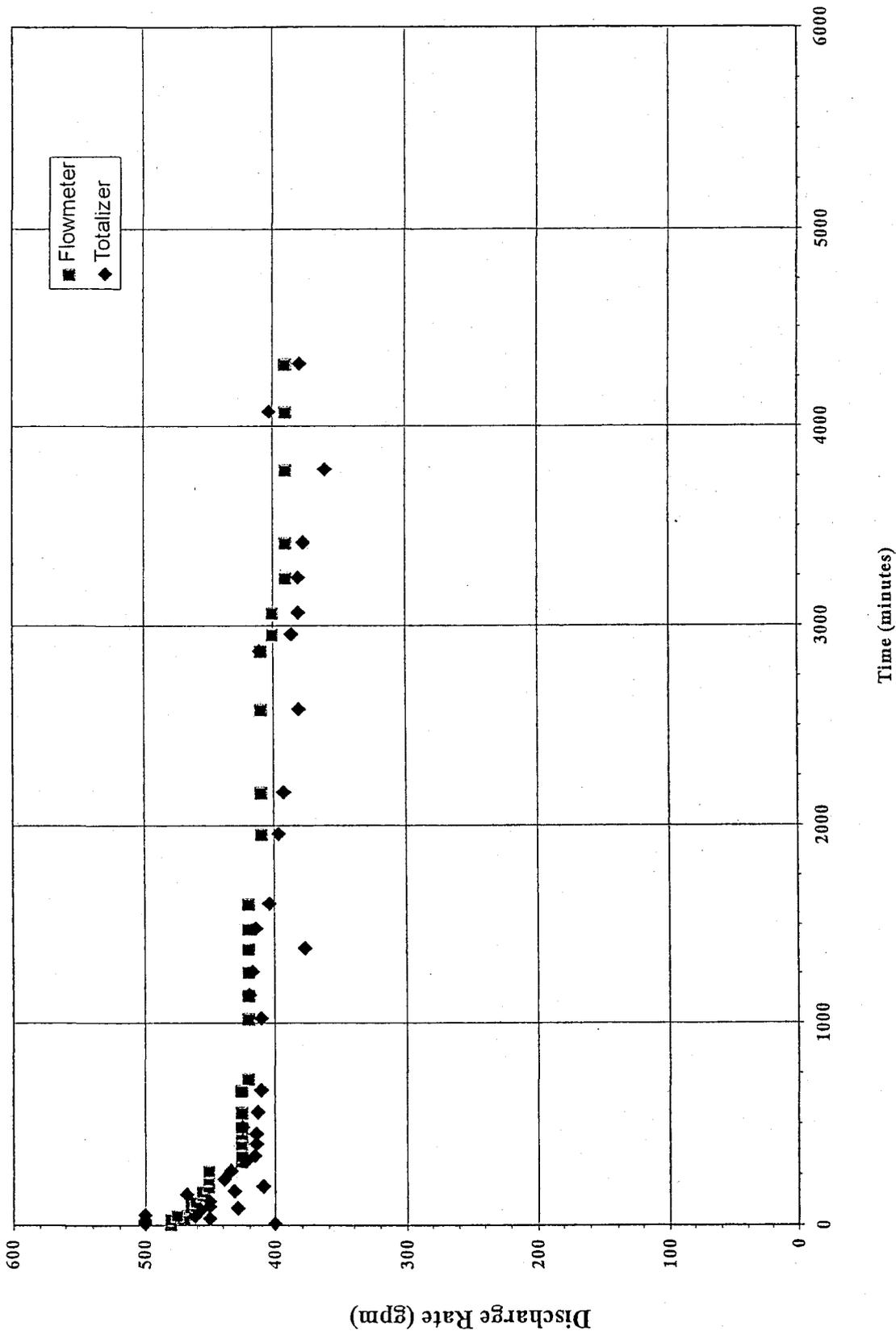
PW-3 – CONSTANT RATE PUMPING

Talking Rock Ranch, Prescott, Arizona

Southwest Ground-water Consultants, Inc.



November 8, 2007 Project B.1471



Southwest Ground-water
 Consultants, Inc.
 December 10, 2007 Project B.1471

WELL PW-1
 DISCHARGE RATE vs TIME (Linear Plot)
 CONSTANT RATE TEST - OCTOBER 24, 2007
 Talking Rock Ranch, Prescott, Arizona

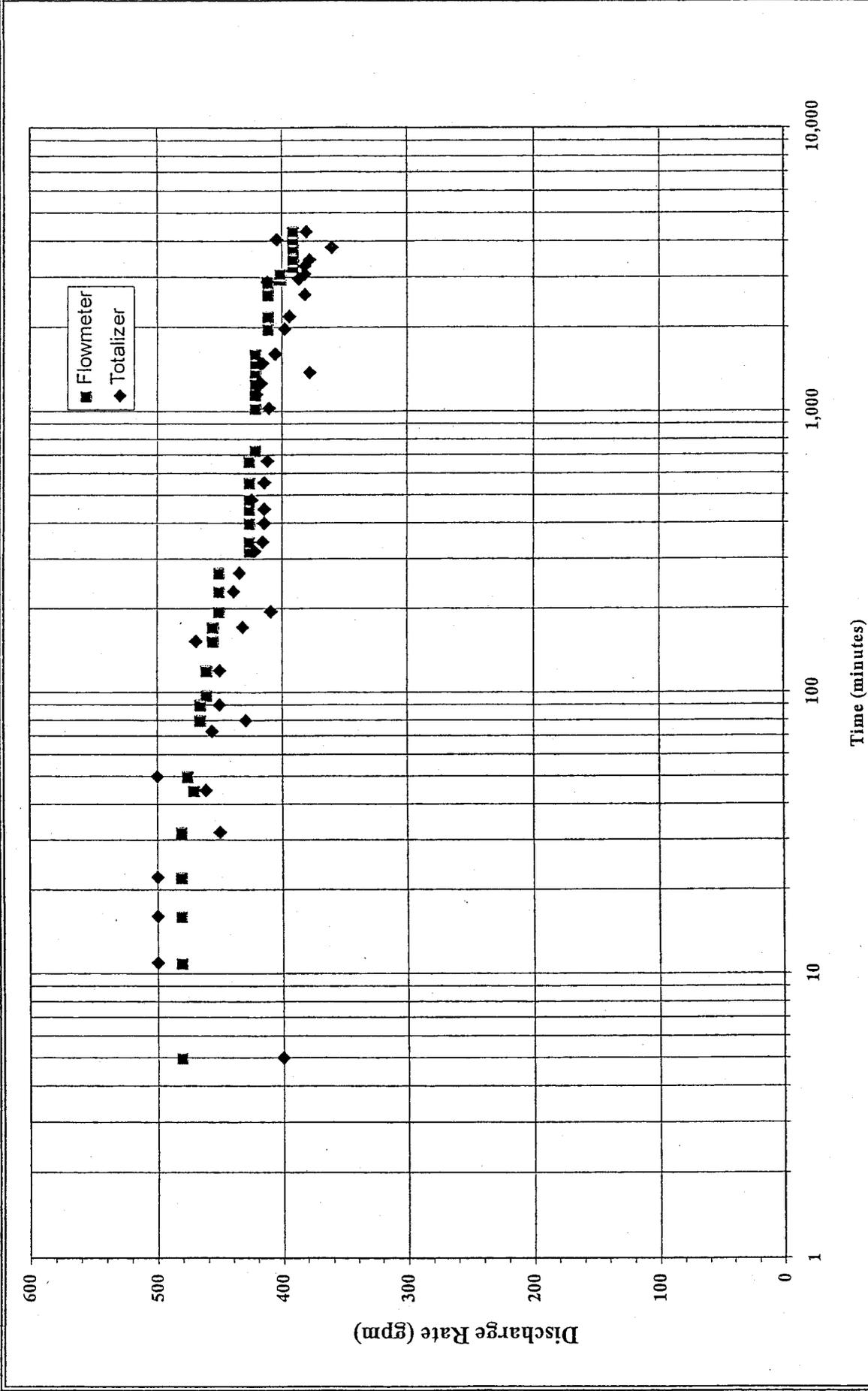
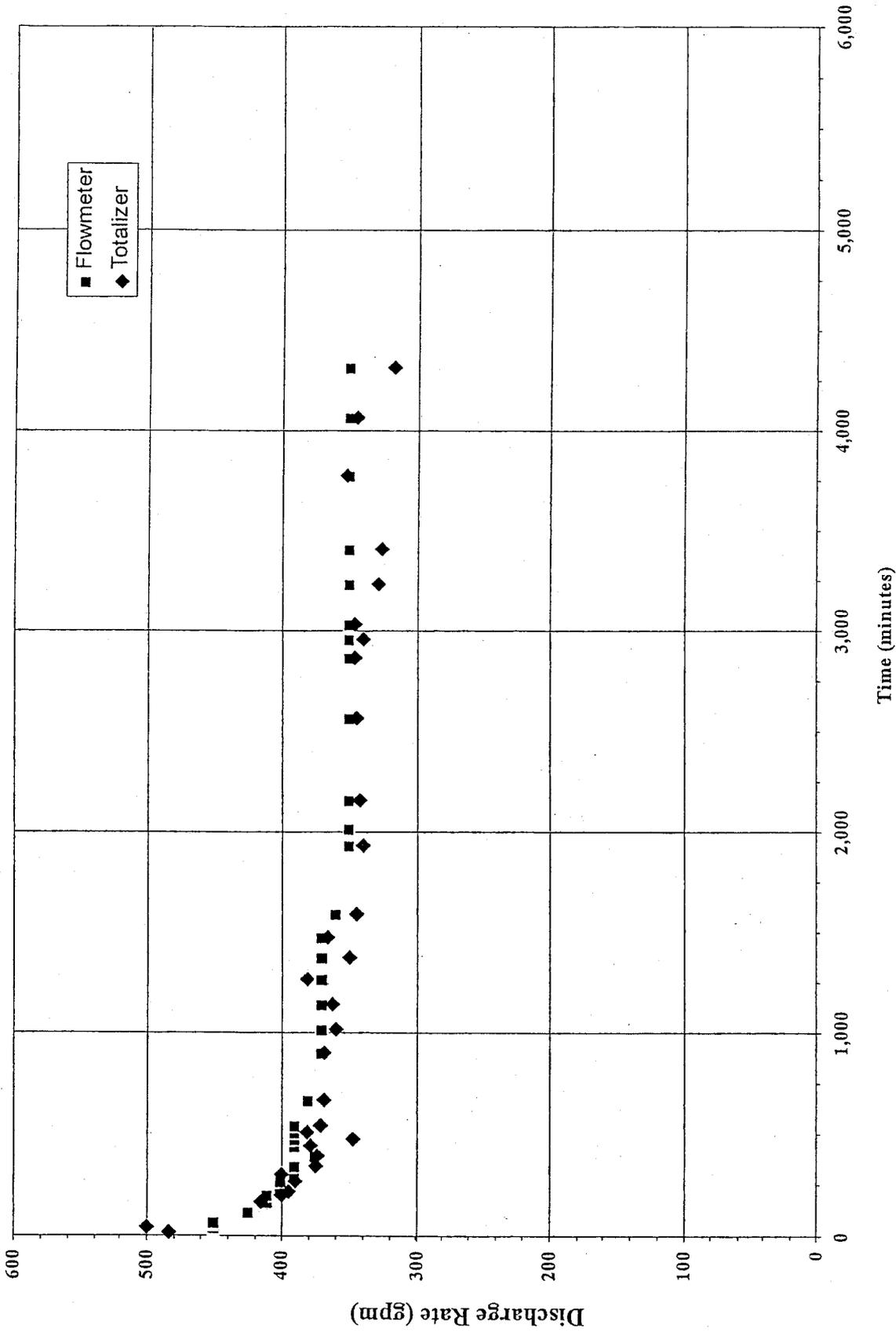


Figure 8b

WELL PW-1
 DISCHARGE RATE vs TIME (Semi-log Plot)
 CONSTANT RATE TEST - OCTOBER 24, 2007
 Talking Rock Ranch, Prescott, Arizona

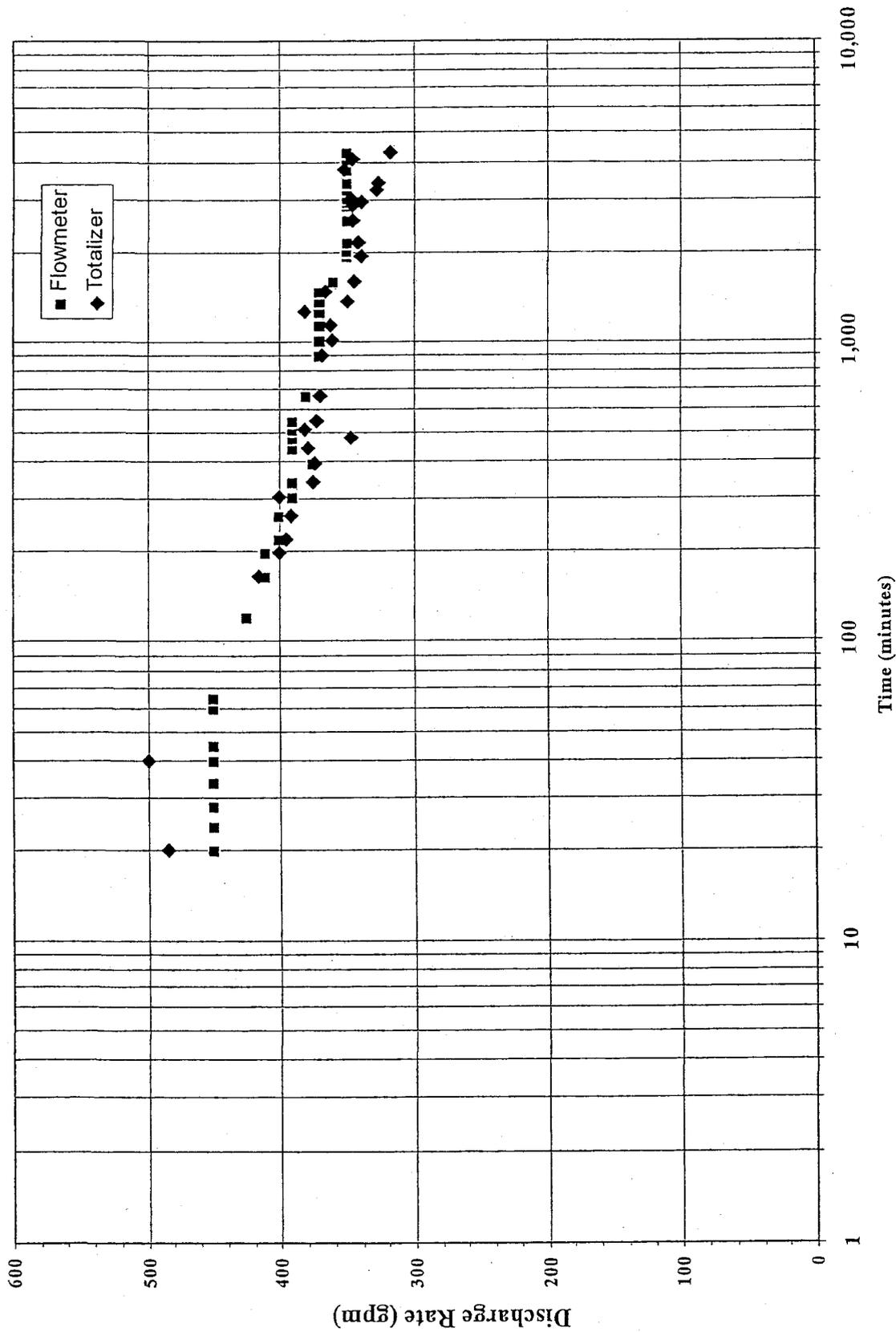
Southwest Ground-water
 Consultants, Inc.
 December 10, 2007 Project B.1471



Southwest Ground-water
 Consultants, Inc.
 December 10, 2007 Project B.1471

WELL PW-2
 DISCHARGE RATE vs TIME (Linear Plot)
 CONSTANT RATE TEST - OCTOBER 24, 2007
 Talking Rock Ranch, Prescott, Arizona

Figure
 9



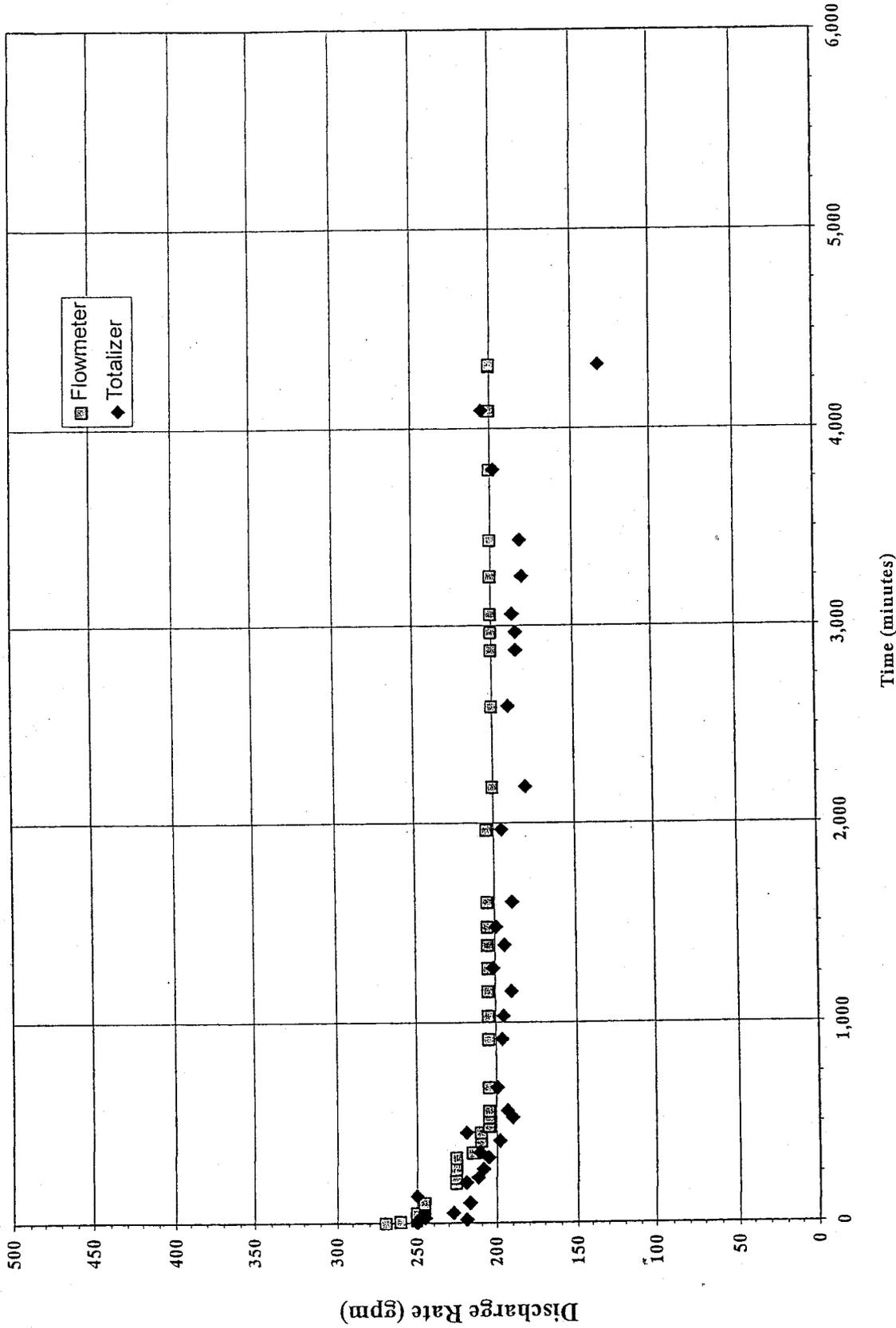
Southwest Ground-water
 Consultants, Inc.

December 10, 2007 Project B.1471

WELL PW-2
 DISCHARGE RATE vs TIME (Semi-log Plot)
 CONSTANT RATE TEST - OCTOBER 24, 2007

Talking Rock Ranch, Prescott, Arizona

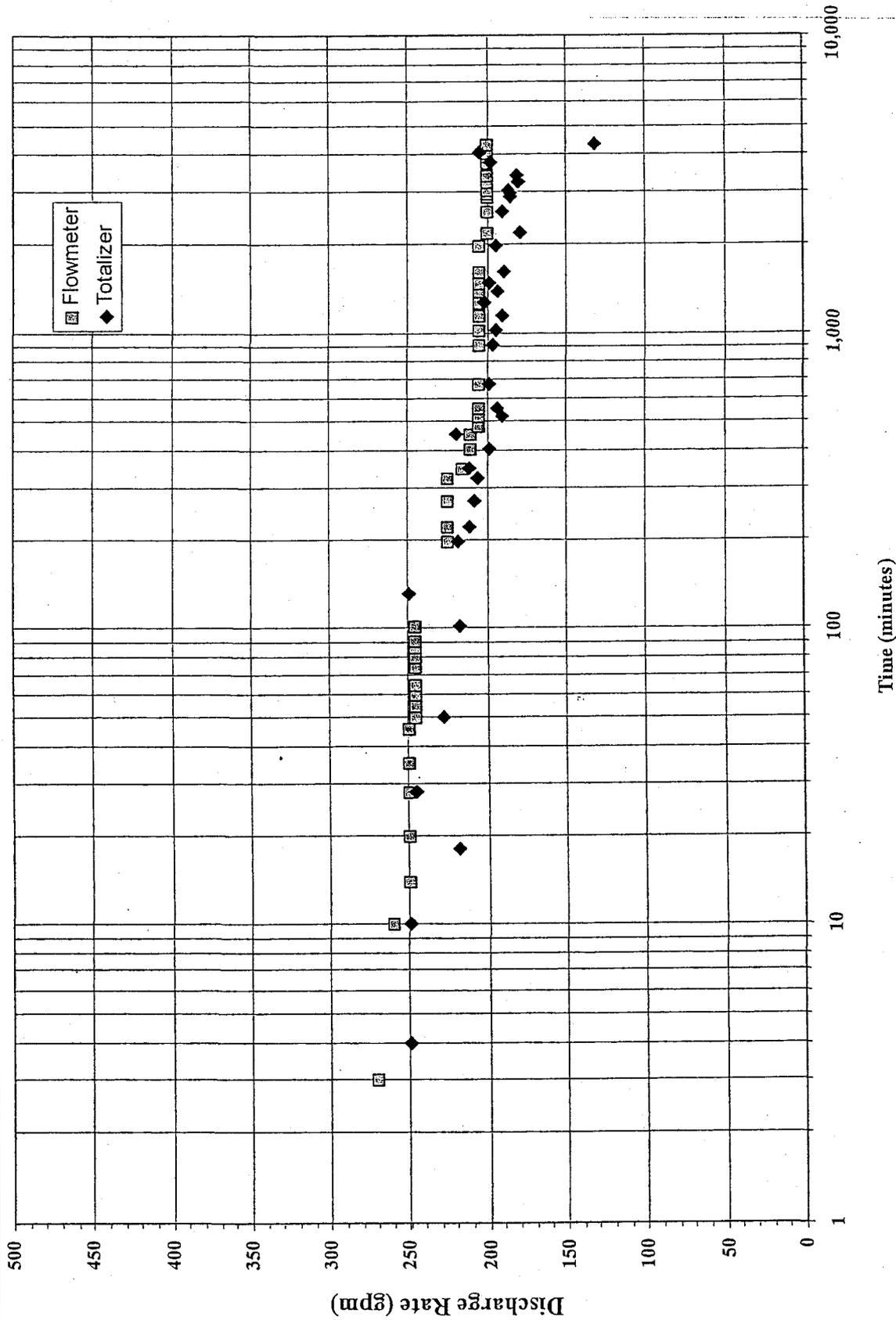
Figure
 9b



Southwest Ground-water
 Consultants, Inc.
 December 10, 2007 Project B.1471

WELL PW-3
 DISCHARGE RATE vs TIME (Linear Plot)
 CONSTANT RATE TEST - OCTOBER 24, 2007
 Talking Rock Ranch, Prescott, Arizona

Figure
 10



Southwest Ground-water
 Consultants, Inc.
 December 10, 2007 Project B.1471

WELL PW-3
 DISCHARGE RATE vs TIME (Semi-log Plot)
 CONSTANT RATE TEST - OCTOBER 24, 2007
 Talking Rock Ranch, Prescott, Arizona

Figure
 10b

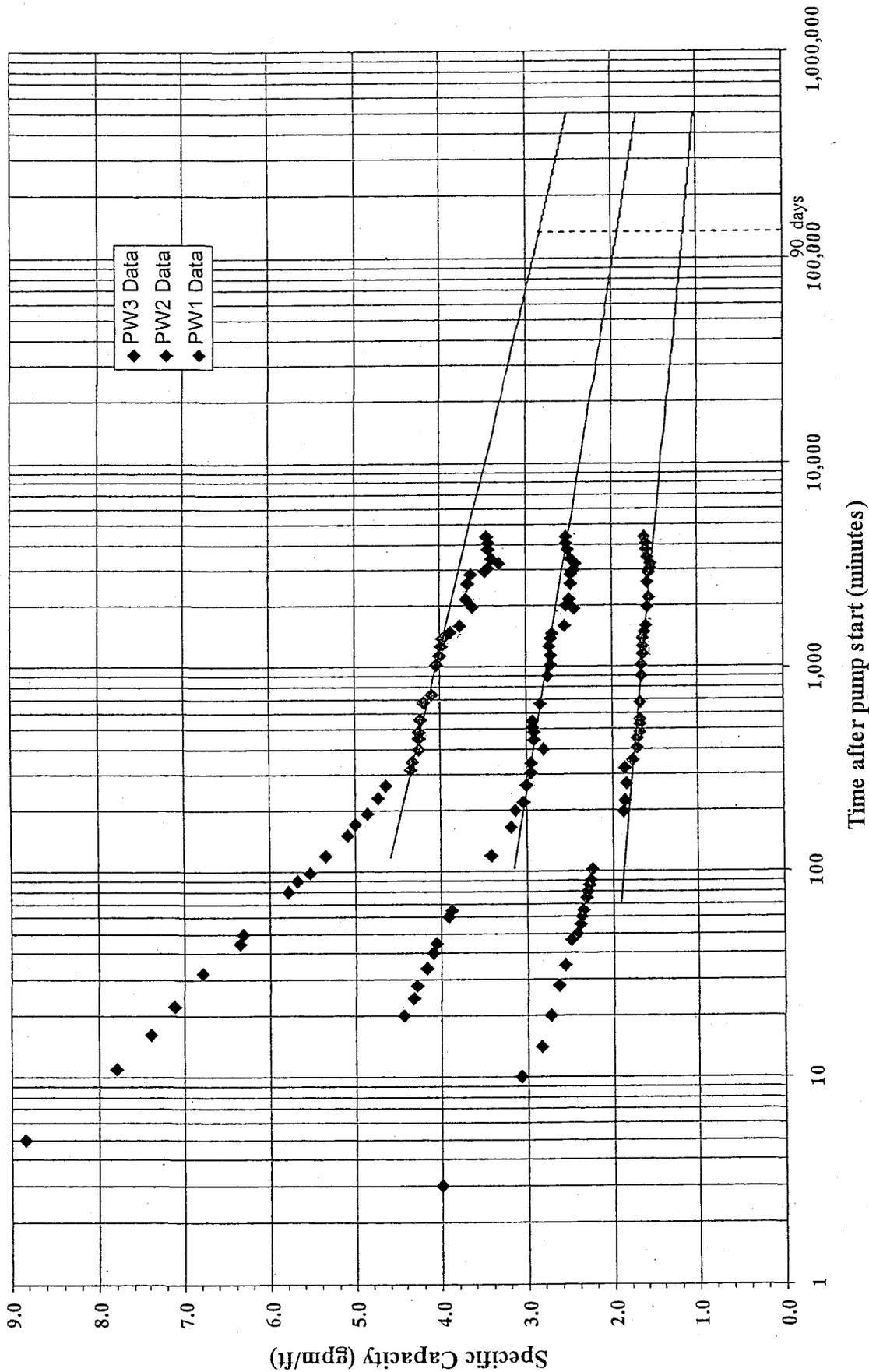


Figure
11

**90-DAY PROJECTED
SPECIFIC CAPACITY vs TIME
CONSTANT RATE TEST - OCTOBER 24, 2007**
Talking Rock Ranch, Prescott, Arizona

Southwest Ground-water
Consultants, Inc.
December 10, 2007 Project B.1471

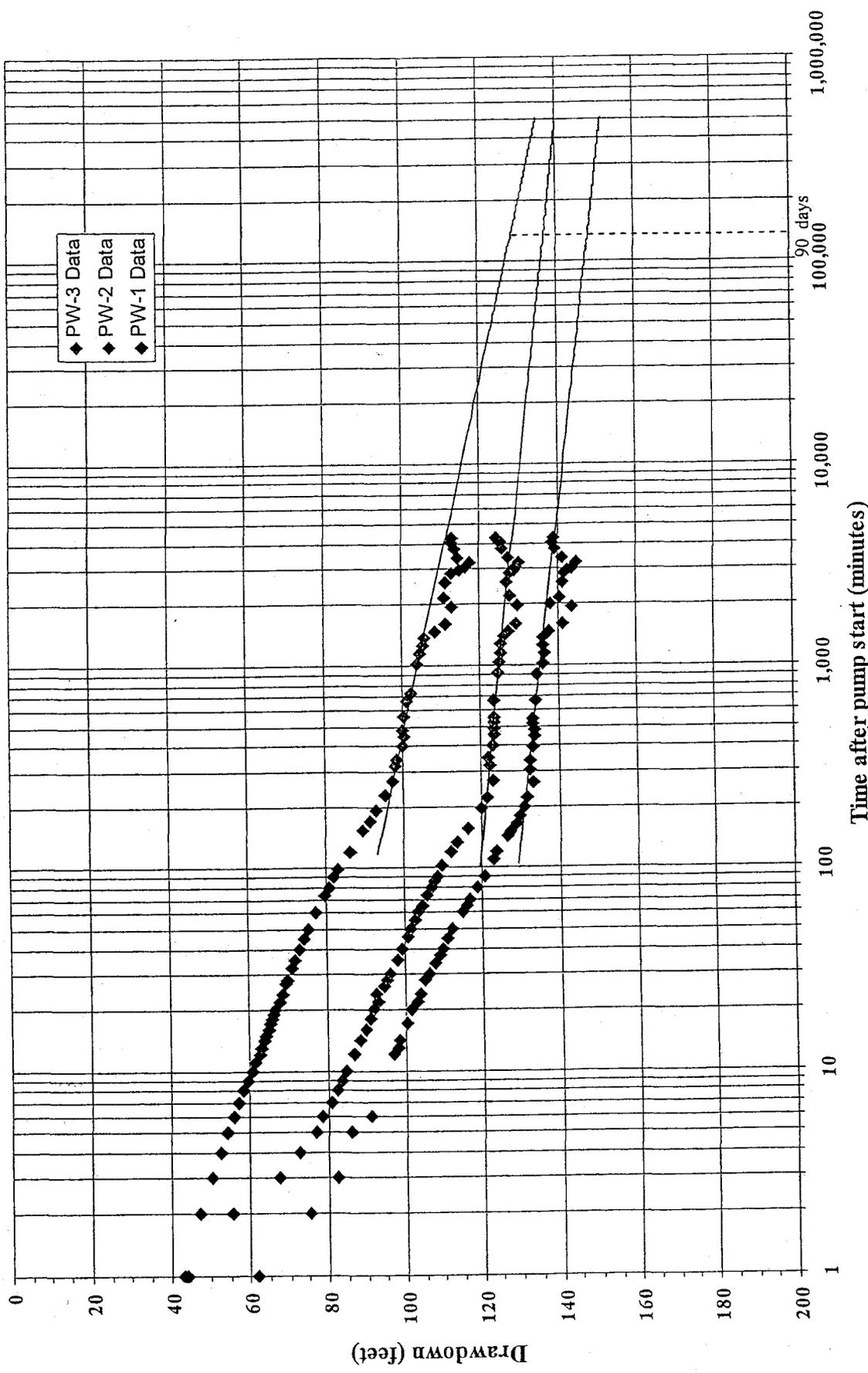
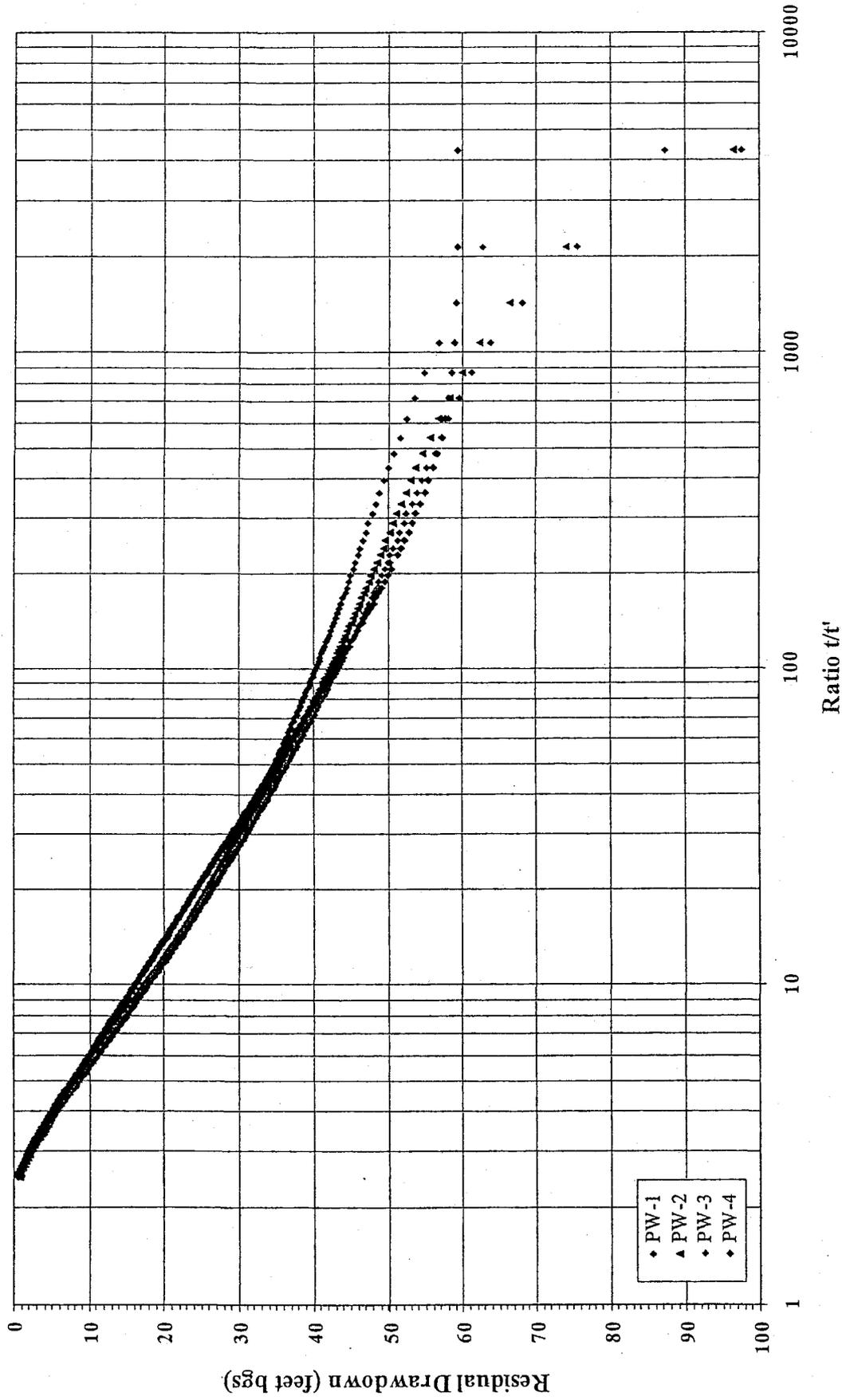


Figure
12

**90-DAY PROJECTED
DRAWDOWN vs TIME
CONSTANT RATE TEST - OCTOBER 24, 2007**
Talking Rock Ranch, Prescott, Arizona

Southwest Ground-water
Consultants, Inc.
December 10, 2007 Project B.1471





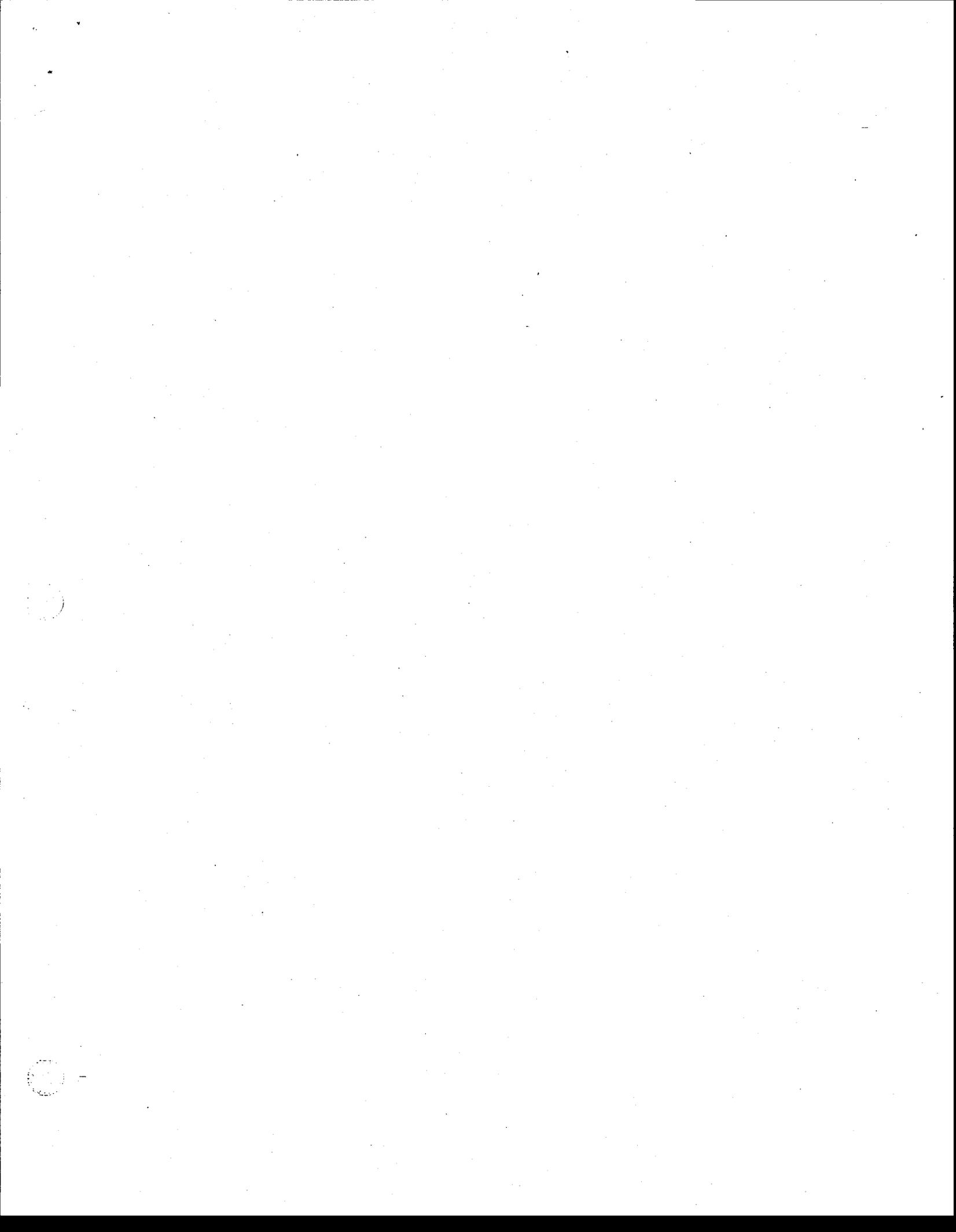
Southwest Ground-water
 Consultants, Inc.

RECOVERY

Talking Rock Ranch, Prescott, Arizona

November 26, 2007 Project B.1471

Figure
 13



APPENDICES



APPENDIX A
WELL FIELD TESTING PROCEDURE



**PROCEDURE FOR TESTING AND EVALUATING
AIR ENTRAPMENT AND WELL FIELD YIELD
AT THE TALKING ROCK LAND WELL FIELD
(September 18, 2007)**

1.0 PROBLEM STATEMENT

The Board of Directors of the Inscription Canyon Water Users Association, referred to herein as the Board, has reported concerns from homeowners within the Talking Rock Ranch subdivision regarding the presence of air in residential water. In pursuit of this issue, the Board and Talking Rock Land, L.L.C. (TRL) has confirmed that water pumped from the TRL well field is aerated. TRL has contracted with Southwest Ground-water Consultants, Inc. (SGC) to assist in the testing procedure as recommended by the Board.

Given the fact that pumpage from each well reduces the capacity of the other two wells and that the well field demand requires simultaneous pumpage from all three wells, there is a need to identify the current capacity of the well field with all wells pumping simultaneously.

2.0 OBJECTIVE

The purpose of the Board's testing procedure is to: 1) identify the current yield of the TRL well field as a whole with all three wells pumping simultaneously and 2) verify the cause of air entrapment in all of the wells, hopefully identifying the solution to the problem.

3.0 DATA COLLECTION AND TESTING PROCEDURE

SGC will rent and arrange for instrumentation to be installed in each well. These instruments will allow electronic collection of water level data before, during, and following the test. Pumping rates and amperage of each well will be manually recorded from flow meters and amperage gages already present on each well.

Equipment Installation

During the week of October 15, SGC will coordinate with the pump contractor to install a minimum one-inch diameter PVC sounding tube in each of the four TRL Wells. The bottom 20 feet of the sounding tube will be perforated with a bottom cap and extend to within 5 feet of the top of the pump bowls. An additional sounding tube will be installed in each well (if logistically it can fit within the casing) in order to allow for the manual measurement of water levels using an electric sounding device. As part of the sounding tube installation, the pump contractor will remove the existing pump assemblies from the wells and then reinstall the equipment with the sounding tubes fastened to the column pipe. Following the test, the sounding tubes will remain in the well for future monitoring purposes.

Well Field Preparation

The aquifer test at the TRL well field is scheduled to begin at 0800 on October 22, 2007. Prior to the start of the test, water levels will be measured by downhole pressure transducers and recorded using on-site data loggers to obtain background water-level trends. Background testing will start as soon as the downhole equipment is operational. We anticipate this will occur on or about October 18th. Transducer measurements will be collected in each well automatically every minute, and will be downloaded for analysis.

Prior to the start of the testing, TRL will lower the water level in the golf course lake to make room for the pumping test water. That operation will be coordinated by SGC with the TRL golf operations staff.

All three TRL wells will be off for a minimum period of 8 hours prior to the start of the test.

Well Field Testing

Aquifer testing at the TRL well field will begin on or about 8:00 am on Monday October 22, 2007 by turning on all three wells simultaneously. Pumping water levels in each of the four TRL wells will be continuously measured every minute by the downhole pressure transducers. The pumping rates for each well will be recorded by SGC staff and personnel as assigned by the Board during the first 24 hours of testing, and periodically during the remainder of the test. The pumping rates of the three pumping wells will be measured using existing in-line flow meters.

Pumping will continue for a period of 3 days (4,320 minutes). Following the three day test, all three pumps will be shut-down simultaneously and recovery water level measurements will be collected for a period of 3 days.

During testing, SGC staff and personnel as assigned by the Board will measure the pumping rate of each well over time, and manually measure water levels, if possible, in each of the wells to confirm the transducer readings. Pumping rates will be measured every five minutes during the first 100 minutes of testing, then every 15 minutes during the next 100 minutes. Once the pumping rates have stabilized (or the change in rates has slowed considerably over time), measurements will be collected every 30 minutes and then every hour. The amperage gages for each pump will also be measured with the pumping rates.

SGC and personnel assigned by the Board will also observe and document the presence or absence of air bubbles in the discharge water at each well head. SGC and personnel as assigned by the Board will quantify the amount of air bubbles in each sample both visually during the measurement of the pumping rate (bubble size, water clarity, and length of time required for the water to become clear and free of air bubbles), and by using an air measurement technique consisting of a graduated cylinder filled with bottled water (not pumped ground water) and a balloon filled with a sample of the pumped water.

This method requires that the graduated cylinder be filled with water to a pre determined level. The balloon will then be filled with pumped water collected from a sample tap at the well head and sealed. The water balloon will be submerged into the graduated cylinder and the level to which the water rises in the cylinder will be recorded (M1). The water balloon will then be opened under water and the contents in the balloon emptied into the graduated cylinder. The resulting water level in the cylinder will be recorded (M2). The M2 measurement will be subtracted from the M1 measurement in order to approximate the volume of air in the water (A1). SGC will perform this analysis using water from each well approximately every six hours or when there are changes in the visual observations of air.

Test Analysis

SGC and personnel as assigned by the Board will collect and tabulate all of the test data, and evaluate the data following appropriate analytical procedures.

4.0 DATA SHARING

The data to be collected during the test consists of water levels in the three wells, their individual pumping rates, and amperage. Water levels in TRL's recently constructed fourth well will also be measured during the test. The above information will be collected on a continuous schedule during the test as specified herein.

All data collected during the test will be shared between TRL and the Board. Copies of data manually collected by SGC will be provided to the Board and electronic data collected by SGC will be transmitted to the Board via computer. Test data collected by SGC will be provided to the Board for their independent analysis within 5 days of cessation of the recovery testing.

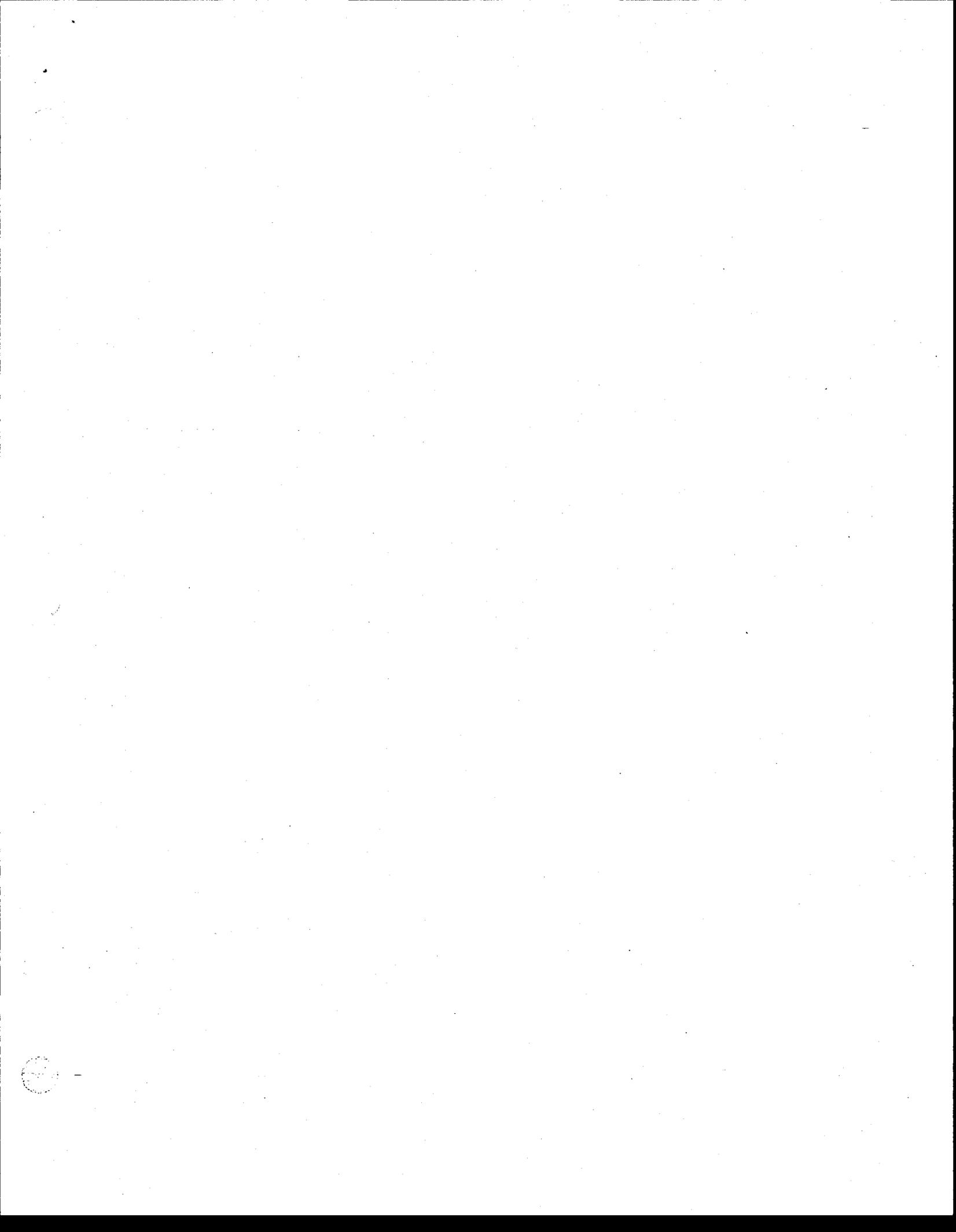
5.0 ANALYSIS AND REPORTING OF TEST RESULTS

SGC will prepare a report for TRL documenting all testing activities and analyses of the data. It is agreed that TRL will provide the Board with a copy of the report. The Board will also analyze and report on the test independent of SGC. A copy of this analysis will be made available to TRL.

It is agreed that all parties will meet prior to report preparation to discuss interpretation of test results and attempt to resolve any difference in interpretation should they exist.

AIR CONTENT DETERMINATION BY DISPLACEMENT METHOD

1. **Collect a water sample using balloons.** Attach the fill nozzle to the hose bib at the wellhead. Open the valve slightly to allow a steady slow flow of water to exhaust any residual air contained in the valve and fill nozzle. Bring a new balloon into the slow flow of water. Allow the flow to displace air in the balloon. With the flow continuing, attach the balloon to the nozzle. Slowly increase the flow to a moderate rate that fills the balloon in 1 to 2 seconds. Fill the balloon to a diameter of approximately 2 inches. Remove the balloon from the nozzle. Tie an overhand knot in the tail of the balloon. Use care to prevent the capture of atmospheric air in the tail of the balloon. Place the balloon into a water filled container. Repeat the process to fill 5 balloons.
2. **Measure the volume of the water sample.** Fill a 1 liter graduated cylinder to a volume of 500 ml and record the volume on the data sheet. Place the 5 water sample balloons into the cylinder. Submerge the balloons with the paddle. Read the cylinder volume of water with the submerged balloons. This is the Submerged Volume. Record the Submerged Volume on the data sheet. Transfer the balloons to a water filled container.
3. **Calculate the Sample Volume.** From the data sheet, read the Initial Cylinder Volume in ml and the Submerged Volume in ml. Subtract the Initial Cylinder Volume from the Submerged Volume. This is the Sample Volume. Record the Sample Volume on the data sheet.
4. **Measure the volume of air in the water sample.** Submerge an Imhoff cone in water. Invert the cone while maintaining 100% water fill. Observe the cone for the presence of air. If air is present, repeat the fill. Place a balloon under the inverted cone so as to capture the air that rises from the broken balloon. Break the balloon membrane to release the water and air mixture. Ensure that the air collected from the balloon is retained within the cone. Repeat the process for the five balloons. Read the volume at the bottom of the air bubble in the Imhoff cone. This is the Air Volume. Record the Air Volume on the data sheet. If the aggregated air volume of the balloons exceeds the 100 ml then several measurements of fewer than five balloons will be necessary. Partial volumes should be recorded on the back of the data sheet and the sum of the partials should be recorded in the Air Volume blank on the front of the sheet.
5. **Calculate the Air Content.** From the data sheet, read the Volume of Air in the sample in ml and the Sample Volume in ml. Divide the Volume of Air by the Sample Volume. This is the Air Content. Record the Air Content on the data sheet.



APPENDIX B

TRR WELL AS BUILT DRAWINGS



GEOLOGIC DESCRIPTION

0-30 ft. Alluvium. Brown to Reddish brown fine to coarse sand with gravels.

30-70 ft. Clay. Light brown fine sandy clay.

70-120 ft. Basalt. Black with moderate amounts of calcite and indingsite present.

120-315 ft. Sand. Light brown medium to very coarse sand with layers of gravel. Subrounded to subangular fragments of granite, mica, and schist.

Total Drilled Depth: 315 ft.

Cased Depth: 300 ft.

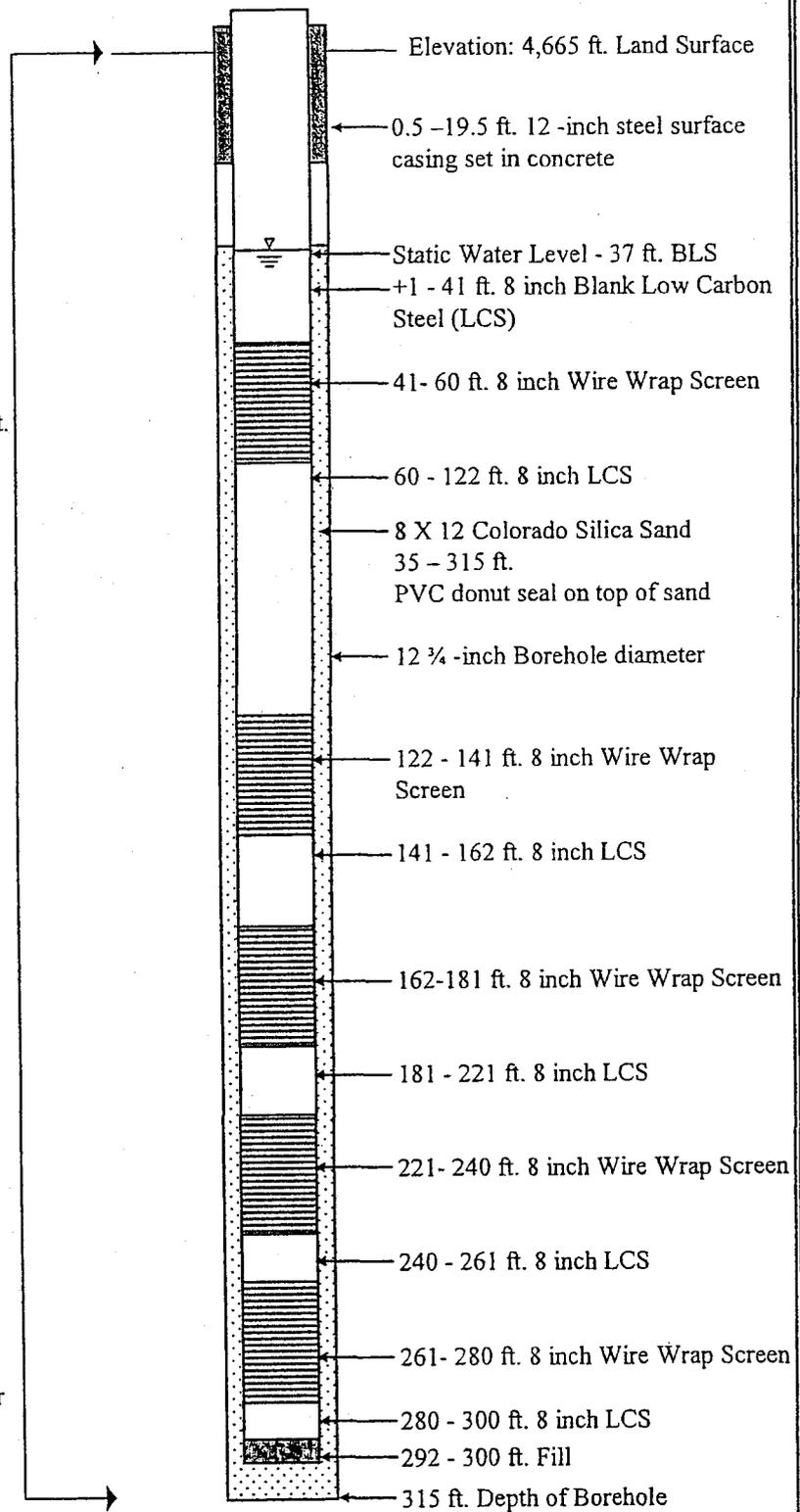
Depth to Water 20 ft. BLS

Location: B(16-3)17bbc

ADWR Registration No.: 55-584177

Notes: All casing and screen diameters are outer diameter.

BLS: below land surface



Not to Scale

**Southwest Ground-water
Consultants, Inc.**

September 30, 2002 Project B.533

**PW-1 WELL AS-BUILT
TALKING ROCK RANCH**

Williamson Valley, Arizona

**Figure
1**

GEOLOGIC DESCRIPTION

0-50 ft. Alluvium. Brown to reddish brown fine to coarse sand with gravels.

50-90 ft. Alluvium. Tan to light brown very fine silty sand and/ or rock powder with 15-30% medium sand.

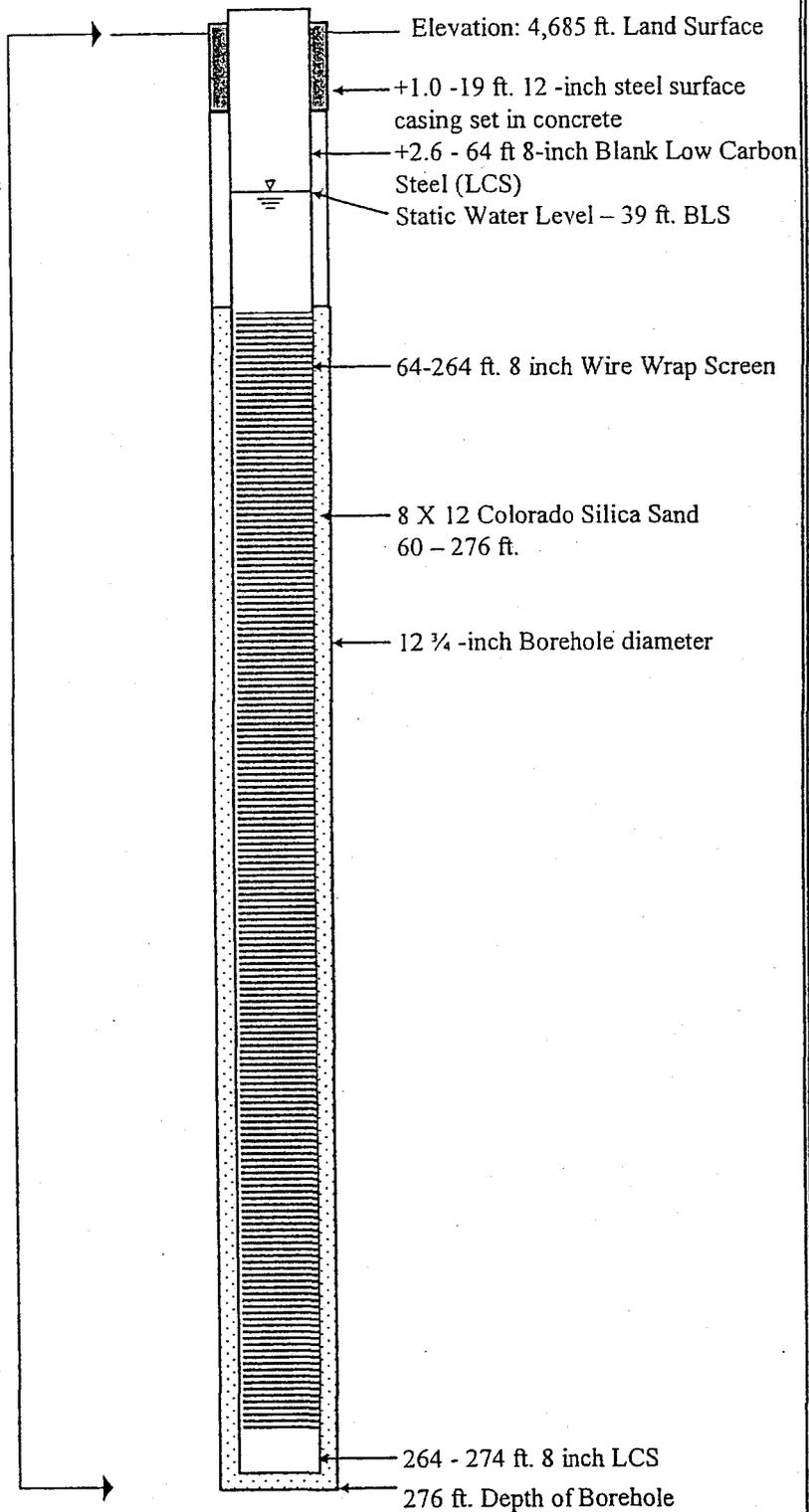
90-108 ft. Clay with Basalt Fragments. Medium plasticity fines

108-149 ft. Basalt. Black with moderate amounts of calcite and indingsite present.

149-262 ft. Alluvium. Light brown, medium to very coarse sand with layers of gravel. Subrounded to subangular fragments of granite, mica, and schist.

262-276 ft. Granite Bedrock

Total Drilled Depth: 276 ft.
 Cased Depth: 274 ft.
 Depth to Water 52.02 ft. BLS
 Location: B(16-3)17bbc
 ADWR Registration No.: 55-589659
 Notes: All casing and screen diameters are outer diameter.
 BLS: below land surface



Not to Scale

Southwest Ground-water Consultants, Inc.

 September 30, 2002 Project B.533

PW-2 WELL AS-BUILT
 TALKING ROCK RANCH
 Williamson Valley, Arizona

Figure 2

GEOLOGIC DESCRIPTION

0-118 ft. Alluvium. Brown to reddish brown fine to coarse sand with gravels.

118-167 ft. Basalt. Black with moderate amounts of calcite and indingsite present.

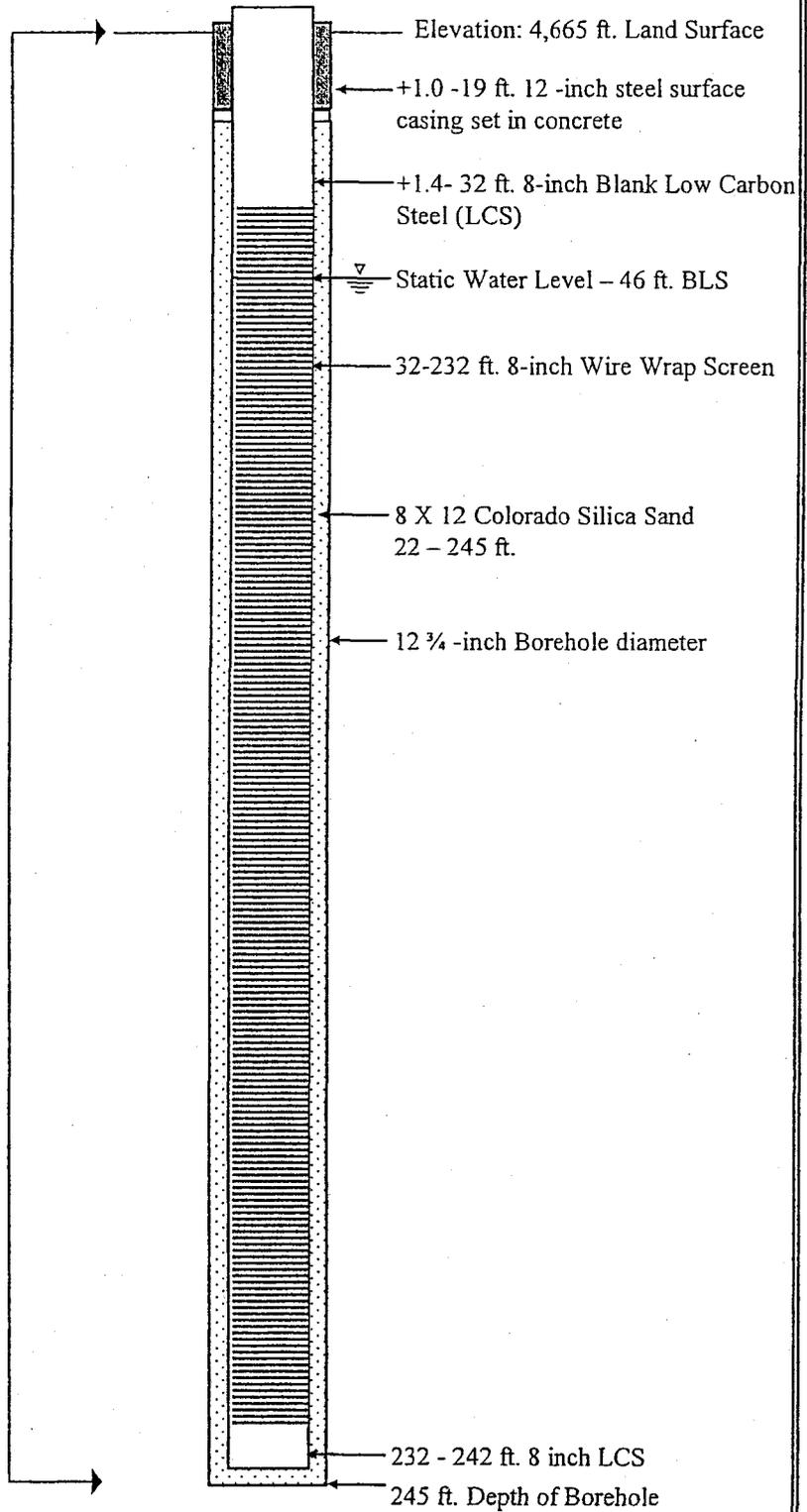
167-210 ft. Alluvium. Light brown, medium to very coarse sand with layers of gravel. Subrounded to subangular fragments of granite, mica, and schist.

210-240 ft. Alluvium w/ boulders. Light brown, medium to very coarse sand with granite boulders, light brown, very hard.

240-245 ft. Granite Bedrock. 10-20% mica crystals. Very hard.

Total Drilled Depth: 245 ft.
 Cased Depth: 242 ft.
 Depth to Water ft. 49.60 BLS
 Location: B(16-3)17bbc
 ADWR Registration No.: 55-589660
 Notes: All casing and screen diameters are outer diameter.
 BLS: below land surface

Not to Scale



**Southwest Ground-water
 Consultants, Inc.**

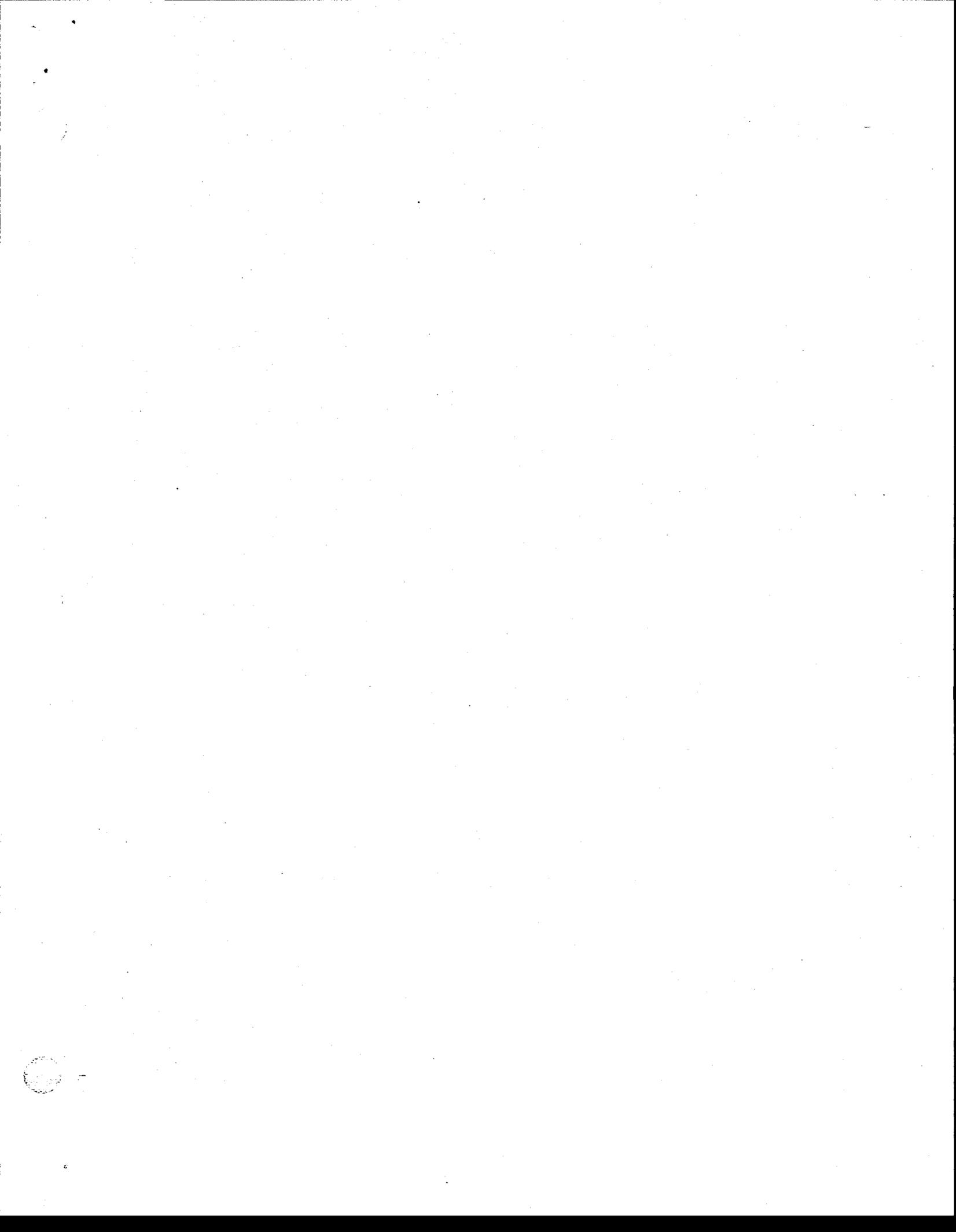


September 30, 2002 Project B.533

**PW-3 WELL AS-BUILT
 TALKING ROCK RANCH**

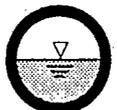
Williamson Valley, Arizona

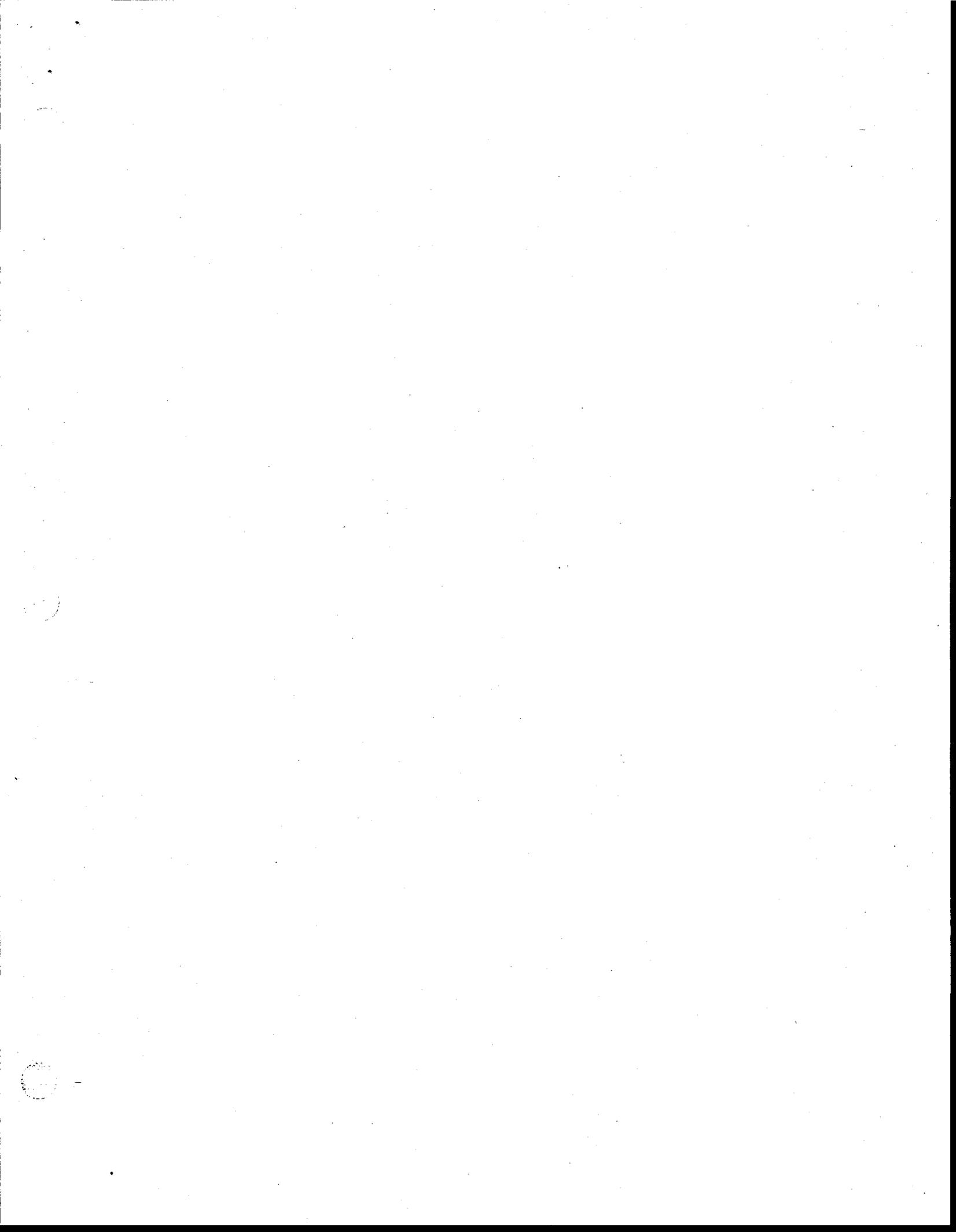
**Figure
 3**



APPENDIX C

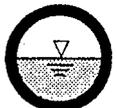
TRANSDUCER WATER LEVEL DATA MEASUREMENTS





APPENDIX D

MANUAL WATER LEVEL MEASUREMENTS



Aquifer Test Record - Constant Rate Test- Pumping Well



Southwest Ground-water Consultants, Inc.

Date 10/24/2007

Well Number: PW-1
 Job Number: B.1471

Job Title: Talking Rock Ranch
 Reported By: CRC

Pumping Contractor: N/A	Static Water Level: 50.54 ft bls
Foreman: N/A	Measure Point: TOC
Bailer/pump size, capacity, make: HP	Stick Up: 1.25 ft
Average Q:	Line Correction: 0.00 ft

Clock Time	Time Since Pump Start	Sounder Reading	Water Level	Draw down (s)	Dis-Charge (Q)	Specific Capacity	Specific Draw down	Remarks
08	0	0	51.79	50.54	0.00			
08	1	1	96.00	94.75	44.21			
08	2	2	98.95	97.70	47.16			
08	3	3	102.17	100.92	50.38			
08	4	4	104.35	103.10	52.56			
08	5	5	106.15	104.90	54.36	480		
08	6	6	107.62	106.37	55.83			
08	7	7	108.91	107.66	57.12			
08	8	8	110.10	108.85	58.31			
08	9	9	111.25	110.00	59.46			
08	10	10	112.39	111.14	60.60			
08	11	11	113.33	112.08	61.54	480		
08	12	12	114.22	112.97	62.43			
08	13	13	114.80	113.55	63.01			
08	14	14	115.40	114.15	63.61			
08	15	15	116.05	114.80	64.26			
08	16	16	116.67	115.42	64.88	480		
08	17	17	117.15	115.90	65.36			
08	18	18	117.63	116.38	65.84			
08	19	19	118.05	116.80	66.26			
08	20	20	118.47	117.22	66.68			
08	22	22	119.31	118.06	67.52	480		
08	24	24	120.13	118.88	68.34			
08	27	27	121.08	119.83	69.29			
08	28	28	121.41	120.16	69.62			
08	32	32	122.60	121.35	70.81	480		
08	35	35	123.48	122.23	71.69			
08	40	40	124.81	123.56	73.02			
08	45	45	125.88	124.63	74.09	470		
08	50	50	127.00	125.75	75.21	475		
09	00	60	129.02	127.77	77.23			
09	13	73	131.33	130.08	79.54			
09	20	80	132.32	131.07	80.53	465		
09	30	90	133.82	132.57	82.03	465		
09	38	98	134.97	133.72	83.18	460		
10	00	120	137.82	136.57	86.03	460		
10	32	152	141.32	140.07	89.53	455		

Aquifer Test Record - Constant Rate Test- Pumping Well



Southwest Ground-water Consultants, Inc.

Date 10/24/2007

Well Number: PW-1
 Job Number: B.1471

Job Title: Talking Rock Ranch
 Reported By: CRC

Pumping Contractor: N/A	Static Water Level: 50.54 ft bls
Foreman: N/A	Measure Point: TOC
Bailer/pump size, capacity, make: HP	Stick Up: 1.25 ft
Average Q:	Line Correction: 0.00 ft

Clock Time		Time Since Pump Start minutes	Sounder Reading feet	Water Level feet	Draw down (s) feet	Dis-Charge (Q) gpm	Specific Capacity gpm/ft	Specific Draw down ft/gpm	Remarks
10	51	171	142.94	141.69	91.15	455			
11	13	193	144.67	143.42	92.88	450			
11	49	229	146.96	145.71	95.17	450			
12	27	267	149.08	147.83	97.29	450			
13	18	318	149.93	148.68	98.14	425			
13	44	344	150.35	149.10	98.56	425			
14	40	400	151.90	150.65	100.11	425			
15	30	450	152.13	150.88	100.34	425			
16	03	483	151.91	150.66	100.12	425			
17	17	557	152.37	151.12	100.58	425			
19	09	669	153.06	151.81	101.27	425			
21	09	729	154.09	152.84	102.30	420			
1	04	1024	155.75	154.50	103.96	420			
03	10	1146	156.44	155.19	104.65	420			
05	05	1265	157.18	155.93	105.39	420			
07	02	1382	157.82	156.57	106.03	420			
08	36	1476	160.33	159.08	108.54	420			
10	42	1602	163.08	161.83	111.29	420			
16	32	1952	164.85	163.60	113.06	410			
20	02	2162	162.83	161.58	111.04	410			
03	05	2585	163.23	161.98	111.44	410			
07	53	2873	164.69	163.44	112.90	410			
09	20	2960	166.77	165.52	114.98	400			
11	05	3065	168.22	166.97	116.43	400			
14	04	3244	169.33	168.08	117.54	390			
17	00	3420	166.39	165.14	114.60	390			
23	07	3787	165.41	164.16	113.62	390			
03	58	4078	164.95	163.7	113.16	390			
07	59	4319	164.6	163.35	112.81	390			

Aquifer Test Record - Constant Rate Test- Pumping Well



Southwest Ground-water Consultants, Inc.

Date 10/24/2007

Well Number: PW-2
 Job Number: B.1471

Job Title: Talking Rock Ranch
 Reported By: CRC

Pumping Contractor:			N/A			Static Water Level:			58.40 ft bls					
Foreman:			N/A			Measure Point:			TOC					
Bailer/pump size, capacity, make:						HP			Stick Up:			1.25 ft		
Average Q:						Line Correction:						0.00 ft		
Clock Time		Time Since Pump Start minutes	Sounder Reading feet	Water Level feet	Draw down (s) feet	Dis-Charge (Q) gpm	Specific Capacity gpm/ft	Specific Draw down ft/gpm	Remarks					
										hours	min			
08	0	0	59.65	58.40	0.00									
08	01	1	121.55	120.30	61.90									
08	2	2	135.00	133.75	75.35									
08	3	3	141.87	140.62	82.22									
08	05	5	145.59	144.34	85.94									
08	06	6	150.50	149.25	90.85									
08	12	12	156.33	155.08	96.68									
08	13	13	157.56	156.31	97.91									
08	14	14	158.26	157.01	98.61									
08	17	17	159.97	158.72	100.32									
08	20	20	161.42	160.17	101.77	450								
08	22	22	162.81	161.56	103.16									
08	24	24	163.67	162.42	104.02	450								
08	28	28	164.71	163.46	105.06	450								
08	30	30	165.95	164.70	106.30									
08	34	34	167.35	166.10	107.70	450								
08	37	37	168.65	167.40	109.00									
08	40	40	169.32	168.07	109.67	450								
08	45	45	170.71	169.46	111.06	450								
08	50	50	172.00	170.75	112.35									
08	00	60	174.50	173.25	114.85	450								
09	05	65	175.61	174.36	115.96	450								
09	10	70	176.63	175.38	116.98									
09	20	80	178.45	177.20	118.80									
09	30	90	180.35	179.10	120.70									
09	50	110	182.99	181.74	123.34									
10	00	120	183.85	182.60	124.20	425								
10	22	142	186.49	185.24	126.84									
10	30	150	187.28	186.03	127.63									
10	44	164	188.60	187.35	128.95	410								
10	59	179	189.75	188.50	130.10									
11	19	199	190.80	189.55	131.15	410								
11	40	220	191.61	190.36	131.96	400								
12	24	264	192.96	191.71	133.31	400								

Aquifer Test Record - Constant Rate Test- Pumping Well



Southwest Ground-water Consultants, Inc.

Date 10/24/2007

Well Number: PW-2
 Job Number: B.1471

Job Title: Talking Rock Ranch
 Reported By: CRC

Pumping Contractor: N/A	Static Water Level: 58.40 ft bls
Foreman: N/A	Measure Point: TOC
Bailer/pump size, capacity, make: HP	Stick Up: 1.25 ft
Average Q:	Line Correction: 0.00 ft

Clock Time		Time Since Pump Start minutes	Sounder Reading feet	Water Level feet	Draw down (s) feet	Dis-Charge (Q) gpm	Specific Capacity gpm/ft	Specific Draw down ft/gpm	Remarks
13	04	304	192.42	191.17	132.77	390			
13	40	340	192.17	190.92	132.52	390			
14	34	394	193.29	192.04	133.64	375			
15	25	445	193.36	192.11	133.71	390			
15	59	479	193.42	192.17	133.77	390			
16	32	512	193.20	191.95	133.55	390			
17	04	544	192.98	191.73	133.33	390			
19	05	665	193.78	192.53	134.13	380			
23	01	901	194.48	193.23	134.83	370			
1	00	1020	195.88	194.63	136.23	370			
3	05	1145	196.12	194.87	136.47	370			
5	04	1264	195.68	194.43	136.03	370			
6	55	1375	195.98	194.73	136.33	370			
8	32	1472	197.60	196.35	137.95	370			
10	34	1594	201.16	199.91	141.51	360			
16	17	1937	203.40	202.15	143.75	350			
17	23	2003		-1.25					well off
17	24	2004		-1.25					well on
17	25	2005		-1.25					well off
17	26	2006		-1.25					well on
17	35	2015	197.95	196.70	138.30	350			
19	57	2157	200.33	199.08	140.68	350			
02	45	2565	200.89	199.64	141.24	350			
07	50	2870	201.28	200.03	141.63	350			
09	15	2955	202.00	200.75	142.35	350			
10	30	3030	203.40	202.15	143.75	350			
13	54	3234	204.71	203.46	145.06	350			
16	52	3412	201	199.75	141.35	350			
22	51	3771	199.21	197.96	139.56	350			
03	45	4065	198.15	196.9	138.50	350			
07	54	4314	198.48	197.23	138.83	350			
07	59	4319	198.62	197.37	138.97	350			

Aquifer Test Record - Constant Rate Test- Pumping Well



Southwest Ground-water Consultants, Inc.

Date 10/24/2007

Well Number: PW-3
 Job Number: B.1471

Job Title: Talking Rock Ranch
 Reported By: CRC

Pumping Contractor: N/A	Static Water Level: 52.42 ft bls
Foreman: N/A	Measure Point: TOC
Bailer/pump size, capacity, make: HP	Stick Up: 1.25 ft
Average Q:	Line Correction: 0.00 ft

Clock Time		Time Since Pump Start minutes	Sounder Reading feet	Water Level feet	Draw down (s) feet	Dis-Charge (Q) gpm	Specific Capacity gpm/ft	Specific Draw down ft/gpm	Remarks
08	0	0	53.70	52.45	0.00				
08	1	1	96.94	95.69	43.24				
08	2	2	109.37	108.12	55.67				
08	3	3	121.12	119.87	67.42	270			
08	4	4	126.31	125.06	72.61				
08	5	5	130.35	129.10	76.65				
08	6	6	131.91	130.66	78.21				
08	7	7	134.35	133.10	80.65				
08	8	8	135.89	134.64	82.19				
08	9	9	137.35	136.10	83.65				
08	10	10	138.32	137.07	84.62	260			
08	12	12	140.45	139.20	86.75				
08	14	14	142.08	140.83	88.38	250			
08	16	16	143.43	142.18	89.73				
08	18	18	144.57	143.32	90.87				
08	20	20	145.42	144.17	91.72	250			
08	22	22	146.62	145.37	92.92				
08	24	24	146.19	144.94	92.49				
08	26	26	148.21	146.96	94.51				
08	28	28	148.89	147.64	95.19	250			
08	30	30	149.59	148.34	95.89				
08	35	35	151.54	150.29	97.84	250			
08	40	40	152.75	151.50	99.05				
08	46	46	154.37	153.12	100.67	250			
08	50	50	155.28	154.03	101.58	245			
08	55	55	156.53	155.28	102.83	245			
09	00	60	157.35	156.10	103.65	245			
09	5	65	158.23	156.98	104.53	245			
09	14	74	159.77	158.52	106.07	245			
09	20	80	160.69	159.44	106.99	245			
09	26	86	161.57	160.32	107.87	245			
09	31	91	162.27	161.02	108.57	245			
09	42	102	163.43	162.18	109.73	245			
10	00	120	165.91	164.66	112.21				

Aquifer Test Record - Constant Rate Test- Pumping Well



Southwest Ground-water Consultants, Inc.

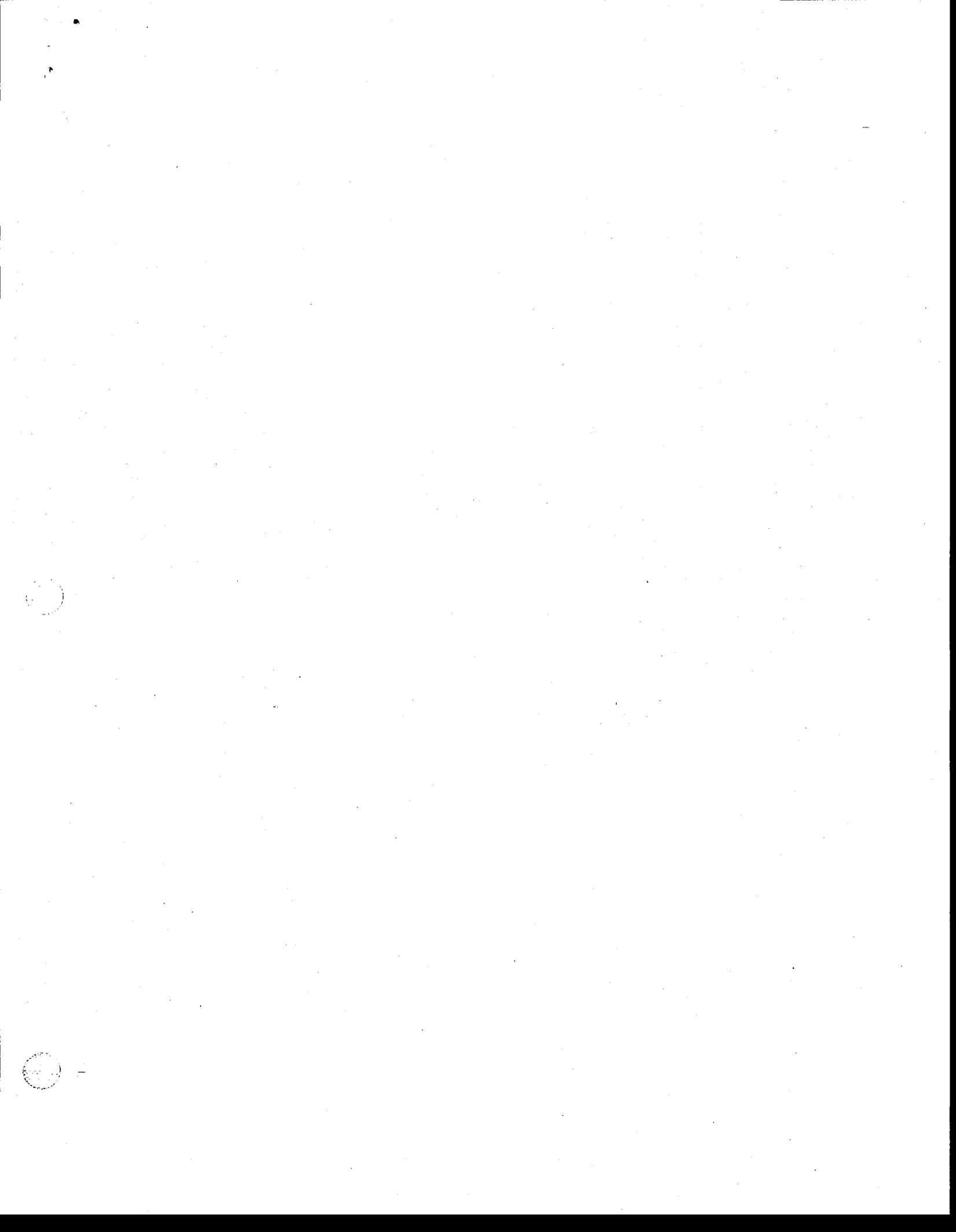
Date 10/24/2007

Well Number: PW-3
 Job Number: B.1471

Job Title: Talking Rock Ranch
 Reported By: CRC

Pumping Contractor:	N/A	Static Water Level:	52.42 ft bls
Foreman:	N/A	Measure Point:	TOC
Bailer/pump size, capacity, make:	HP	Stick Up:	1.25 ft
Average Q:		Line Correction:	0.00 ft

Clock Time		Time Since Pump Start minutes	Sounder Reading feet	Water Level feet	Draw down (s) feet	Dis-Charge (Q) gpm	Specific Capacity gpm/ft	Specific Draw down ft/gpm	Remarks
10	12	132	167.53	166.28	113.83				
10	36	156	170.21	168.96	116.51				
11	16	196	173.73	172.48	120.03	225			
11	42	222	175.36	174.11	121.66	225			
12	30	270	176.77	175.52	123.07	225			
13	21	321	176.00	174.75	122.30	225			
13	48	348	175.91	174.66	122.21	215			
14	45	405	176.93	175.68	123.23	210			
15	32	452	177.17	175.92	123.47	210			
16	04	484	177.25	176.00	123.55	205			
16	45	525	177.17	175.92	123.47	205			
17	15	555	177.27	176.02	123.57	205			
19	14	674	177.34	176.09	123.64	205			
23	13	913	178.44	177.19	124.74	205			
1	07	1027	178.86	177.61	125.16	205			
3	12	1152	179.12	177.87	125.42	205			
05	14	1274	179.35	178.10	125.65	205			
07	07	1387	179.89	178.64	126.19	205			
08	39	1479	181.27	180.02	127.57	205			
10	48	1608	183.22	181.97	129.52	205			
16	49	1969	183.50	182.25	129.80	205			
20	24	2184	181.81	180.56	128.11	200			
03	14	2594	181.04	179.79	127.34	200			
07	56	2876	181.67	180.42	127.97	200			
09	24	2964	133.03	131.78	79.33	200			
10	55	3055	183.40	182.15	129.70	200			
14	08	3248	183.82	182.57	130.12	200			
17	08	3428	181.25	180	127.55	200			
23	11	3791	179.58	178.33	125.88	200			
04	05	4085	179.12	177.87	125.42	200			
07	54	4314	178.3	177.05	124.60	200			
08	00	4320	178.28	177.03	124.58	200			



Air Content Determination Form



Southwest Ground-water Consultants, Inc.

Well Number: PW-2

Date 10/24/07 - 10/26/07

Job Number: B.1471

Job Title: Talking Rock Ranch

IMHOFF CONE METHOD

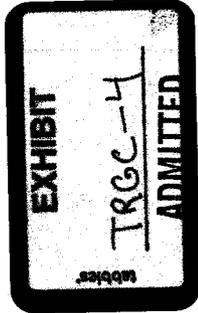
Clock Time		Time Since Pump Start	(No.1)	No. of Balloons	(No.2)	(Vol.1)	(Vol. 2)	Air Content (Vol.2/Vol.1)
			Initial Cylinder Volume		Submerged Volume	Total Sample Volume (No.2 -No.1)	Air Volume	
hours	min	minutes	ml	count	ml	ml	ml	%
08	30	30	500	4	940	440	0.5	0.11
09	20	80	500	4	950	450	17.0	3.78
10	05	125	500	4	920	420	25.0	5.95
13	05	305	500	4	1020	520	64.0	12.31
14	45	405	500	4	900	400	35.0	8.75
16	37	517	500	4	965	465	50.0	10.75
20	30	755	500	4	990	490	45.0	9.18
04	00	1200	500	4	970	470	40.0	8.51
07	38	1418	500	3	1010	510	50.0	9.8
10	18	1578	500	3	915	415	64.0	15.42
10	25	1585	500	3	915	415	63.0	15.18
16	20	1940	500	4	1000	500	62.0	12.4
16	50	1970	500	4	975	475	70.0	14.7
20	20	2180	510	4	1060	550	70.0	12.73
03	10	2590	500	4	980	480	65.0	13.54
08	05	2885	510	4	1010	500	60.0	12
14	15	3255	450	4	1000	550	82.0	14.9
16	58	3418	500	4	970	470	70.0	14.89
23	35	3815	500	4	1010	510	75.0	14.71
04	45	4125	510	4	990	480	68.0	14.17
07	17	4277	500	4	950	450	58.0	12.89

TRR / ICR Comparison

	2008	2007	2006	2005	2004	2003
JAN	0	1,084,000	4,857,000	0	1,640,000	
FEB	0	1,691,000	4,584,000	0	1,197,000	
MAR	3,879,000	8,948,000	2,759,000	152,000	8,514,000	
APR	13,233,000	12,642,000	9,536,000	10,209,000	12,888,000	
MAY	12,702,000	19,310,000	24,058,000	14,190,000	21,815,000	
JUN	16,814,000	23,611,000	23,745,000	26,622,000	27,950,000	
JUL	12,746,000	23,277,000	11,764,000	24,008,000	20,187,000	
AUG	13,189,000	13,753,000	12,940,000	4,958,000	12,939,000	
SEP	13,219,000	14,196,000	10,045,000	20,667,000	18,847,000	
OCT	9,355,000	9,169,000	11,321,000	16,955,000	9,881,000	
NOV		10,415,000	6,058,000	8,169,000	736,000	4,320,000
DEC		767,000	3,359,000	2,868,000	701,000	851,000
	<u>95,137,000</u>	<u>138,863,000</u>	<u>125,026,000</u>	<u>128,798,000</u>	<u>137,295,000</u>	<u>5,171,000</u>
		Water Testing				
TOTAL DELIVERED	291.96	(28.44)	383.69	395.27	421.34	15.87
TOTAL USED	305.38	397.71	361.99			
						1,905.84

AVG Delivered per year (11-03 thru 10-31-08): 381.17

YEAR	Gallons Pumped Onto Golf Course	Water Testing (Gallons)	Effluent (Gallons)	TOTAL GROUNDWATER USED- AC FT
2008 to 10-31	104,836,576		10,684,032	321.73
2007	140,356,910	9,938,423	13,287,576	359.46
2006	127,691,436		9,745,011	361.96
2005	135,131,710		5,475,000	397.93



AMENDED AND RESTATED WATER SERVICE AGREEMENT

This Amended and Restated Water Service Agreement ("Agreement") is fully executed this 3rd day of December, 2008, by and between ICR Water Users Association, Inc., an Arizona public service corporation ("ICRWUA"), Harvard Simon I, LLC ("Harvard Simon"), Talking Rock Land, L.L.C., an Arizona limited liability company ("TRL") and Talking Rock Golf Club, L.L.C., an Arizona limited liability company ("TRGC"). The parties may be referred to collectively herein as the "Parties" or individually as a "Party," and one, two or all three of "Harvard Simon", "TRL" and "TRGC" may be referred to collectively as the "Talking Rock Parties". The Parties do hereby enter into this Agreement for the purpose of seeking approval of the Arizona Corporation Commission ("ACC") to: (1) resolve and settle the Parties' respective concerns over their existing agreements and compliance with ACC Decision No. 64360 (January 15, 2002); (2) supersede, replace and terminate any and all existing agreements between the Parties, except for certain provisions specifically identified herein; and (3) govern the Parties' relationship from the time of final ACC approval, if obtained, until the expiration of this Agreement according to its express terms.

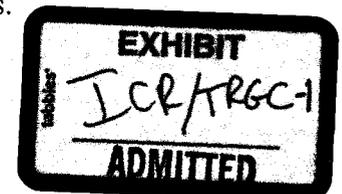
RECITALS

A. ICRWUA is a public service corporation as defined in Article 15, Section 2 of the Arizona Constitution and, as such, is regulated by the ACC.

B. The Talking Rock master planned community ("Talking Rock") is located in Yavapai County, Arizona. Talking Rock contains approximately 3,100 acres and, at build-out, will include roughly 1,600 homes. Talking Rock also includes common areas, a clubhouse, a health and fitness center and an 18-hole golf course ("Golf Course") owned and operated by TRGC.

C. Harvard Simon and ICRWUA entered into that certain Main Extension Agreement, dated March 5, 2001, ("MXA") pertaining to the extension of water utility service to Talking Rock. Under the MXA, Harvard Simon was obligated to finance, construct and transfer title to all on-site and off-site facilities necessary for ICRWUA to provide water utility service to Talking Rock. The MXA sets forth ICRWUA's "unconditional consent" for Harvard Simon to supply water to the Golf Course for "landscape irrigation, the filling of lakes and other non-potable purposes." The MXA also sets forth that ICRWUA "agrees to provide water utility service to the Golf Course for landscape irrigation, the filling of lakes and other non-potable purposes at a future date but only upon receipt of [Harvard Simon's] written request at which time such service would be provided consistent with the rules and regulations of the Commission and Utility's Commission approved tariffs."

D. Harvard Simon and ICRWUA entered into that certain Water Purchase Agreement dated April 27, 2001 ("WPA"). TRL had previously obtained a well site that could be used to serve Talking Rock and conducted test drilling. Pursuant to the WPA, Harvard Simon agreed to supply water from one or more wells drilled or to be drilled at this well site to ICRWUA on a wholesale basis to be used by ICRWUA for all purposes, excluding water service for landscape irrigation, lake fill, construction and other non-potable purposes.



E. On January 15, 2002, the ACC issued Decision No. 64360 extending ICRWUA's CC&N to include Talking Rock, subject to the condition that Harvard Simon transfer to ICRWUA "the wells which it has drilled for the purpose of providing water to the extension area ... to ensure that the utility has adequate water for its customers and to ensure that they are not subject to relying for their water on a third party over which the Commission lacks jurisdiction."

F. ICRWUA, Harvard Simon and TRGC entered into that certain Well Agreement dated February 25, 2003 ("Well Agreement"). Pursuant to the Well Agreement, Harvard Simon and TRGC agreed to transfer two wells in Talking Rock to ICRWUA: Production Well No. 2 ("Well 2") and Production Well No. 3 ("Well 3"). The Well Agreement further provided that a third well, Production Well No. 1 ("Well 1") (collectively, Well 1, Well 2 and Well 3 will be referred to as the "Talking Rock Wells"), had been drilled and that TRGC would retain title to Well 1 and continue to use water from wells that it or its affiliates owned to provide its own water for landscape irrigation, lake fill, construction and other non-potable purposes. The Well Agreement superseded, replaced and terminated the WPA.

G. ICRWUA and Harvard Simon entered into that certain First Amendment to Main Extension Agreement on February 25, 2003 ("First Amendment to MXA"). The First Amendment modified the MXA such that Well 2 and Well 3 would be included in the Talking Rock Parties advances in aid of construction. All other aspects of the MXA were left in full force and effect, with the Talking Rock Parties remaining obligated to finance and construct the water system necessary for (1) ICRWUA to serve customers residing within Talking Rock; and (2) the Talking Rock Parties to serve themselves and satisfy landscape irrigation, lake fill, construction and other non-potable water demand with water from the wells owned by the Talking Rock Parties.

H. On March 7, 2003, ICRWUA filed the Well Agreement and the First Amendment to MXA with the ACC for the purpose of complying with ACC Decision No. 64630. The ACC Staff approved both the MXA and First Amendment to MXA on September 19, 2003. The Parties have relied on the express language of the Well Agreement and MXA, as amended, in connection with their development activities and operation of the Golf Course.

I. Harvard Simon assigned its rights and interest in the Well Agreement to TRL pursuant to that certain Assignment and Assumption of Well Agreement dated October 9, 2003. The Talking Rock Parties then executed the First Amendment to Well Agreement dated October 23, 2003 correcting the name to Talking Rock Golf Club, L.L.C.

J. Harvard Simon transferred Well 3 to ICRWUA pursuant to that certain Bill of Sale (Production Well) dated October 28, 2003 ("Well 3 Bill of Sale") recorded in Book 4088, Page 386, records of Yavapai County, Arizona.

K. ICRWUA and TRL entered into that certain Second Amendment to Well Agreement ("Second Amendment to Well Agreement") on September 15, 2005. Under the Second Amendment to Well Agreement, TRL agreed to provide additional water supply at its own expense in the event production from Well 3 was inadequate to meet demand from customers in Talking Rock before service to the 800th lot was extended.

L. On June 26, 2007, ICRWUA filed an application for rate increases with the ACC, ACC Docket No. W-02824A-07-0388. On April 3, 2008, TRGC moved to intervene in ICRWUA's rate case. TRGC asserted that it had a direct and substantial interest in the proceeding as a result of the positions taken by other parties to the proceeding. TRGC was granted intervention on April 3, 2008.

M. On April 14, 2008, ICRWUA's rate case was delayed to allow ICRWUA and TRGC an opportunity to negotiate an agreement that would address the Parties' concerns over claims and position taken in ICRWUA's rate case. ICRWUA and TRGC entered into that certain Letter of Understanding ("LOU") on April 18, 2008.

N. TRGC transferred Well 2 to ICRWUA pursuant to that certain Bill of Sale (Production Well) dated as of May 21, 2008, ("Well 2 Bill of Sale") recorded in Book 4598, Page 645, records of Yavapai County, Arizona.

O. On September 12, 2008, the Parties entered into that certain Water Service Agreement ("Water Service Agreement"). On December 1, 2008, the Parties entered into that certain First Amendment to Water Service Agreement ("First Amendment"). The Parties have agreed to additional revisions to the Water Service Agreement and the First Amendment as set forth in this Agreement as a further effort to address and resolve issues raised in ACC Docket No. W-02824A-07-0388 (the "Docket"), and to further set forth agreements that will govern the relationship of the Parties on a going-forward basis. The further agreements between the Parties set forth in this Agreement are expressly intended by the Parties to make their agreements more consistent with the recommendations by ACC Utilities Division Staff ("Staff"), including the recommended special commodity rate set forth in Staff's November 14, 2008, filing in the Docket, and to further address issues raised by an intervenor in the Docket and through public comment.

P. By this Agreement, the Parties intend to (1) resolve and settle the Parties' concerns over their existing agreements and compliance with ACC Decision No. 64630; (2) supersede, replace and terminate all existing agreements between the Parties, except for certain provisions specifically identified herein; and (3) govern the Parties' relationship from the time of final ACC approval of this Agreement, if obtained, until the expiration of this Agreement according to its express terms.

AGREEMENTS

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

1. Amendment and Restatement of Water Service Agreement and First Amendment. The Water Service Agreement and First Amendment are hereby superseded and replaced in their entirety by this Agreement, and the Water Service Agreement and First Amendment are of no further force or effect.

2. Acknowledgement of Recitals. The Parties acknowledge the recitals set forth above and that the recitals provide the factual background under which this Agreement is executed.

3. Well 1 Transfer; Well 2 Pump Motor Replacement; Warranties; Waiver of Prior Restrictions; Use of Talking Rock Wells.

a. Well 1 Transfer. Within fifteen (15) days of the Effective Date of this Agreement as defined in Section 13(b) below, the Talking Rock Parties shall transfer Well 1 to ICRWUA via bill of sale ("Well 1 Bill of Sale") in a form mutually satisfactory to the Parties, without condition, and subject only to the terms and conditions set forth herein.

b. Well 2 Pump Motor Replacement. After the Effective Date of this Agreement as defined in Section 13(b) below, the Talking Rock Parties shall pay the actual cost of purchasing and installing a new pump motor at Well 2 ("Well 2 Pump Motor Replacement") up to a maximum cost of \$50,000. ICRWUA shall be responsible for identifying the make and model of the new pump motor and arranging for the installation of the pump motor. ICRWUA shall provide the Talking Rock Parties with an invoice specifying the cost of the Well 2 Pump Motor Replacement, and the Talking Rock Parties shall pay the invoice (up to a maximum of \$50,000) within ten (10) business days of the date of receipt of the invoice from ICRWUA.

c. Warranties. The Talking Rock Parties shall provide the warranties in this Section against construction defects, manufacturing defects and defects in workmanship, but such warranties do not cover the negligent or intentional acts of ICRWUA, its employees, agents, contractors or representatives.

i. Well 1. For a period of one (1) year from the date of the Well 1 Bill of Sale (the "Well 1 Warranty Period"), the Talking Rock Parties shall warrant (i) the workmanship and construction of Well 1, including without limitation, the well casing; and (ii) the pump motor, bowls and related components of Well 1.

ii. Well 2. For a period of one (1) year from the date of installation of the Well 2 Pump Motor Replacement (the "Well 2 Pump Motor Replacement Warranty Period") as required in Section 3(b) above, the Talking Rock Parties shall warrant the Well 2 Pump Motor Replacement against any and all defects in manufacturing and workmanship.

iii. Air Production. The Talking Rock Parties agree that the maximum allowable air production ("Air Production") in water withdrawn from Well 1 and/or Well 2, expressed as a percent of unit volume of water produced from each well at atmospheric pressure, shall not exceed three point five percent (3.5%) (the "Maximum Allowable Air Production"). The Talking Rock Parties shall warrant the Maximum Allowable Air Production (the "Air Production Warranty Period") for Well 1 during the Well 1 Warranty Period and for Well 2 during the Well 2 Pump Motor Replacement Warranty Period; provided, however, that if the Air Production Warranty Period for either Well 1 or Well 2 will expire on or after April 15 but on or before September 15 of the same calendar year, then the Air Production Warranty Period for such well shall be extended through and including September 15 of that calendar year. If the Air Production of Well 1 or Well 2 exceeds the Maximum Allowable Air Production during the Air Production Warranty Period, then ICRWUA shall notify the Talking Rock Parties of such occurrence in writing, and the Talking Rock Parties shall take such actions, in consultation and agreement with ICRWUA, as are necessary to reduce the Air Production at Well 1 and/or Well 2 to a level at or below the Maximum Allowable Air Production at the Talking Rock Parties' sole

cost and expense. Air Production shall be measured using the procedure established during the test of the Talking Rock Wells (as hereinafter defined) as summarized in Attachment 1, which is incorporated herein as part of this Agreement.

d. Waiver of Prior Restrictions. The Talking Rock Parties hereby waive and release all restrictions on the amount and rate of water that may be pumped from Well 2 and Well 3 which are contained in the Well 2 Bill of Sale and the Well 3 Bill of Sale.

e. Transfer of Well Field Real Property. TRL and/or Harvard Simon are the owner of a parcel of real property (the "Talking Rock Real Property") legally described in Attachment 2, which is incorporated herein as part of this Agreement. The Talking Rock Wells are located on a portion of the Talking Rock Real Property. Within ninety (90) days of the Effective Date, the Talking Rock Parties shall transfer to ICRWUA, at no cost to ICRWUA, that portion of the Talking Rock Real Property which contains the Talking Rock Wells (the "Well Field Real Property"). The Well Field Real Property shall be approximately one (1) acre in size and shall be adequate for ICRWUA to operate, repair and maintain the Talking Rock Wells. The Talking Rock Parties shall have the right to retain an easement (the "Easement") across the Well Field Real Property for the placement of underground utilities for and access to the Talking Rock Real Property and other property owned by the Talking Rock Parties; provided, however, that the Easement shall in no way adversely effect ICRWUA's ability to operate, repair and maintain the Talking Rock Wells. The Parties shall mutually agree upon the form of the warranty deed and easement conveying the Well Field Real Property.

f. Prohibition on Construction or Equipping of Wells on the Talking Rock Real Property. The Talking Rock Parties agree, on behalf of themselves and their respective successors and assigns, that they shall not construct or permit the construction of any well on the Talking Rock Real Property or the equipping and use of any existing well on the Talking Rock Real Property by any person or entity. The Parties intend that the rights of ICRWUA granted under this Section 3(f) shall run with the land and shall survive the expiration or termination of this Agreement, and the Parties agree that they will execute such additional documents, in recordable form, as may be deemed necessary to ensure that the rights granted to ICRWUA hereunder run with the Talking Rock Real Property.

4. Operation of the Talking Rock Wells. ICRWUA agrees that it will, at all times following the transfer of Well 1, operate, test, inspect, repair, replace and maintain the Talking Rock Wells at its own expense and in a manner that complies with Arizona and federal laws and that fulfills both its obligations under its CC&N and under this Agreement. ICRWUA further acknowledges and agrees that water from the Talking Rock Wells will only be used to serve its customers on the Talking Rock water system and for purposes of this Agreement, and that such restriction arises from recorded deed restrictions put in place by the seller of the Well Field Property whereon the Talking Rock Wells are located.

5. Service of Water for Landscape Irrigation, Lake Fill, Construction and Other Non-Potable Purposes; Maximum Amount; Definitions. ICRWUA agrees to and will deliver to any and all of the Talking Rock Parties: (i) water to be used at the Golf Course for Landscape Irrigation, Lake Fill and other non-potable purposes up to a maximum of 400 acre-feet per annum; and (ii) water for Construction Purposes in an amount reasonably requested by the

Talking Rock Parties for the development of Talking Rock, subject to the terms and conditions set forth in this Agreement. The term "Landscape Irrigation" when used in this Agreement means the irrigation of any and all landscaping located anywhere within the Golf Course, whether such landscaping is turf or non-turf, and without regard to whether the water is delivered through sprinklers or drip irrigators or other means. The term "Lake Fill" when used in this Agreement means the filling of any water retention structures within the Golf Course, including decorative water features and holding ponds for Landscape Irrigation. The term "Construction Purposes" when used in this Agreement means water used by the Talking Rock Parties within Talking Rock for grading and compaction, installation of subdivision infrastructure, construction of structures (excluding residential home construction), and related uses.

6. Residential Priority; Curtailment of Water Service to Talking Rock Parties. Residential delivery of water pumped from the Talking Rock Wells shall have priority (the "Residential Priority") over all other use classifications including uses by the Talking Rock Parties under this Agreement; provided that curtailment ("Curtailment") in order to meet the Residential Priority shall occur only when there is insufficient water production from the Talking Rock Wells, in aggregate, to meet both the demand from residential customers and the demand from non-residential customers at Talking Rock (a "Water Shortage"), and shall continue only so long as the Water Shortage continues. During any Curtailment, ICRWUA shall make reasonable efforts to meet, in part, the demand from the Talking Rock Parties after ICRWUA fully meets the Residential Priority, and to resume normal water service to the Talking Rock Parties under this Agreement as soon as is practicable. ICRWUA shall provide as much advance notice of a Curtailment to the Talking Rock Parties as is reasonably practicable under the circumstances necessitating the curtailment.

7. Charge for Water Service; Meter Readings; Access to Meters; Point of Contact; No Other Charges.

a. Charge for Water Service. During the Term of this Agreement, the Talking Rock Parties shall pay the "special commodity" rate ("Special Commodity Rate") set forth in ICRWUA's tariff on file with the ACC for all water delivered by ICRWUA for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes. In the Docket, Staff recommended an initial Special Commodity Rate of \$1.40 per one-thousand gallons of water as set forth in the Direct Testimony of Charles R. Myhlhousen dated November 14, 2008. In the event the ACC approves a Special Commodity Rate that is greater than \$1.40 per one-thousand gallons or that is otherwise inconsistent with this Agreement in the Docket, then this Agreement shall not become effective, shall have no force and effect, and the Parties' existing agreements shall remain in full force and effect. Subject to Section 7(a)(ii) below, the Talking Rock Parties acknowledge that the Special Commodity Rate is subject to change by the ACC in future rate case proceedings.

i. No Monthly Minimum Charge or Monthly Meter Charge. The Talking Rock Parties shall not be required to pay a monthly minimum charge or monthly meter charge for water delivered by ICRWUA for Landscape Irrigation, Lake Fill, Construction and other non-potable purposes.

ii. Moratorium on Increases in Rate and Charges. ICRWUA agrees that it will not file with the ACC any application or other request to increase any rate or charge, including but not limited to the Special Commodity Rate, which increase would become effective before the date which is five (5) years from the date of a final decision in the Docket (the "Moratorium Period"). This Section 7(a)(ii) shall terminate immediately upon the date that the Talking Rock Parties cease taking water from ICRWUA for Landscape Irrigation and/or Lake Fill, and ICRWUA shall thereafter have the unrestricted right to file with the ACC to increase any rate or charge.

iii. Obligation to Purchase Water. The Talking Rock Parties shall not be required to take any minimum amount of water under this Agreement; provided, however, that the Talking Rock Parties agree that during the Moratorium Period, the Talking Rock Parties shall purchase all water required for Landscape Irrigation, Lake Fill, Construction and other non-potable purposes from ICRWUA, less available effluent that the Talking Rock Parties may use for Landscape Irrigation, Lake Fill, Construction and other non-potable purposes. The Parties further acknowledge and agree that the Talking Rock Parties may leave the ICRWUA water system at any time consistent with Arizona law.

iv. New Treatment Requirement; Contamination. The Talking Rock Parties acknowledge that ICRWUA might be required to seek interim rate relief from the ACC during the Moratorium Period in the event that: (1) a Federal, State or County entity (excluding any special taxing district established under A.R.S. Title 48) imposes upon ICRWUA a new rule, requirement, regulation, ordinance, judgment, order or similar decree (collectively, a "New Treatment Requirement"); and/or (2) the groundwater withdrawn by ICRWUA from the Talking Rock Wells becomes contaminated ("Contamination") with any pollutant regulated by any Federal, State or County entity (excluding any special taxing district established under A.R.S. Title 48), and such New Treatment Requirement or Contamination requires additional treatment and/or remediation ("Treatment and/or Remediation") by ICRWUA which: (a) increases ICRWUA's capital and/or operational costs of delivering water through the Talking Rock water system; and (b) was not required as of the Effective Date of this Agreement. In the event that ICRWUA is required to seek interim rate relief during the Moratorium Period, ICRWUA hereby agrees not to seek to increase any rates, including but not limited to the Special Commodity Rate, beyond that needed to recover from all of its customers the costs of the Treatment and/or Remediation on the same cost-of-service basis ICRWUA has employed in the Docket.

b. Meter Readings; Access to Meters. On a monthly basis, ICRWUA shall provide the Talking Rock Parties with meter readings of all meters measuring the delivery of water for Landscape Irrigation, Lake Fill and Construction Purposes. The Talking Rock Parties shall allow representatives of ICRWUA reasonable access to property owned and/or controlled by the Talking Rock Parties as necessary for ICRWUA to read the water meters. The Talking Rock Parties may request that ICRWUA calibrate and adjust the meter recording devices under this Agreement not more frequently than once per calendar year, at the cost of the Talking Rock Parties, unless the meter is found to be in error by more than 3%, in which event no costs of the meter reading and repair shall be charged to the Talking Rock Parties.

c. Point of Contact. The Talking Rock Parties shall identify a single point of contact ("Point of Contact") for receipt of all invoices to the Talking Rock Parties under this

Agreement and shall notify ICRWUA in writing of the identity of the Point of Contact at the address set forth in Section 16(f) below. The Point of Contact shall be responsible for remitting payment on behalf of the Talking Rock Parties for all invoices received by the Talking Rock Parties. Late fees shall be assessed in accordance with ICRWUA's tariff.

d. No Other Charges. ICRWUA agrees that it will not bill or otherwise require payment from the Talking Rock Parties for water for purposes of Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes except as provided for in this Agreement. This Agreement does not relate to or impact the rates and charges for water service by ICRWUA to other customers of the Talking Rock water system, including for example, the Talking Rock health and fitness center and clubhouse.

e. Temporary Emergency Water. In the event the Talking Rock Parties cease taking water from ICRWUA for Landscape Irrigation and Lake Fill but request water from ICRWUA in an emergency on a temporary basis for Landscape Irrigation and Lake Fill, then ICRWUA shall provide such water on a temporary emergency basis at the ACC-approved Special Commodity Rate. ICRWUA agrees that it will seek to retain an ACC-approved Special Commodity Rate in future rate case proceedings during the Term of this Agreement.

8. Financial Assistance. In order to help defray ICRWUA's costs to negotiate and obtain approval of this Agreement, upon execution of this Agreement the Talking Rock Parties shall pay ICRWUA the amount of \$30,000. Within thirty (30) days of the Effective Date of this Agreement as defined in Section 13(b) below, the Talking Rock Parties shall pay ICRWUA an additional \$50,000.

9. Prior Agreements. The Parties agree that the MXA, as amended, and Well Agreement, as amended, are valid and remain in full force and effect until the Effective Date of this Agreement as defined in Section 13(b) below. The Parties further agree that, as of the Effective Date, this Agreement shall become the principle agreement governing the Parties' relationship as water utility, developer, and Golf Course owner, and that each and every existing agreement between the Parties, as identified in the Recitals, is hereby superseded, replaced and terminated by this Agreement, except as follows:

a. Utility Facilities; Transfers; Refunds. Within sixty (60) days of the Effective Date of this Agreement, the Talking Rock Parties shall convey to ICRWUA and ICRWUA shall accept from the Talking Rock Parties all utility infrastructure constructed to serve Talking Rock which has not been transferred as of the Effective Date, subject only to the applicable warranties of the Talking Rock Parties with respect to such infrastructure including, without limitation, the warranties set forth in Section 3(c) of this Agreement, and any outstanding punch list items applicable to such infrastructure. The Parties agree that their rights and obligations under Sections 1, 2, 3, 4, 5, 6, 7, 8 (as amended by Section 1(d) of the First Amendment to MXA), 9, 11, 12(a), 14 and 15 of the MXA with respect to the financing, construction and transfer of on-site and off-site facilities necessary for ICRWUA to extend water utility service to Talking Rock in accordance with its CC&N remain in full force and effect in conjunction with this Agreement, except as modified by this Section 9(a). The Parties further agree that ICRWUA's obligation to make refunds under Sections 8 and 9 of the MXA, as amended by Section 1(d) of the First Amendment to MXA, remains in full force and effect;

provided, however, that ICRWUA may elect in its sole discretion to characterize utility infrastructure provided by the Talking Rock Parties as either advances in aid of construction or contributions in aid of construction, provided that no less than thirty percent (30%) of plant advanced or contributed is characterized as advances in aid of construction. The Parties further agree that amounts paid by the Talking Rock Parties under Section 7 of this Agreement shall not be used in the determination of revenues for the purpose of determining the amount of any refunds for advances in aid of construction.

b. Incorporation of Surviving Provisions of MXA, as Amended by the First Amendment to MXA. The Parties agree that the portions of the MXA, as amended, that are intended to survive this Agreement, which sections are identified in this Section 9, are attached hereto as Attachment 3, and incorporated herein as part of this Agreement.

10. Conservation. The Talking Rock Parties agree to continue to use reasonable efforts to promote conservation within Talking Rock and to minimize the use of groundwater for Landscape Irrigation, Lake Fill and other non-potable purposes, including continuing reasonable efforts to maximize the use of effluent. TRGC further agrees to complete construction of an additional planned storage pond with an estimated capacity of 25,000,000 gallons no later than May 1, 2009, which deadline may be extended by the Talking Rock Parties for good cause and following notice to ICRWUA.

11. Non-Opposition. Subject to the limitations contained in Sections 3(f) and 7(a)(iii) in this Agreement, ICRWUA shall not oppose the construction of a well or wells and/or a water transmission main by the Talking Rock Parties to enable the Talking Rock Parties to supply their own water for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes. ICRWUA shall provide such cooperation as may reasonably be requested by the Talking Rock Parties in connection with this Section; provided, however, that in no event shall such cooperation require the expenditure of money by ICRWUA unless such costs are reimbursed by the Talking Rock Parties.

12. Notifications. ICRWUA shall provide the Talking Rock Parties notice of the filing of any request with the ACC that could impact the Special Commodity Rate at least ninety (90) days before such filing is made. The Talking Rock Parties shall provide ICRWUA notice at least ninety (90) days before ceasing to take water from ICRWUA during the Moratorium Period.

13. ACC Approval; Effect of Issuance of ACC Approval; Effective Date; Term.

a. Cooperation of the Parties; ACC Approval. The Parties agree to cooperate fully and in good-faith to take all steps necessary and reasonable to seek ACC approval of the Special Commodity Rate defined in Section 7(a) of this Agreement. The Parties further agree to seek approval of this Agreement, however, the Parties agree that unless the ACC specifically approves this Agreement without material change, each of the Parties shall submit either a Statement of Acceptance or a Statement of Non-Acceptance within ten (10) business days of the ACC decision in the Docket becoming final and non-appealable. If any of the Parties submits a Statement of Non-Acceptance, such statement shall specify the reason for non-acceptance of the ACC order approving the Agreement and, thereafter, the Parties shall meet within ten (10)

business days to discuss whether the reason for non-acceptance can be cured. If the Statement of Non-Acceptance is not withdrawn as a result of such meeting and a Statement of Acceptance issued, the Parties hereby agree that the Agreement shall not become effective, shall have no force and effect, and that the Parties' existing agreements shall remain in full force and effect.

b. Effective Date. The Agreement has been executed as the date first included above. However, the Parties agree that the Agreement shall not be effective until the effective date ("Effective Date"), which shall be defined for purposes of this Agreement as the date upon which all Parties have submitted a Statement of Acceptance indicating that the final and non-appealable ACC decision approving the Agreement is acceptable.

c. Term. The term ("Term") of this Agreement shall be as long as necessary to perform each of the terms and conditions set forth herein, but in no event shall the Term extend beyond the date which is thirty-five (35) years from the Effective Date.

14. Non-Discrimination Provision. ICRWUA agrees to treat the Talking Rock Parties and all customers in Talking Rock in a non-discriminatory manner.

15. Authority, Representations and Warranties.

a. ICRWUA represents and warrants that:

i. It is a non-profit association and public service corporation, duly organized and existing under the laws of the State of Arizona, and has, and as of the Effective Date will have, full legal right, power and authority to: (i) enter into this Agreement; and (ii) carry out and consummate the transactions contemplated by this Agreement.

ii. The Board of Directors of ICRWUA: (i) has duly authorized and approved the execution and delivery of, and the performance of its obligations under this Agreement; and (ii) has duly authorized and approved the consummation of all other transactions contemplated by this Agreement.

iii. The consummation of the transactions contemplated in this Agreement will not conflict with or constitute a breach of or default under any provision of applicable law or administrative regulation of the State of Arizona or the United States of America or any department, division, agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, bond, note, resolution, ordinance, indenture, agreement or other instrument to which ICRWUA is a party or may be otherwise subject, to the extent that such conflict, breach or default adversely affects or impacts the terms or performance of this Agreement or any of the transactions contemplated by this Agreement.

iv. There is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or, to the knowledge of ICRWUA, threatened: (i) in any way affecting ICRWUA's powers or the existence of ICRWUA; (ii) in any way contesting or affecting the validity or enforceability of this Agreement or any agreements entered into in connection therewith; or (iii) that may adversely affect ICRWUA or the purposes of this Agreement.

b. The Talking Rock Parties represent and warrant that:

i. Each are duly organized and existing under the laws of the State of Arizona, and have, and as of the Effective Date will have, full legal right, power and authority to: (i) enter into this Agreement; and (ii) carry out and consummate the transactions contemplated by this Agreement.

ii. Each is: (i) duly authorized and approved the execution and delivery of, and the performance of its obligations under this Agreement; and (ii) duly authorized and approved the consummation of all other transactions contemplated by this Agreement.

iii. The consummation of the transactions contemplated in this Agreement will not conflict with or constitute a breach of or default under any provision of applicable law or administrative regulation of the State of Arizona or the United States of America or any department, division, agency or instrumentality thereof or any applicable judgment or decree or any loan agreement, bond, note, resolution, ordinance, indenture, agreement or other instrument to which one or more of the Talking Rock Parties is a party or may be otherwise subject, to the extent that such conflict, breach or default adversely affects or impacts the terms or performance of this Agreement or any of the transactions contemplated by this Agreement.

iv. There is no action, suit, proceeding, inquiry or investigation by or before any court, governmental agency, public board or body pending or, to the knowledge of the Talking Rock Parties, threatened: (i) in any way affecting the Talking Rock Parties' powers or existence; (ii) in any way contesting or affecting the validity or enforceability of this Agreement or any agreements entered into in connection therewith; or (iii) that may adversely affect one or more of the Talking Rock Parties or the purposes of this Agreement.

c. Accuracy of Representations and Warranties. The Parties acknowledge that each and every representation, warranty, term and condition in this Agreement shall be true and accurate as of the date of execution of this Agreement, and as of the Effective Date as defined in Section 13(b) above, and shall constitute a material part of the consideration hereunder, and shall survive the execution of this Agreement.

16. Miscellaneous Provisions.

a. No Right to Challenge Withdrawal of Groundwater. The Talking Rock Parties hereby waive on behalf of themselves and their respective successors and assigns any right to challenge ICRWUA's withdrawal of water from the Talking Rock Wells. It is the Parties' mutual understanding and good faith belief that ICRWUA has the legal right and authority to withdraw groundwater from the Talking Rock Wells, and once groundwater is withdrawn from such wells, ICRWUA is the owner of such groundwater.

b. Estoppel Certificate. After the Effective Date as defined in Section 13(b) above, a Party shall at any time and from time to time upon not less than ten (10) days' prior written notice from the other Party execute, acknowledge and deliver to the requesting Party a statement in writing: (i) certifying that this Agreement is unmodified and in full force and effect (or if modified, stating the nature of such modification and certifying that this Agreement, as so modified, is in full force and effect), and the date to which amounts due hereunder are paid in advance, if any; (ii) acknowledging that there are not, to the knowledge of the certifying Party, any uncured defaults on the part of the other Party hereunder, or specifying such defaults, if there

are any claimed; and (iii) confirming such other matters as the requesting Party may reasonably request. Any such statement may be relied upon by the requesting Party, and any prospective purchaser or encumbrancer of the requesting Party's property. Upon a failure to sign the statement or notify the requesting Party in writing of any inaccuracies in the statement within the time period stated above, the statement submitted by a requesting Party shall be deemed approved.

c. Force Majeure. No Party to this Agreement shall be liable to the others for failure, default or delay in performing any of its obligations hereunder, other than for the payment of money obligations specified herein, in case such failure, default or delay is caused by strikes or other labor problems; forces of nature, unavoidable accident, fire, acts of the public enemy, interference by civil authorities, passage of laws, orders of the court; adoption of rules or ordinances; acts, failures to act, decisions or orders or regulations of any governmental or military body or agency, office or commission; delays in receipt of materials; or any other cause, whether of similar nature, not within the control of the Party affected and which, by the exercise of due diligence, such Party is unable to prevent or mitigate the outcome ("Force Majeure Matters"); provided, however, that the Party's failure, default or delay in performance shall be excused only for so long as such cause or event is present. Should any Force Majeure Matter occur, the Parties hereto agree to proceed with diligence to do whatever is reasonable and necessary with respect to the Force Majeure Matter so that each Party may perform its obligations under this Agreement.

d. Indemnity. After the Effective Date, ICRWUA shall indemnify, save and hold harmless the Talking Rock Parties and their members, officers, directors, partners, principals, employees and agents for, from and against any and all loss or damage arising from or relating to the storage, treatment, delivery or service of water withdrawn from the Talking Rock Wells by ICRWUA for the purpose of serving ICRWUA's customers in Talking Rock, including any liability resulting from the quality of the water of the Talking Rock Wells, or any violation of laws, rules or regulations relating to human health or the safety or protection of the environment.

e. Assignment.

i. Right of Assignment as Part of Sale. Any of the Talking Rock Parties may assign this Agreement, or any rights and obligations hereunder, to another entity as part of a sale of the Golf Course, or of the Talking Rock development, in whole or in part, or as part of the sale or merger of any of the entities making up the Talking Rock Parties, but only after notice to ICRWUA of the assignment. The notice required in this Section of the Agreement shall include (i) the assigning Party's written agreement to assign this Agreement, in whole or in part; and (ii) the assignee party's written agreement to be bound by the terms and conditions of this Agreement, including all financial obligations. An assignment under this Section of the Agreement shall be effective ten (10) business days after receipt by ICRWUA.

ii. Right of Assignment by Harvard Simon. The Parties hereby agree that all prospective rights and obligations imposed on Harvard Simon by virtue of this Agreement are hereby assigned by Harvard Simon to TRL and/or TRGC consistent with the material rights and obligations imposed on the Parties under this Agreement, and ICRWUA hereby agrees that, as of the Effective Date, Harvard Simon is released from any and all prospective obligations hereunder.

iii. Right/Duty of Assignment by ICRWUA as Part of Condemnation, Sale of Assets or Other Reorganization Impacting its Non-Profit or Other Corporate Status. ICRWUA shall ensure that all of its obligations under this Agreement are assigned to and accepted by any person or entity, including a restructured association or corporation, acquiring the Talking Rock water system by condemnation, purchase, merger, assignment or other lawful means of acquisition. The notice required in this Section of the Agreement shall include (i) ICRWUA's written agreement to assign this Agreement, in whole or in part; and (ii) the assignee party's written agreement to be bound by the terms and conditions of this Agreement, including all obligations for delivery of water to the Talking Rock Parties for Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes. An assignment under this Section of the Agreement shall be effective ten (10) business days after receipt of notice by the Talking Rock Parties.

iv. Other Assignments. Any other assignments shall require the other Party's or Parties' prior written consent to the assignment, such consent not to be unreasonably withheld.

v. Outstanding Amounts Due. On or before the date of assignment under this Agreement, the Talking Rock Parties agree to pay all unpaid charges due under this Agreement.

f. Manner of Giving Notice. Any notice required or permitted to be given hereunder shall be in writing and directed to the address set forth below for the Party to whom the notice is given and shall be deemed delivered: (i) by personal delivery, on the date of delivery; (ii) by first class United States mail, three (3) business days after being mailed; or (iii) by Federal Express Corporation (or other reputable overnight delivery service), one (1) business day after being deposited into the custody of such service. The address of ICRWUA for all notices under this Agreement shall be:

ICR Water Users Association, Inc.
Attn: Robert M. Busch
P.O. Box 5669
Chino Valley, Arizona 86323

With a copy also provided to:

Jeffrey W. Crockett, Esq.
SNELL & WILMER
One Arizona Center
400 East Van Buren
Phoenix, Arizona 85004-2202

The address of the Talking Rock Parties for all notices under this Agreement shall be:

Harvard Investments
Attn: Craig Krumwiede
17700 North Pacesetter Way
Scottsdale, AZ 85255

With a copy also provided to:

Jay L. Shapiro, Esq.
Fennemore Craig
3003 N. Central Ste. 2600
Phoenix, Arizona 85012-2913

Any Party may designate another person or address for notices under this Agreement by giving the other Party notice at least thirty (30) days prior to the effective date of the new designation.

g. Attorneys Fees and Costs. If any action at law or in equity is necessary to enforce or interpret the terms of this Agreement, the prevailing Party or Parties shall be entitled to reasonable attorneys' fees, costs and necessary disbursements in addition to any other relief to which such Party or Parties may be entitled.

h. Binding Effect. This Agreement is binding upon and inures to the benefit of the Parties and their respective successors and assigns.

i. Default. If any Party breaches or defaults under this Agreement, and such breach or default continues for a period of two (2) days with respect to any breach or default by ICRWUA under Section 4, or for a period of ten (10) days with respect to any breach or default in the payment of money, or for a period of thirty (30) days with respect to any other breach or default, in each case after receipt by the defaulting Party of a written notice describing the default, the non-defaulting Party may immediately pursue any and all remedies available for such breach or default at law or in equity, including bringing an action for injunctive relief or for specific performance. Notwithstanding the foregoing, the Parties agree at all times during the Term of this Agreement to use good faith efforts to resolve, through negotiation, disputes arising under this Agreement.

j. Time of the Essence. Time is of the essence of every provision hereof.

k. Governing Law. This Agreement shall be governed by the laws of the State of Arizona.

l. No Waiver. No change in, addition to, or waiver of any provisions of this Agreement shall be binding upon any Party unless in writing and signed by all Parties.

m. Counterparts. This Agreement may be executed in two or more original or facsimile counterparts, each of which shall be deemed an original and all of which together shall constitute but one and the same instrument.

n. Enforceability; Invalidity of Provision or Provisions. In case any provision of this Agreement shall be determined to be invalid, illegal or unenforceable, it shall, to the extent possible, be modified in such manner as to be valid, legal and enforceable but so as most nearly to retain the intent of the Parties. If such modification is not possible, such provision shall be severed from this Agreement. In either case the validity, legality and enforceability of the remaining provisions of this Agreement shall not in any way be affected or impaired thereby.

o. Joint Drafting and Negotiation. The Parties have participated jointly in the negotiation and drafting of this Agreement, and each have been represented by legal counsel. If a question of interpretation arises, this Agreement shall be construed as if drafted jointly by the Parties, and no presumption or burden of proof shall arise favoring or disfavoring any Party by virtue of the authorship of any provision of this Agreement.

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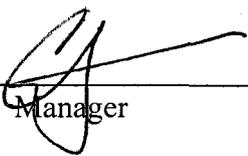
IN WITNESS WHEREOF, the Parties hereto have caused this Water Service Agreement to be executed as of the day and year first above written.

ICR WATER USERS ASSOCIATION, INC.

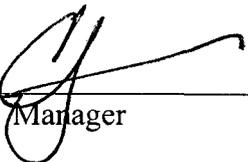
By 

Its: President _____

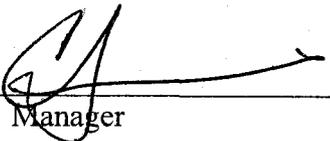
HARVARD SIMON I, L.L.C.

By 
Its: Manager

TALKING ROCK LAND, LLC

By: 
Its: Manager

TALKING ROCK GOLF CLUB, LLC

By: 
Its: Manager

ATTACHMENT 1

PROCEDURE FOR MEASURING AIR PRODUCTION

Measurement of Allowable Air Production in Talking Rock Well 1 and Well 2

The measurement of the amount of air produced by Talking Rock Well 1 and Well 2 is based on a method developed by Southwest Ground Water for the test conducted in October 2007. The test was designed to establish the approximate volume of air in a given volume of water measured at atmospheric pressure. This percentage is obtained by:

1. Collecting a sample of water from the well in question in a small balloon. The volume collected in the balloon needs to be standardized for repeatability (try for 400 ml +/- 50 ml).
2. This sample is then inserted into a graduated beaker, the beaker is filled with water to a given volume (1,000 ml) and the balloon is removed. The water level in the beaker is measured and subtracted from the given volume thus obtaining the total volume of the balloon.
3. The balloon is then inserted into an Imhoff Cone completely filled with water, inverted and standing in a tank of water nine (9) inches deep.
4. The balloon is ruptured inside the Imhoff Cone and the volume of air released into the Cone is recorded.
5. This air volume is divided by the volume of the balloon obtained in step two above and multiplied by 100 to obtain the percentage of air per unit volume of water produced by the well.

Although only providing an approximate value for the volume of air in a given volume of water measured at atmospheric pressure, the technique does provide results that are consistently comparable and relate directly to the values obtained during the October 2007 well field test. The latter values have been used to set the allowable standard for the approximate volume of air in a given volume of water measured at atmospheric pressure.

ATTACHMENT 2

WELL FIELD PROPERTY LEGAL DESCRIPTION

LEGAL DESCRIPTION

That certain portion of Lot 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, Page 66, Yavapai County Records, Arizona located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Meridian, Yavapai County, Arizona, more particularly described as follows:

COMMENCING at the Southwest Corner of said lot;

Thence North $02^{\circ} 27' 51''$ East along the westerly line of said lot a distance of 303.11 feet to the POINT OF BEGINNING;

Thence continuing North $02^{\circ} 27' 51''$ East a distance of 269.75 feet;

Thence South $79^{\circ} 51' 35''$ East leaving said westerly line a distance of 389.85 feet;

Thence South $04^{\circ} 03' 10''$ West a distance of 619.62 feet to a point on the Northerly Right-of-Way line of the Williamson Valley Road as recorded in Book 11, Page 47, Yavapai County Records;

Thence North $62^{\circ} 07' 46''$ West along said Right-of-Way a distance of 12.98 feet to terminus of said Right-of-Way, the beginning of a 25' easement for public utilities, public roadway, and drainage purposes, and the beginning of a nontangent curve concave to the southwest and having a radius of 1471.23 feet, the radius point of which bears South $28^{\circ} 09' 35''$ West;

Thence northwesterly along said curve thru a central angle of $09^{\circ} 31' 15''$ an arc length of 244.47 feet to a point on an existing well easement as recorded in the said "Amended Record of Survey for Valley View Estates";

Thence North $20^{\circ} 15' 50''$ West along said well easement a distance of 334.90 feet to the POINT OF BEGINNING.

Containing 4.59 acres more or less.

That certain portion of Parcel 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, page 66, Yavapai County Records, Arizona, located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Commencing at the Southwestern most corner of said parcel;

Thence North 02 degrees 27 minutes 51 seconds East along the Westerly line of said Parcel a distance of 25.48 feet to the POINT OF BEGINNING;

Thence continuing North 02 degrees 27 minutes 51 seconds East, a distance of 303.10 feet;

Thence South 20 degrees 15 minutes 50 seconds East leaving said Westerly line a distance of 334.90 feet to a point on the curved Northerly right of way line of a 25 foot wide easement for ingress, egress, utility, roadway and drainage, said curved right of way line being concave to the Southwest and having a radius of 1471.23 feet, the radius point of which bears South 73 degrees 55 minutes 50 West;

Thence Northwesterly along said last mentioned curve thru central angle of 05 degrees 08 minutes 20 seconds an arc length of 131.95 feet;

Thence continuing along the Northerly right of way line of said 25 foot wide easement South 76 degrees 30 minutes 00 second East, a distance of 1.21 feet to the POINT OF BEGINNING.

Containing approximately 0.45 acres more or less.

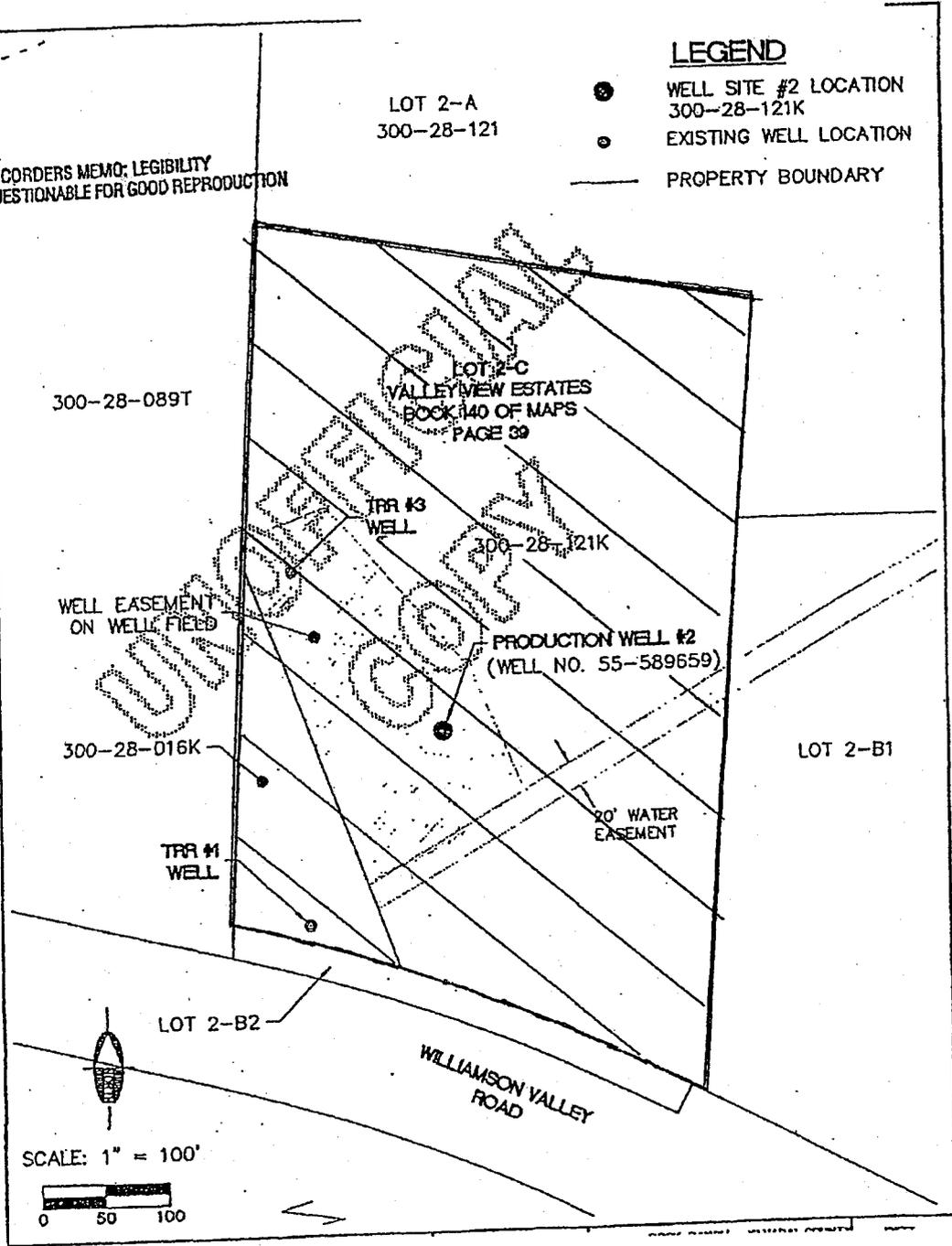
king Rock Ranch \DWG\04046 DWG\WELL SITE #2 LOCATION 5-7-08\04046-004 Well site 2 exhibit with easement 5-8-08\04046-004.dwg, 2008-10-14:4am

RECORDERS MEMO: LEGIBILITY QUESTIONABLE FOR GOOD REPRODUCTION

LOT 2-A
300-28-121

LEGEND

- WELL SITE #2 LOCATION
300-28-121K
- EXISTING WELL LOCATION
- PROPERTY BOUNDARY



LEGAL DESCRIPTION

A parcel of land lying within Parcel 2, Amended Record of Survey of Valley View Estates as recorded in Book 49 of Land Surveys, Page 66 in the Yavapai County Recorder's Office (R1), lying in Section 17, Township 16 North, Range 3 West, Gila and Salt River Base and Meridian, Yavapai County, Arizona;

BEGINNING at the Southeast corner of Section 17, from which the East Quarter corner of Section 17 bears North $04^{\circ}56'24''$ East, a distance of 2644.68 feet (Record per a Results of Survey as recorded in Book 53 of Land Surveys, Page 24 in the Yavapai County Recorder's Office (R2) and Basis of Bearings for this description);

Thence North $46^{\circ}18'18''$ West, a distance of 5869.55 feet (R2) to the Southwest corner of said Parcel 2 and the Southwest corner of a Well Easement as recorded in Book 3697 of Official Records, Page 369, Yavapai County Recorder's Office (R3), said point being on the Northerly Right of Way line of Williamson Valley Road;

Thence North $02^{\circ}31'38''$ East, along the Westerly line of said Parcel 2, a distance of 25.48 feet (North $02^{\circ}27'51''$ East, a distance of 25.48 feet R3);

Thence South $76^{\circ}26'12''$ East, along the Northerly line of a 25.00 feet wide Easement for Public Utilities, Public Roadway and Drainage Purposes per R1, a distance of 1.21 feet (South $76^{\circ}30'00''$ East, a distance of 1.21 feet R3), to a point of curvature, the central point of which bears South $13^{\circ}33'48''$ West;

Thence along a curve concave Southwest, having a radius of 1471.23 feet, through a central angle of $05^{\circ}08'20''$, a distance of 131.95 feet (R3);

Thence leaving said Northerly Easement line, North $20^{\circ}12'03''$ West, (North $20^{\circ}15'50''$ West R3), along the Easterly line of R3, a distance of 69.75 feet to the TRUE POINT OF BEGINNING;

Thence continuing along the Easterly line of R3, North $20^{\circ}12'03''$ West (North $20^{\circ}15'50''$ West R3); a distance of 265.15 feet to a point on the West line of said Parcel 2 (per R1);

Thence leaving the Easterly line of R3, North $02^{\circ}31'38''$ East (North $02^{\circ}27'51''$ East R1), along the West line of Parcel 2, a distance of 24.22 feet;

Thence leaving the West line of Parcel 2, North 69°47'57" East, a distance of 65.64 feet;

Thence South 40°37'38" East, a distance of 170.16 feet;

Thence South 22°57'00" East, a distance of 104.63 feet;

Thence South 60°13'27" West, a distance of 141.37 feet to the TRUE POINT OF BEGINNING.

Containing 0.75 Acres, more or less.

That certain portion of Parcel 2 of Valley View Estates as recorded in the "Amended Record of Survey for Valley View Estates" in Book 49 of Land Surveys, page 66, Yavapai County Records, Arizona, located in Section 17, Township 16 North, Range 3 West, of the Gila and Salt River Base and Meridian, Yavapai County, Arizona, more particularly described as follows:

Commencing at the Southwestern most corner of said parcel;

Thence North 02 degrees 27 minutes 51 seconds East along the Westerly line of said Parcel a distance of 25.48 feet to the POINT OF BEGINNING;

Thence continuing North 02 degrees 27 minutes 51 seconds East, a distance of 303.10 feet;

Thence South 20 degrees 15 minutes 50 seconds East leaving said Westerly line a distance of 334.90 feet to a point on the curved Northerly right of way line of a 25 feet wide easement for ingress, egress, utility, roadway and drainage, said curved right of way line being concave to the Southwest and having a radius of 1471.23 feet, the radius point of which bears South 73 degrees 55 minutes 50 West;

Thence Northwesterly along said last mentioned curve thru central angle of 05 degrees 08 minutes 20 seconds an arc length of 131.95 feet;

Thence continuing along the Northerly right of way line of said 25 foot wide easement South 76 degrees 30 minutes 00 second East, a distance of 1.21 feet to the POINT OF BEGINNING.

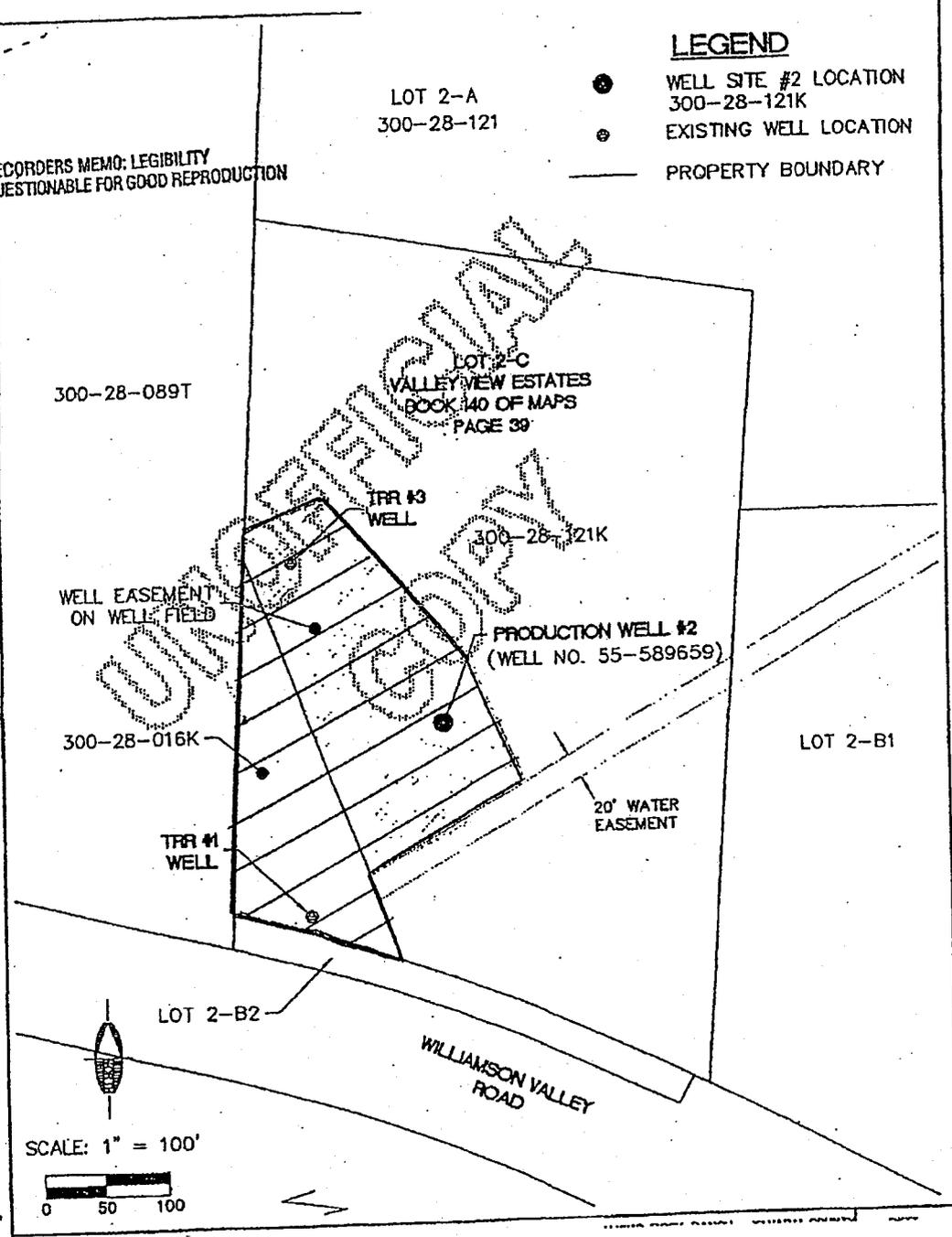
Containing approximately 0.45 acres more or less.

King Rock Ranch\DWG\040+6 DWG\WELL SITE #2 LOCATION 5-7-08\04046-004 Well site 2 exhibit with easement Feb 8 2008.dwg, 2008-10-10:44am

RECORDS MEMO: LEGIBILITY QUESTIONABLE FOR GOOD REPRODUCTION

LEGEND

- WELL SITE #2 LOCATION 300-28-121K
- EXISTING WELL LOCATION
- PROPERTY BOUNDARY



300-28-089T

LOT 2-A
300-28-121

TRR #3
WELL

LOT 2-C
VALLEY VIEW ESTATES
BOOK 140 OF MAPS
PAGE 39

300-28-121K

WELL EASEMENT
ON WELL FIELD

PRODUCTION WELL #2
(WELL NO. 55-589659)

300-28-016K

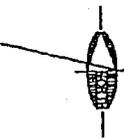
LOT 2-B1

TRR #1
WELL

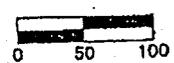
20' WATER
EASEMENT

LOT 2-B2

WILLIAMSON VALLEY
ROAD



SCALE: 1" = 100'



ATTACHMENT 3

MXA PROVISIONS

**ATTACHMENT 3
MXA PROVISIONS**

MXA: Sections 1, 2, 3, 4, 5, 6, 7, 8 (as amended by Section 1(d) of the First Amendment to MXA), 9, 11, 12(a), 14 and 15.

1. Construction of Water Utility Facilities by Developer.

(a) Construction of Facilities. At its sole expense, Developer shall construct and install, or shall cause to be constructed and installed water utility facilities consisting of water distribution mains and pipelines, valves, hydrants, fittings, service lines and all other related items of utility plant, both on-site and off-site, to be used to extend water service to each lot, building or other customer within the Property (the "Facilities") as more particularly described in Exhibit "C" attached hereto and incorporated herein by this reference. Exhibit "C" also contains an estimated cost of construction for the Facilities. Utility hereby acknowledges and agrees that the Property may be developed in separate phases and that Developer may construct and install the Facilities in phases in a manner that will allow for the provision of water utility services to each phase as necessary and in a timely manner. The size, design, type and quality of materials used to construct the Facilities, as well as the location of the Facilities upon and under the ground, shall be approved by Utility, which approval shall be promptly provided and which shall not be unreasonably withheld.

(b) Utility's Use of the Facilities. Utility covenants and agrees that it shall use its best efforts to ensure that the Facilities are not used to serve customers outside the Property in a manner that adversely impacts the provision of water utility service to the Property. Utility further represents to Developer that, in Utility's judgment, the cost of constructing the Facilities is disproportionate to anticipated revenues to be derived from future customers within the Property.

2. Engineering Plans. Developer has retained Shephard-Wesnitzer, Inc. to prepare engineering plans and specifications for the Facilities to be constructed hereunder. Developer may retain additional engineers or other consultants as determined in Developer's sole discretion to be necessary in connection with the design and installation of the Facilities. All plans and specifications shall be submitted to Utility and its engineers for review and approval, together with a copy of the subdivision plat for the Property and drawings depicting the infrastructure improvements for the subdivision.

3. Design and Construction Standards; Regulatory Approvals. All Facilities designed and constructed by Developer hereunder shall be in strict conformance with the plans and specifications therefor, and the applicable regulations of the Yavapai County Environmental Services Department ("Environmental Services"), Arizona Department of Environmental Quality ("ADEQ"), the Commission and/or any other governmental agency exercising jurisdiction over the design and construction of potable water systems. Prior to construction of any Facilities, Developer shall obtain approval to construct from either Environmental Services or ADEQ. Upon completion of the Facilities, Developer shall obtain approval of construction from either Environmental Services or ADEQ. Developer shall also be responsible for obtaining any additional permits, licenses and/or approvals required for the construction of the Facilities. Utility shall cooperate with and assist Developer promptly, as may be reasonably required, in obtaining such certificates and approvals. All contractors and subcontractors employed by Developer in connection with the construction of the Facilities shall be licensed by the Arizona Registrar of Contractors and shall be qualified in the construction of public water systems.

4. Right of Inspection; Corrective Action. Utility shall have the right to have its engineers, the selection of which shall be subject to Developer's approval, inspect and test the Facilities at reasonable times during the course of construction as necessary to ensure conformance with plans and specifications. If at any time before the final acceptance by Utility of the Facilities any construction, materials or workmanship are found to be defective or deficient in any way, or the Facilities fail to conform to this Agreement, then Utility may reject such defective or deficient construction, materials and/or workmanship

and require Developer to fully pay for all necessary corrective construction efforts ("Corrective Action"). Utility reserves the right to withhold approval and to forbid connection of any defective portion of the Facilities to Utility's system unless and until the Facilities have been constructed in accordance with plans and specifications and all applicable regulatory requirements. Further, Developer shall promptly undertake any Corrective Action required to remedy such defects and deficiencies in construction, materials and workmanship upon receipt of notice by Utility. The foregoing notwithstanding, Utility shall not unreasonably withhold or delay acceptance of the Facilities.

5. Transfer of Ownership; As-Built Plans; Warranty.

(a) Transfer of Ownership. Upon proper completion, testing and final inspection of the Facilities by Utility, Utility shall issue a written notice of acceptance to Developer. Immediately thereafter, Developer shall convey to Utility, via a bill of sale in a form satisfactory to Utility, the Facilities together with any permanent easements and/or rights-of-way required pursuant to paragraph 7 below. All Facilities so transferred shall thereafter become and remain the sole property and responsibility of Utility. Developer covenants and agrees that, at the time of transfer, the Facilities shall be free and clear of all liens and encumbrances, and Developer shall provide evidence in the form of lien waivers or other appropriate documents that all claims of contractors, subcontractors, mechanics and materialmen have been paid and are fully satisfied.

(b) As-Built Plans. At the time of transfer, Developer shall provide to Utility three (3) sets of "as-built" drawings and specifications for the Facilities, certified and sealed by Developer's engineers to be true and correct.

(c) Warranty. Developer warrants that, upon their completion, the Facilities will be free from all defects and deficiencies in construction, materials and workmanship for a period of time commensurate with the warranty period provided to Developer by contractors retained by Developer to construct the Facilities, but in no event, for a period of less than one (1) year from the date of Utility's acceptance. During the warranty period, Developer agrees to promptly undertake any Corrective Action required to remedy such defects and deficiencies upon notice by Utility. Upon Utility's acceptance of the Facilities, as provided in this paragraph, Utility shall be deemed to have accepted the Facilities in "as is" and "as-constructed" condition, subject only to the warranty period concerning defects and deficiencies in construction, materials and workmanship provided for herein.

6. Reimbursement for Inspection Costs, Overhead and Other Expenses of Utility. Developer shall reimburse Utility for Utility's reasonable fees, costs and expenses incurred in connection with its review of the engineering plans and specifications for the Facilities, the preparation of this Agreement and other necessary legal services, inspection and testing of the Facilities during their construction, and other fees, costs and expenses reasonably and necessarily incurred by Utility with respect to this project during the course of construction and in connection with obtaining approval of the Commission to extend Utility's CC&N to include the Extension Area (collectively, "Administrative Costs"). Utility covenants to use reasonable efforts to incur Administrative Costs only as necessary and prudent. On a monthly basis, Utility shall provide Developer with a written statement describing with specificity all Administrative Costs incurred by Utility during the preceding month, together with complete copies of all bills, statements and invoices supporting such Administrative Costs. Developer shall make payment on or before the fifteenth (15th) day of the calendar month following the month in which Utility's statement is received. Utility hereby acknowledges its receipt of \$5,000.00 as a deposit, which deposit shall be applied as a credit against Administrative Costs incurred by Utility hereunder.

7. Public Streets and Rights-of-Way; Easements; Spacing of Lines. At the time of transfer of ownership of any Facilities, as provided in paragraph 5 above, Developer shall provide Utility with evidence satisfactory to Utility that all distribution mains and service lines within the Property are located within dedicated streets and/or public rights-of-way. In the event that any distribution mains or service lines are not located within dedicated streets and/or public rights-of-way, then at the time of transfer of ownership of such Facilities, Developer shall grant to Utility, or shall cause to be granted to Utility,

easements and/or rights-of-way, free from all liens and security interests thereon, and in a form that is satisfactory to Utility, over, under, and across all pipeline routes and all portions of the Property necessary to operate, maintain and repair such Facilities. Unless otherwise mutually agreed upon in writing, such easements and/or rights-of-way within the Property shall be free of physical encroachments, encumbrances or obstacles, and shall have a minimum width of ten (10) feet. The distribution mains and service lines constructed and installed by Developer within the Property shall be separated by a reasonable distance from other utility lines and facilities to prevent damage or conflicts in the event of repairs or maintenance.

8. Determination of Amount of Developer Advances. The actual cost of constructing and installing the Facilities described in paragraph 1 above and all amounts paid by Developer pursuant to paragraph 6 above shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9, below. Developer shall provide Utility with a written statement setting forth in detail Developer's actual costs of construction within ten (10) business days following receipt of Utility's notice of acceptance of the Facilities, together with copies of all invoices, bills, statements and other documentation evidencing the cost of construction. The costs of any Corrective Action, as defined in paragraph 4 above, the costs of curing any defects arising during the warranty period, as provided herein, and the costs of any unreasonable overtime incurred in the construction of the Facilities shall not be included in the actual cost of constructing and installing the Facilities, and shall not be subject to refund by Utility hereunder.

9. Refunds of Advances to Developer. Following the District's acquisition of the Facilities pursuant to paragraph 5(a) hereinabove, Utility shall refund annually to Developer an amount equal to fifteen percent (15%) of the gross annual operating revenues from water sales to bona fide customers of Utility within the Property. Such refunds shall be paid by Utility on or before August 31 of each calendar year for the preceding July 1 to June 30 period, commencing in the fifth calendar year immediately following the initiation of water utility service to the first customer within the Property by Company, continuing thereafter in each succeeding calendar year for a total of twenty (25) years. No interest shall accrue or be payable on the amounts to be refunded for the Facilities hereunder, and any unpaid balance remaining at the end of such twenty-five year period shall become a non-refundable contribution in aid of construction to Utility and be recorded as such in the Utility's books and records of account. In no event shall the total amount of the refunds paid by Utility pursuant to this Agreement exceed the total amount of all refundable advances paid by Developer in connection with the construction of the Facilities.

11. Risk of Loss: Indemnification. Until Utility has issued its written notice of acceptance of the Facilities constructed hereunder, all risk of loss with respect to the Facilities shall remain with Developer. Developer shall indemnify and hold Utility and its officers, directors, employees and agents harmless for, from and against all claims or other liability, whether actually asserted or threatened, arising out of or related to Developer's construction of the Facilities hereunder. Developer's obligations under this paragraph shall not extend to any claims or liability arising out of Utility's ownership and operation of the Facilities following their acceptance.

12. Utility's Obligation to Serve.

(a) Developer's Failure to Perform. Utility shall have no obligation to accept and operate the Facilities to be constructed hereunder in the event Developer fails to make any payment provided in this Agreement, fails to complete the construction and installation of the Facilities in accordance with their plans and specifications or otherwise fails to comply with any of the terms and conditions of this Agreement in any material respect.

14. Right of Assignment. Developer may assign this Agreement, or any of its rights and obligations hereunder, to another party provided that written notice of such assignment is given to Utility prior to the effective date of assignment and that the assignee agrees in writing to fully perform Developer's obligations hereunder and to be bound by this Agreement.

15. Condemnation or Sale of Utility. In the event of the condemnation or sale of the Facilities, Utility shall promptly pay to Developer any unrefunded portion of Developer's advances in aid of construction.

Payment by Utility shall be made on or before thirty (30) days from the date on which Utility receives payment.

First Amendment to MXA: Section 1(d).

1. Amendment to Agreement.

(d) Determination of Amount of Developer Advances. Paragraph 8 of the Agreement is amended to provide that the actual costs of Production Well 3 and Production Well 2, including all equipment, pumps, motors, valves, pipes, electrical system and other appurtenances installed and constructed by Developer and transferred and conveyed by Developer or by Talking Rock Golf to Company, shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9 of the Agreement.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

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)

DOCKET NO. W-02824A-07-0388

DIRECT
TESTIMONY
OF
JIAN W. LIU
UTILITIES ENGINEER
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

NOVEMBER 30, 2007

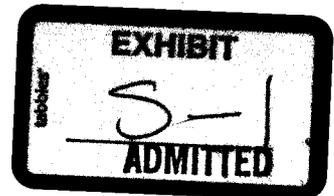


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**EXECUTIVE SUMMARY
ICR WATER USERS ASSOCIATION, INC.
DOCKET NO. W-02824A-07-0388**

CONCLUSIONS

- A. The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The ICR reported its arsenic concentration for its wells at 2.3 ppb. Based on this arsenic concentration, the Company is in compliance with the new arsenic standard of 10 ppb.
- B. The Company is not within any Active Management Area, and consequently is not subject to Arizona Department of Water Resources ("ADWR") reporting and conservation rules.
- C. ICR has no outstanding Arizona Corporation Commission compliance issues.
- D. ICR has a curtailment plan filed with the ACC.
- E. The existing water systems have adequate well production and storage capacity to serve the existing connections.

RECOMMENDATIONS

- 1. Staff recommends that any increase in rates and charges approved in this proceeding shall not become effective until Staff receives notice that the ICR water systems are in total compliance with ADEQ regulations.
- 2. Staff recommends its average annual cost of \$4,029 be adopted for the water testing expense in this proceeding.
- 3. Staff recommends that the ICR use Staff's depreciation rates by individual National Association of Regulatory Utility Commissioners category on a going forward bases.
- 4. Staff recommends the acceptance of the Company's proposed installation charges along with adopting an installation charge of "At Cost" for meter sizes of 8-inch and larger as shown in Table F-1.
- 5. Staff recommends that ICR be required to separate out the Water Use Data (to include customer count information, Construction water use data, and Golf Course water use data) and Plant Summary information for each of its water systems in future Annual Reports.

1 **INTRODUCTION**

2 **Q. Please state your name, place of employment and job title.**

3 A. My name is Jian W. Liu. My place of employment is the Arizona Corporation
4 Commission ("Commission"), Utilities Division, 1200 West Washington Street, Phoenix,
5 Arizona 85007. My job title is Water/Wastewater Engineer.

6
7 **Q. How long have you been employed by the Commission?**

8 A. I have been employed by the Commission since October 2005.

9
10 **Q. Please list your duties and responsibilities.**

11 A. As a Water/Wastewater Engineer, my responsibilities include: the inspection,
12 investigation, and evaluation of water and wastewater systems; preparing reconstruction
13 cost new and/or original cost studies, cost of service studies and investigative reports;
14 providing technical recommendations and suggesting corrective action for water and
15 wastewater systems; and providing written and oral testimony on rate applications and
16 other cases before the Commission.

17
18 **Q. How many companies have you analyzed for the Utilities Division?**

19 A. I have analyzed approximately 30 companies covering various responsibilities for the
20 Utilities Division.

21
22 **Q. Have you previously testified before this Commission?**

23 A. Yes, I have testified before this Commission.

1 **Q. What is your educational background?**

2 A. I am a Ph.D. Candidate in Geotechnical Engineering from Arizona State University
3 ("ASU"). I have a Master of Science Degree in Natural Science from ASU and a Master
4 of Science Degree in Civil Engineering from Institute of Rock & Soil Mechanics
5 ("IRSM"), Academy of Sciences, China.

6
7 **Q. Briefly describe your pertinent work experience.**

8 A. From 1982 to 2000, I was employed by IRSM, SCS Engineers, and URS as a Civil and
9 Environmental Engineer. In 2000, I joined the Arizona Department of Environmental
10 Quality ("ADEQ"). My responsibilities with ADEQ included review and approval of
11 water distribution systems, sewer distribution systems, and on-site wastewater treatment
12 facilities. I remained with ADEQ until transferring to the Commission in October 2005.

13
14 **Q. Please state your professional membership, registrations, and licenses.**

15 A. I am a licensed professional civil engineer in the State of Arizona.

16
17 **PURPOSE OF TESTIMONY**

18 **Q. Were you assigned to provide Staff's engineering analysis and recommendation for**
19 **the ICR Water Users Association, Inc. ("ICR" or "Company") in this proceeding?**

20 A. Yes. I reviewed ICR's application and responses to data requests, and I inspected the
21 water system on September 27, 2007. This testimony and its attachment present Staff's
22 engineering evaluation.

1 **ENGINEERING REPORT**

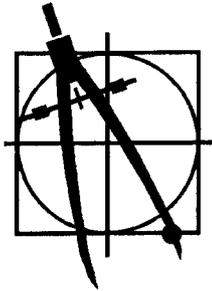
2 **Q. Please describe the attached Engineering Report, Exhibit JWL.**

3 A. Exhibit JWL presents the details and analyses of Staff's findings, and is attached to this
4 direct testimony. Exhibit JWL contains the following major topics: (1) a description of
5 the water system and the processes, (2) water use, (3) growth, (4) compliance with the
6 rules of the ADEQ, Arizona Department of Water Resources ("ADWR"), and the
7 Commission, (5) depreciation rates, (6) curtailment plan tariff, and (7) Service Line and
8 Meter Installation Charges.

9
10 The conclusions and recommendations from the Engineering Report are contained in the
11 "EXECUTIVE SUMMARY", above.

12
13 **Q. Does this conclude your direct testimony?**

14 A. Yes, it does.



**Engineering Report
For
ICR Water Users Association, Inc.
Docket No. W-02824A-07-0388 (Rates)**

November 16, 2007

A. LOCATION OF ICR WATER USERS ASSOCIATION, INC. ("ICR" OR "COMPANY")

ICR is located approximately 12 miles northwest of Prescott and serves portions of Yavapai County. ICR is an Arizona non-profit corporation, and the member-customers elect a board of directors who manage and operate the Company according to its by-laws. The ICR's principal business office is located at 246 N Highway 89, Suite A, Chino Valley, Arizona 86323. Figure A-1 shows the location of ICR within Yavapai County and Figure A-2 shows the certificated area.

B. DESCRIPTION OF WATER SYSTEM

The water systems were field inspected on September 27, 2007, by Jian W Liu, Staff Utilities Engineer, in the accompaniment of Robert M. Busch, representing ICR.

ICR operates two water systems, Public Water System ("PWS") numbers are 13-303 and 13-263. In addition to serving its member-customers, the Company also furnishes water to be used for construction and a golf course pursuant to a well agreement.

The Inscription Canyon Ranch water system (PWS13-303) consists of two wells, two storage tanks, two booster stations and a distribution system, serving approximately 256 customers during the test year of 2006. A system schematic is shown in Figure B-1 with detailed plant facility descriptions as follows:

Table 1 Well Data for PWS13-303

Well Name Or #	ADWR ID No.	Pump HP	Pump GPM	Casing Size & Depth	Meter Size
#1	55-542062	75	400	10" and 260'	6"
#2	55-575291	75	400	8" and 320'	6"

Note: GPM = gallons per minute.

Table 2 Storage Tanks for PWS13-303

Capacity Gallons	Quantity (Each)	Location
210,000	1	Magner Drive
300,000	1	Whispering Canyon
Totals: 510,000		

Talking Rock Ranch water system (PWS13-263) consists of three wells, one storage tank, two booster stations and a distribution system, serving approximately 108 customers during the test year of 2006. A system schematic is shown in Figure B-2 with detailed plant facility descriptions as follows:

Table 3 Well Data for PWS13-263

Well Name Or #	ADWR ID No.	Pump HP	Pump GPM	Casing Size & Depth	Meter Size
#1	55-589659	60	425	8" and 275'	6"
#2	55-589660	60	375	8" and 250'	6"
#3	55-584177	30	250	8" and 300'	6"

Note: GPM = gallons per minute.

Table 4 Storage Tanks for PWS13-263

Capacity Gallons	Quantity (Each)	Location
300,000	1	Talking Rock
Totals: 300,000		

Table 5 Water Mains for PWS13-303 and PWS13-263

Diameter	Material	Length (ft)
2-inch	PVC	
3-inch	PVC	
4-inch	PVC	180
6-inch	PVC	24,937
8-inch	PVC	95,507
10-inch	PVC	10,731
12-inch	PVC	11,832
16-inch	PVC	

Table 6. Customer Meters for PWS13-303 and PWS13-263

Size	Quantity
5/8 x 3/4-inch	337
3/4-inch	
1-inch	21
1-1/2-inch	
2-inch	6
Turbo 3	
Turbo 4	
Turbo 6	

Table 7. Fire Hydrants

Size	Quantity
Standard	125

The existing water systems have adequate well production and storage capacity to serve the existing connections.

C. WATER USE

Water Sold

Based on the information provided by ICR, water use for the year 2006 is presented in Figure C-1 for PWS13-303. Customer consumption experienced a high monthly average water use of 537 gallons per day ("GPD") per connection and a low monthly average water use of 162 GPD per connection for an average annual use of 306 GPD per connection.

For PWS13-263, water use for the year 2006 is presented in Figure C-2. Customer consumption experienced a high monthly average water use of 468 gallons per day ("GPD") per connection and a low monthly average water use of 109 GPD per connection for an average annual use of 246 GPD per connection.

Non-Account Water

Non-account water should be 10% or less. The ICR reported water pumped for all 5 wells in 2006 was 181.97 million gallons ("MG"). Residential and Commercial used 37.87 MG, Construction used 15.47 MG, and Golf Course used 125.02 MG. Therefore, the Company's water loss is approximately 2.0%.

Staff recommends that ICR be required to separate out the Water Use Data (to include customer count information, Construction water use data, and Golf Course water use data) and Plant Summary information for each of its water systems in future Annual Reports.

D. GROWTH

Figure D-1 depicts the customer growth using linear regression analysis. During the test year 2006, ICR had 364 customers and it is projected that the ICR could have approximately 575 customers by December 2010.

E. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY COMPLIANCE

Compliance

For the Inscription Canyon Ranch water system (PWS13-303), the Arizona Department of Environmental Quality ("ADEQ") data base does not show that the required initial two consecutive six month lead and copper monitoring has been completed. This system is required to provide 20 lead and copper analyses per monitoring period but has only been providing 5 per monitoring period. ADEQ data base does not show that the required monthly Maximum Residual Disinfection Levels ("MRDLs") have been completed for this water system.

The Talking Rock Ranch water system (PWS13-263) has provided lead and copper monitoring for samples taken on September 2005 and July 2006 but ADEQ data base does not show that the required initial two consecutive six month lead and copper monitoring has been completed. The

ADEQ data base does not show that the required monthly MRDLs have been done for this water system. This system has only provided one MRDL analysis in 2006.

Because of the deficiencies, ADEQ cannot determine if these systems are currently delivering water that meets the water quality standards required by the Arizona Administrative Code, Title 18, Chapter 4.

Staff recommends that any increase in rates and charges approved in this proceeding shall not become effective until Staff receives notice that the ICR water systems are in total compliance with ADEQ regulations.

Water Testing Expense

The Company is subject to mandatory participation in the Monitoring Assistance Program ("MAP"). Starting January 1, 2002, water companies paid a fixed \$250 per year fee, plus an additional fee of \$2.07 per service connection (\$2.57 per service connection minus \$0.50 refund per service connection regardless of meter size for participation in MAP). Participation in the MAP program is mandatory for water systems, which serve less than 10,000 persons (approximately 3,300 service connections).

The Company has 225 service connections for Calendar year 2006 for Public Water System ("PWS") 13-303, so the MAP fee for this system is \$715.75. For PWS 13-263, the Company has 70 service connections for Calendar year 2006, so the MAP fee for this system is \$394.9.

The Company reported its water testing expense at \$4,946 during the test year. Staff has reviewed the Company's testing expense and has recalculated the testing costs based on the Company's new laboratory costs and additional monitoring requirements by ADEQ for Disinfection/Disinfection By-Product ("D/DBP"). D/DBP monitoring applies to any public water system that adds a halogenated disinfectant during the treatment process and is required to monitor annually. Tables WTE1 and WTE2 show Staff's annual monitoring expense estimate total of \$4,029 with participation in the MAP.

Table WTE1 Water Testing Expense

Monitoring PWS#13-303 for 2 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total Coliform – monthly	\$ 20	72	1440	480
Inorganics (& secondary)	MAP	MAP	MAP	MAP
Radiochemical – (1/ 4 yrs)	MAP			MAP
IOC's, SOC's, VOC's				MAP
Nitrites	MAP			MAP

Nitrates - annual	\$ 18	6	108	36
Asbestos - per 9 years	MAP			MAP
Lead & Copper - annual	\$ 25	10	250	83
HAA5	235			470
Total TTHMs	195			390
MAP fees (annual)				\$716
Total				\$2,175

Table WTE2 Water Testing Expense

Monitoring PWS#13-263 for 3 wells (Tests per 3 years, unless noted.)	Cost per test	No. of tests per 3 years	Total 3 year cost	Annual Cost
Total Coliform - monthly	\$ 20	72	1440	480
Inorganics (& secondary)	MAP	MAP	MAP	MAP
Radiochemical - (1/ 4 yrs)	MAP			MAP
IOC's, SOC's, VOC's				MAP
Nitrites	MAP			MAP
Nitrates - annual	\$ 18	6	108	36
Asbestos - per 9 years	MAP			MAP
Lead & Copper - annual	\$ 25	10	250	83
HAA5	235			470
Total TTHMs	195			390
MAP fees (annual)				\$395
Total				\$1,854

Staff recommends its annual water testing expense of \$4,029 be used for purposes of this application.

Arsenic

The U.S. Environmental Protection Agency ("EPA") has reduced the arsenic maximum contaminant level ("MCL") in drinking water from 50 parts per billion ("ppb") to 10 ppb. The ICR reported its arsenic concentration for its wells at 2.3 ppb. Based on this arsenic concentration, the Company is in compliance with the new arsenic standard of 10 ppb.

F. ARIZONA DEPARTMENT OF WATER RESOURCES (“ADWR”) COMPLIANCE

The Company is not within any Active Management Area, and consequently is not subject to ADWR reporting and conservation rules.

G. ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE

A check with the Utilities Division Compliance Section showed no outstanding compliance issues.

H. DEPRECIATION RATES

In recent orders, the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by National Association of Regulatory Utility Commissioners (“NARUC”) category. (For example, a uniform 2.50% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table E-1 and it is recommended that the ICR use these depreciation rates by individual NARUC category on a going forward basis.

I. CURTAILMENT PLAN TARIFF

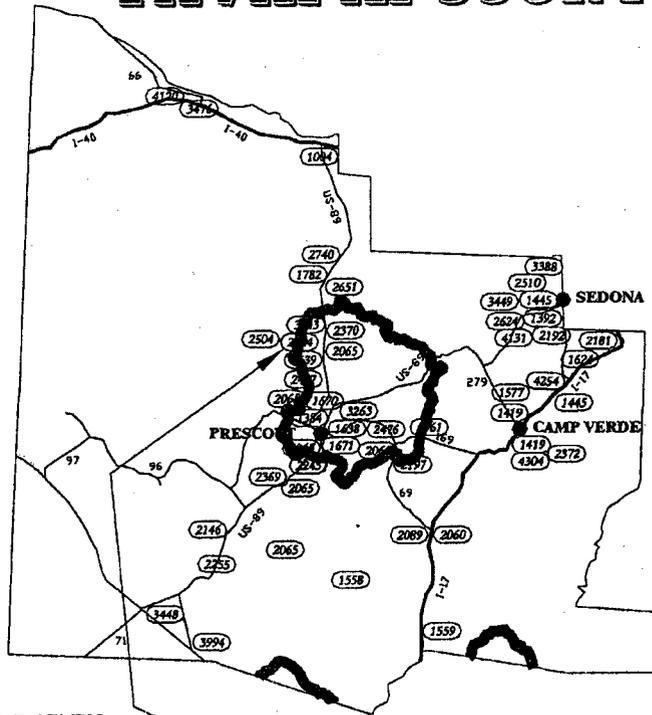
ICR has a curtailment plan filed with the ACC.

J. SERVICE LINE AND METER INSTALLATION CHARGES

The Company has requested to change its service line and meter installation charges. These charges are refundable advances and the Company’s proposed charges are within Staff’s recommended range for these charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed. Staff recommends the acceptance of the Company’s proposed installation charges along with adopting an installation charge of “At Cost” for meter sizes of 8-inch and larger as shown in Table F-1.

YAVAPAI COUNTY

EXHIBIT JWL
Page 8

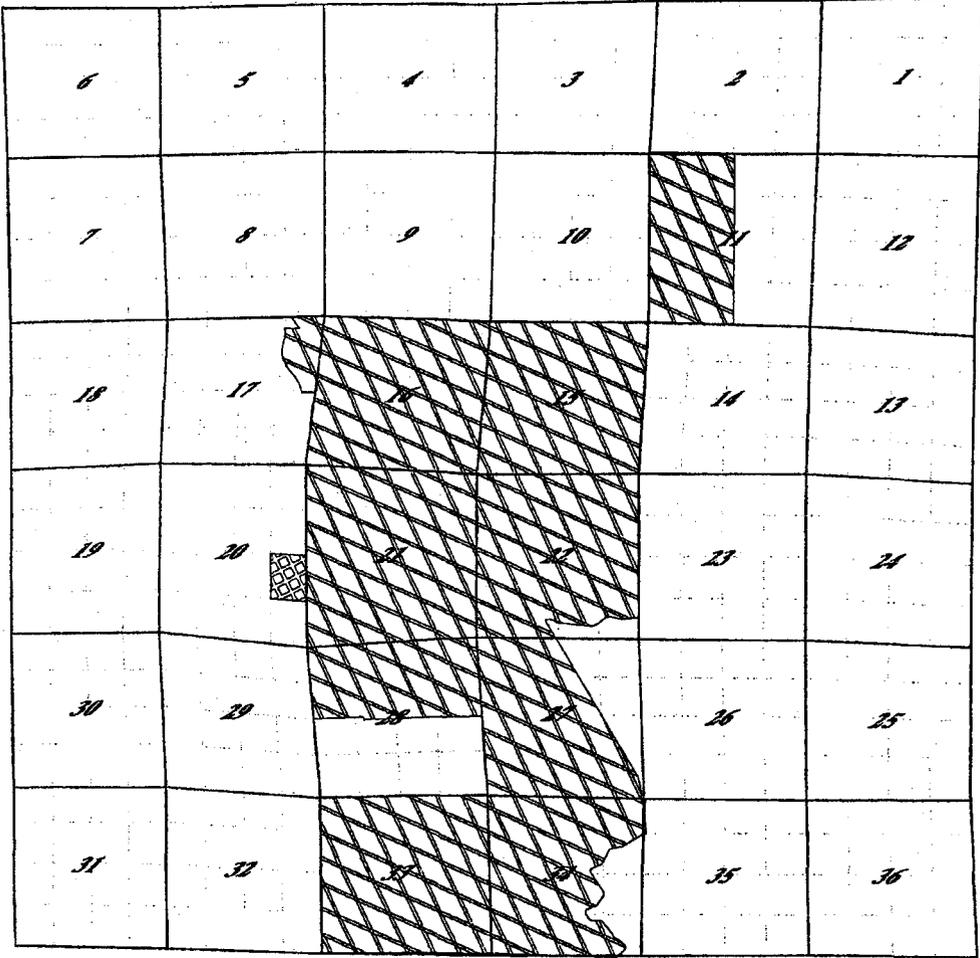


- | | | | |
|------|--|------|--|
| 1782 | ABRA WATER COMPANY, INC. | 1638 | HOLIDAY HILLS WATER COMPANY |
| 2740 | ANTELOPE LAKES WATER COMPANY | 2197 | HUMBOLDT WATER SYSTEM, INC. |
| 3443 | APPALOOSA WATER COMPANY | 2824 | ICR WATER USERS ASSOCIATION |
| 1445 | ARIZONA WATER COMPANY | 2624 | MICHAELS RANCH WATER USERS ASSOCIATION |
| 1004 | ASHFORK DEVELOPMENT ASSOCIATION, INC. | 2651 | JUNIPER WELLS WATER COMPANY |
| 3476 | BN LEASING CORPORATION | 1557 | LAKE VERDE WATER COMPANY |
| 1624 | BIG PARK WATER COMPANY | 2192 | LITTLE PARK WATER COMPANY, INC. |
| 2510 | BOYNTON CANYON ENCHANTMENT HOMEOWNERS ASSOC. | 2245 | LOMA ESTATES WATER COMPANY, LLC |
| 2089 | BRADSHAW MOUNTAIN VIEW WATER COMPANY | 2504 | MEADOW WATER COMPANY |
| 2476 | BRADSHAW WATER COMPANY, INC. | 4254 | MONTEZUMA RIMROCK WATER COMPANY, LLC |
| 1419 | CAMP VERDE WATER SYSTEM | 4304 | OAK CREEK PUBLIC SERVICE, LLC |
| 3994 | CDC WICKENBURG WATER, LLC | 1392 | OAK CREEK WATER COMPANY NO. 1 |
| 2370 | CHINO MEADOWS II WATER COMPANY, INC. | 2146 | PEEPLER VALLEY WATER COMPANY |
| 1559 | COLDWATER CANYON WATER COMPANY | 2181 | PINE VALLEY WATER COMPANY |
| 2060 | CORDES LAKES WATER COMPANY | 3448 | RAINBOW PARKS, INC. |
| 4131 | CROSS CREEK RANCH WATER COMPANY | 3449 | SEDONA VENTURE (MHC OPERATING LTD PARTNERSHIP) |
| 1558 | CROWN KING WATER COMPANY, INC. | 3388 | SEVEN CANYONS WATER COMPANY |
| 1384 | DELL'S WATER COMPANY, INC. | 1671 | SHERMAN PINES WATER COMPANY |
| 3263 | DIAMOND VALLEY WATER USERS ASSOCIATION | 2372 | VERDE LAKES WATER CORPORATION |
| 4120 | GRAND CANYON CAVERNS AND INN, LLC | 2369 | WALDEN MEADOWS COMMUNITY COOPERATIVE |
| 1670 | GRANITE DELLS WATER COMPANY | 4161 | WHITE HORSE RANCH OWNERS ASSOCIATION, INC. |
| 2467 | GRANITE MOUNTAIN WATER COMPANY, INC. | 2065 | WILHOIT WATER COMPANY, INC. |
| 2539 | GRANITE OAKS WATER USERS ASSOCIATION | 2255 | YARNELL WATER IMPROVEMENT ASSOCIATION |
| 1865 | GROOM CREEK WATER USERS ASSOCIATION | | |

Figure A1: Yavapai County Map

COUNTY: *Yavapai*

RANGE 3 West



TOWNSHIP 16 North

-  W-2504 (1)
Meadow Water Company
-  W-2824 (1)
ICR Water Users Association

Figure A2: Certificated Area

Inscription Canyon Ranch Water System

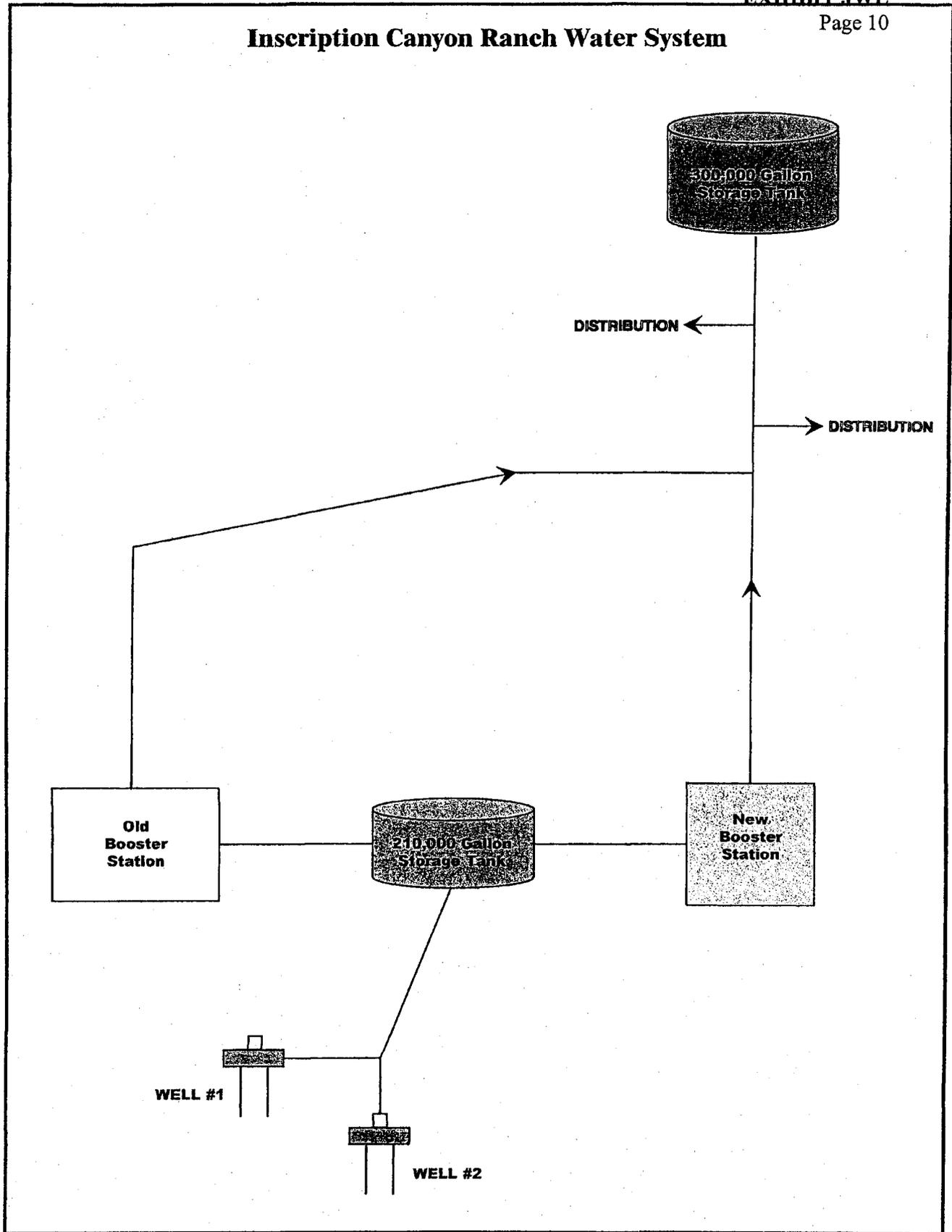


Figure B1: System Schematic

Talking Rock Ranch Water System

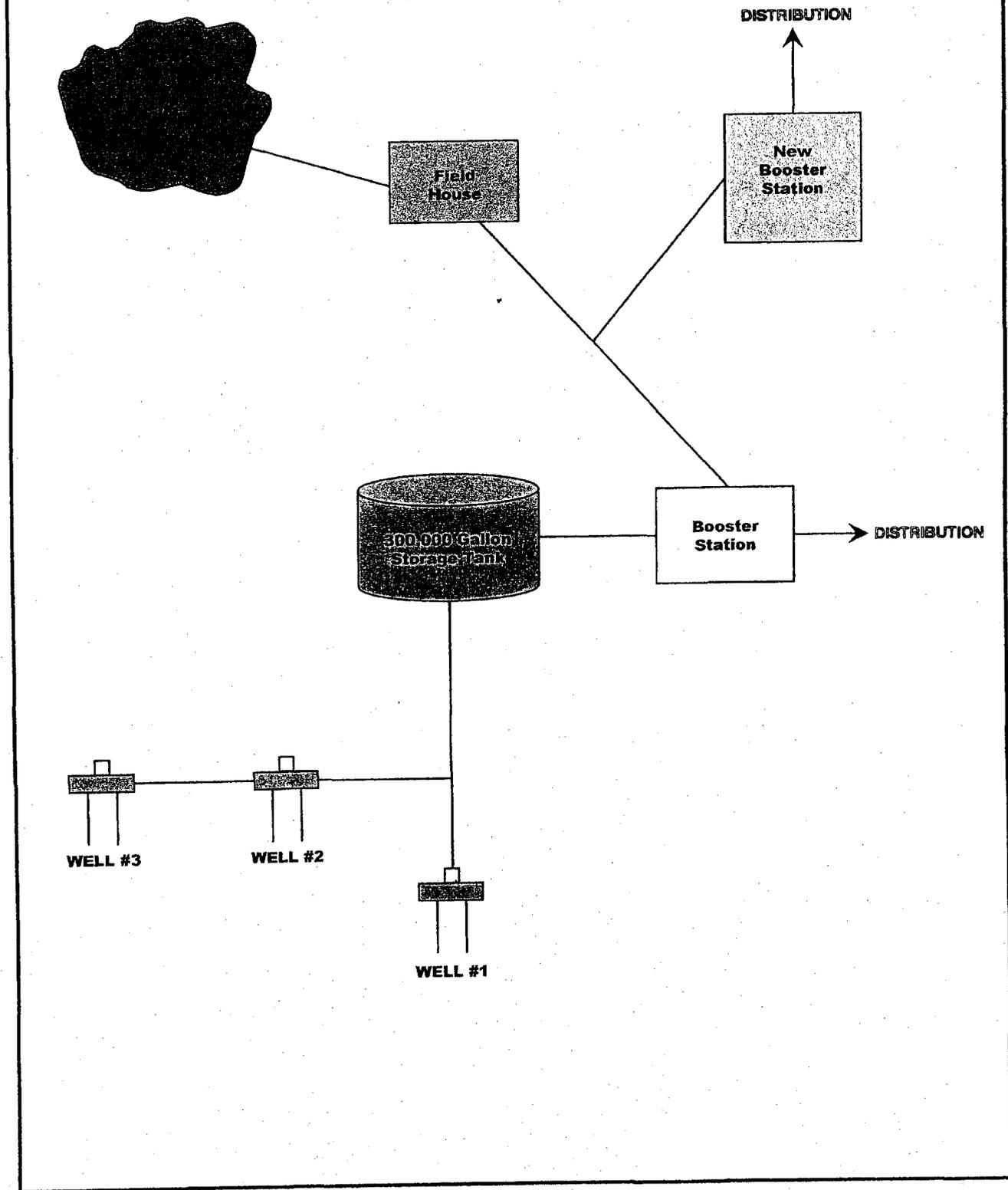


Figure B2: System Schematic

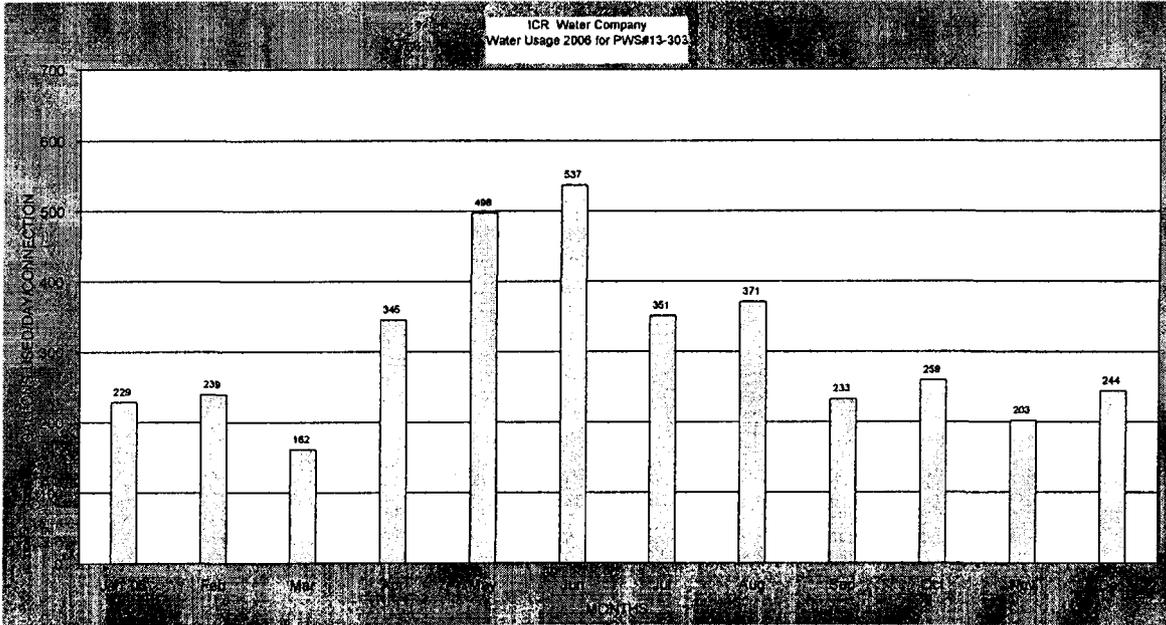


Figure C-1. Water Use

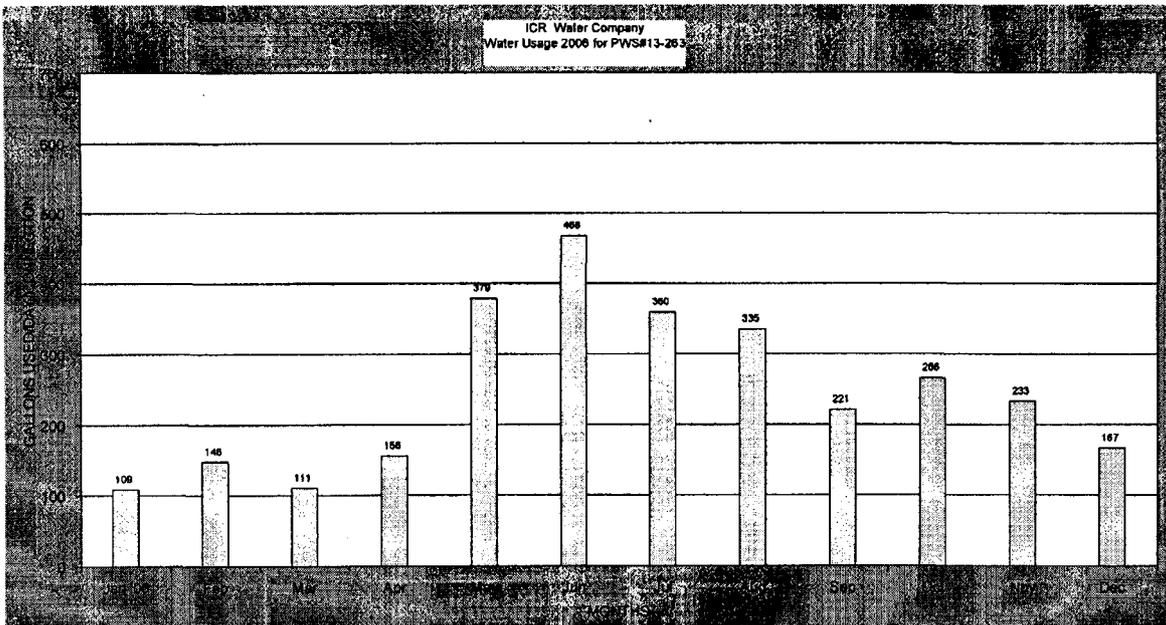


Figure C-2. Water Use

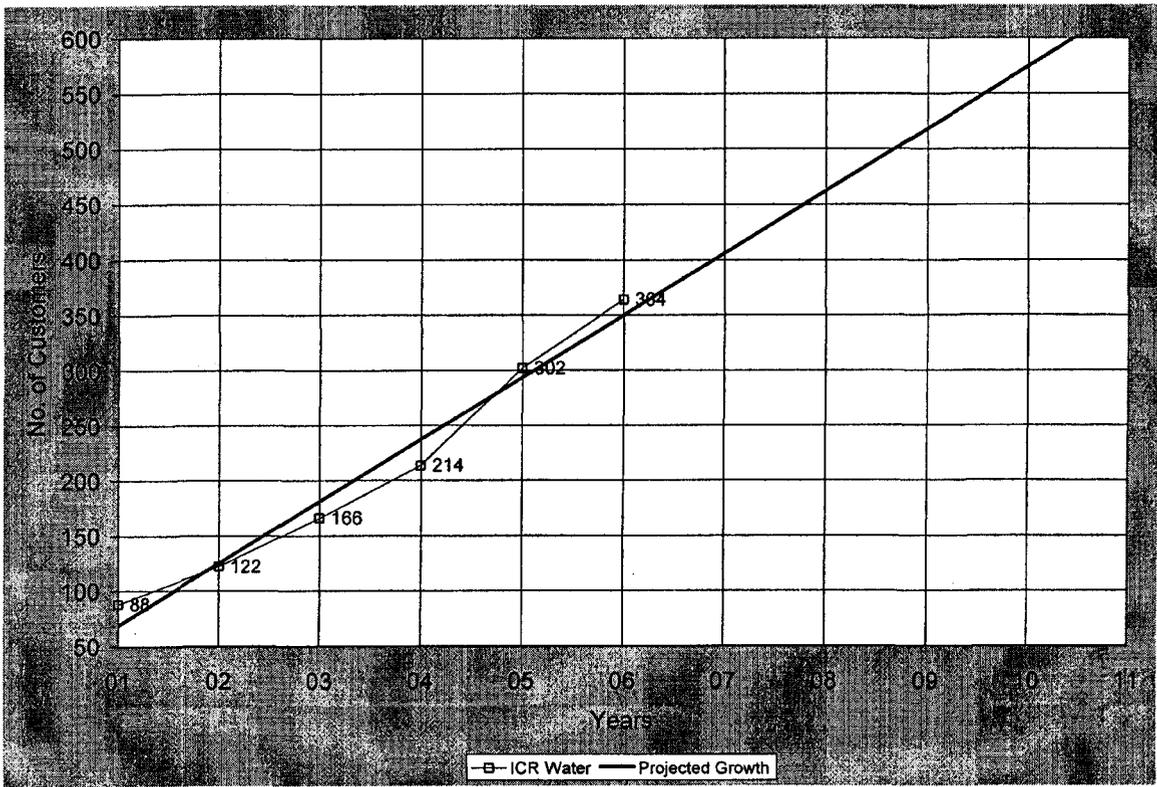


Figure D-1. Growth

Table E-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	10	10.00

Table F-1. Service Line and Meter Installation Charges

Meter Size	Total Current Charges	Proposed Service Line Charges	Proposed Meter Charges	Total Proposed Charges
5/8 x3/4-inch	250	\$385	\$135	\$520
3/4-inch	250	\$385	\$215	\$600
1-inch	300	\$435	\$255	\$690
1-1/2-inch	450	\$470	\$465	\$935
2-inch Turbine	625	\$630	\$965	\$1,595
2-inch Compound	625	\$630	\$1,690	\$2,320
3-inch Turbine	825	\$805	\$1,470	\$2,275
3-inch Compound	825	\$845	\$2,265	\$3,110
4-inch Turbine	1,450	\$1,170	\$2,350	\$3,520
4-inch Compound	1,450	\$1,230	\$3,245	\$4,475
6-inch Turbine	3,100	\$1,730	\$4,545	\$6,275
6-inch Compound	3,100	\$1,770	\$6,280	\$8,050
8-inch & Larger	NT	At Cost	At Cost	At Cost

Note: NT = No Tariff.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

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)

DOCKET NO. W-02824A-07-0388

DIRECT
TESTIMONY
OF
CHARLES R. MYHLHOUSEN
PUBLIC UTILITIES ANALYST III
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

NOVEMBER 30, 2007

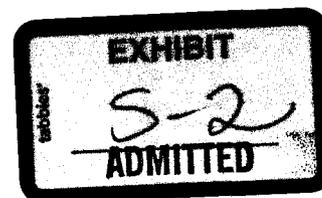


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EXECUTIVE SUMMARY
ICR WATER USERS ASSOCIATION
DOCKET NO. W-02824A-07-0388

ICR Water Users Association ("ICR" or "Company") is an Arizona non-profit member-owned domestic water provider in Yavapai County. The Company is located approximately 12 miles northwest of Prescott, Arizona and serves a portion of Yavapai County. ICR is an Arizona non-profit corporation, and the members/customers elect a board of directors who manage and operate the Company through its by-laws. The Company served approximately 364 customers during the test year ended December 31, 2006. The Company's current rates were approved in Decision No. 64008, dated August 30, 2002. This is the first rate application filed by the Company since the approval of the original Certificate of Convenience and Necessity.

The Company proposes rates that would produce operating revenue of \$355,174 resulting in operating income of \$53,276 for a 15.00 percent operating margin. The Company proposal would increase annual operating revenue by \$86,908 or 32.40 percent over test year revenues of \$268,266. Under the Company proposed rates, the typical residential 5/8 inch meter customer consuming the median of 4500 gallons per month, would experience a \$10.38 or 34.82 percent increase in their monthly bill from \$29.80 to \$40.18.

Staff recommends rates that would produce total operating revenue of \$356,646 resulting in operating income of \$53,540 for a 15.01 percent operating margin. Staff's recommended revenue represents an increase of \$88,547 or 33.03 percent over adjusted test year revenue of \$268,099. Under Staff's recommended rates, the typical residential 5/8 inch meter customer consuming the median of 4,500 gallons per month, would experience an \$8.94 or 30.00 percent increase in their monthly bill from \$29.80 to \$38.74.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Charles R. Myhlhousen. I am a Public Utilities Analyst III employed by the
4 Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division
5 ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Briefly describe your responsibilities as a Public Utilities Analyst III.**

8 A. I am responsible for the examination and verification of financial and statistical
9 information included in utility rate applications, developing revenue requirements,
10 designing rates, preparing written reports and/or testimonies and related schedules that
11 present Staff's recommendations to the Commission. I am also responsible for testifying
12 at formal hearings on these matters.
13

14 **Q. Please describe your educational background and professional experience.**

15 A. I received a Bachelor of Sociology with an emphasis in business from Bellevue University
16 located in Bellevue, Nebraska. In the ensuing years, I have taken various accounting
17 courses. I have participated in multiple rate cases and other regulatory proceedings. I
18 attended the National Association of Regulatory Utility Commissioners ("NARUC")
19 Utilities Rate School, and have attended seminars and courses in utility regulation and
20 utility accounting.
21

22 I began employment with the Commission as a utilities regulatory analyst in October
23 2000. Prior to joining the Commission, I worked at the Internal Revenue Service as a
24 Revenue Agent for over twenty years.

1 **Q. What is the scope of your testimony in this case?**

2 A. I am presenting Staff's analysis and recommendations regarding ICR Water Users
3 Association's ("ICR" or "Company") application for a permanent rate increase in the
4 areas of rate base, operating income, revenue requirement, and rate design. Staff Witness
5 Mr. Jian Liu is presenting Staff's engineering analysis and recommendations.

6
7 **Q. When was the application for a rate increase filed by the Company?**

8 A. The original application was filed on June 27, 2007. Staff found the application sufficient
9 July 26, 2007.

10
11 **Q. What is the basis of Staff's recommendations?**

12 A. Staff performed a regulatory audit of the Company's application and records. The
13 regulatory audit consisted of examining and testing financial information, accounting
14 records, and other supporting documentation. Staff also verified that the accounting
15 principles applied were in accordance with the Commission adopted NARUC Uniform
16 System of Accounts ("USoA").

17
18 **Q. What test year was used by the Company in the filing?**

19 A. The Company used the twelve months ending December 31, 2006.

20
21 **Q. Did Staff accept the test year proposed by the Company?**

22 A. Yes. The December 31, 2006, test year selected was the most recent fiscal year available
23 and should present a fairly accurate representation of the Company's financial operations
24 for the determination of appropriate rates and charges.

1 **BACKGROUND**

2 **Q. Please briefly describe the Company background.**

3 A. The Company is a domestic water provider located in Yavapai County, Arizona
4 approximately 12 miles northwest of Prescott, Arizona. The Company served
5 approximately 364 customers during the test year ended December 31, 2006. The
6 Company is an Arizona non-profit corporation.

7
8 On June 27, 2007, the Company filed an application for a permanent rate increase. On July
9 26, 2007, Staff filed a letter declaring the application sufficient.

10
11 The Commission's Decision No. 64008, dated August 30, 1995, approved the Company's
12 current rates and charges.

13
14 **Q. What are the primary reasons stated by the Company for requesting a permanent rate
15 increase?**

16 A. The Company's rates for water utility service have not been increased since the original
17 Certificate of Convenience and Necessity ("CC&N") was issued in Decision No. 59263
18 dated August 30, 1995. To provide sufficient annual cash flows to pay operating expenses
19 as well as to fund anticipated capital repairs, maintenance and improvements over the next
20 several years, and to begin to build up a capital replacement reserve. The Company believes
21 it has insufficient emergency power generation equipment to handle power outages. It also
22 expects to clean and repair its main storage tank within five to ten years, purchase and
23 install a supervisory control & data acquisition system to provide better monitoring of the
24 Company's well and storage system, and refurbish an old booster station.

1 **CONSUMER SERVICE**

2 **Q. Please provide a brief history of customer complaints, customers responses to the**
3 **proposed rate increase, the Company's corporate standing with the Corporations**
4 **Division and government impositions.**

5 **A.** Staff reviewed the Commission's records for year 2004 through November 14, 2007 and
6 found no complaints. The Company is in good standing with the Corporations Division.
7 The Company is current on all property and sales taxes.

8
9 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

10 **Q. Please summarize the Company's filing.**

11 **A.** The Company proposes rates that would produce operating revenue of \$355,174 and
12 operating income of \$53,276 for a 15.00 percent operating margin. The Company's
13 proposal would increase annual operating revenues by \$86,908 or 32.40 percent over test
14 year revenues of \$268,266.

15
16 **Q. Please summarize Staff's recommendations.**

17 **A.** Staff recommends total annual operating revenue of \$356,646 and operating income of
18 \$53,540 for a 15.01 percent operating margin. Staff's recommended revenue represents
19 an increase of \$88,547 or 33.03 percent over test year adjusted revenues of \$268,099. See
20 Schedule CRM-1.

21
22 **RATE BASE**

23 **Q. Please review the rate base recommendations addressed in this testimony.**

24 **A.** The Company as filed proposes a rate base of a negative \$554,252. Staff recommends a
25 rate base of a negative \$576,986, see Schedule CRM-3. For a detailed account of Staff's
26 recommended adjustments, see Schedule CRM-4.

1 **Q. Please review the rate base adjustments.**

2 A. My testimony addresses the following rate base issue:

3 Adjustment No. 1, Cash Working Capital – Staff’s adjustment decreases cash working
4 capital by \$22,734 from \$22,734 to zero. Staff typically only allows cash working capital
5 allowances calculated by the formula method for small class D and E utilities. The
6 formula method always produces a positive cash working capital need. Utilities classified
7 as A, B, or C are much larger and Staff believes that the formula method does not
8 accurately reflect the related cash working capital needs. Typically Staff finds that proper
9 lead/lag studies usually produce a negative cash working capital need. Staff recommends
10 disallowance of any cash working capital allowance in this case. See Schedule CRM-5.

11

12 **OPERATING INCOME**

13 **Q. What are the results of Staff’s analysis of test year revenues, expenses and operating**
14 **income/loss?**

15 A. Staff’s analysis reflects adjusted test year revenues of \$268,099, expenses of \$303,106 and
16 an operating loss of \$35,007 as shown on Schedules CRM-6 and CRM-7. Staff made one
17 adjustment to operating revenue and 4 adjustments to operating expenses.

18

19 **Q. Please review the Staff adjustments to operating revenues and expenses.**

20 A. My testimony addresses the following issues:

21 Adjustment No. 1 Annualized Revenue – Staff’s adjustment decreased revenue by \$167
22 from \$268,266 to \$268,099 to correct the amount of annualized revenue which was
23 overstated.

24

1 Adjustment No. 2 Repairs and Maintenance – Staff’s adjustment decreased this expense
2 by \$153 from \$14,542 to \$14,389 to allow for Staff’s increases to repairs of \$2,364 and
3 Staff’s decreases to repairs of \$ 2,517. See Schedule CRM-9.

4
5 Adjustment No. 3 Contractual Services – Operations – Staff’s adjustment increased this
6 expense by \$2,264 from \$83,963 to \$88,277 to allow for Staff’s increase to contractual
7 services of \$3,531 and Staff’s decrease to contractual services of \$1,267. See Schedule
8 CRM-10.

9
10 Adjustment No. 4 Water Testing – Staff’s adjustment decreased this expense by \$917
11 from \$4,946 to \$4,029 to allow for Staff’s estimated water testing expense. See Staff’s
12 engineering testimony. See Schedule CRM-11.

13
14 Adjustment No. 5 Property Tax - Staff’s adjustment increased this expense by \$14 from
15 \$11,148 to \$11,162 to reflect Staff’s adjusted test year and recommended revenues and
16 using the calculation for the modified Arizona Department of Revenue property tax
17 methodology. See Schedule CRM-12.

18
19 **REVENUE REQUIREMENT**

20 **Q. Would you please summarize the Company’s proposed revenue requirement?**

21 **A. The Company’s rate filing proposes annual revenues of \$355,174, an increase of \$86,908**
22 **or 32.40 percent over test year revenues of \$268,266, as shown on Schedule CRM-1.**

23
24 **Q. Would you please summarize Staff’s recommended revenue requirement?**

25 **A. Staff recommends annual revenue of \$356,646, an increase of \$88,547 or 33.03 percent**
26 **over test year adjusted revenues of \$268,099, as shown on Schedule CRM-6.**

1 **Q. Did Staff review the Company's proforma adjustment for annualization of revenues?**

2 A. Yes, Staff made an adjustment to the proforma annualized revenue in the amount of \$167,
3 which decreased revenue annualization from \$9,957 to \$9,790. The Company adjustment
4 was incorrectly computed because the Company used the wrong data for the various meter
5 sizes.

6

7 **BASIS FOR OPERATING INCOME DETERMINATION**

8 **Q. What is the appropriate method to determine the Company's operating income and**
9 **revenue requirement?**

10 A. Operating income should be calculated by applying the recommended operating margin.
11 Operating margin equals operating income divided by revenue, expressed as a percentage.
12 The percentage represents the amount of each dollar of revenue that results in operating
13 income.

14

15 **Q. What is the appropriate operating margin?**

16 A. The appropriate operating margin is 15.01 percent. This will produce sufficient revenue to
17 cover operating expenses and an operating income of \$53,540.

18

19 **Q. Who provided the Inscription Canyon golf course water for the golf course and lake**
20 **in the test year 2006?**

21 A. The golf course is not owned or operated by ICR. The golf course receives water from
22 two sources. Effluent water is received from the IRC Sanitary District in the amount of
23 9,920,819 gallons for year 2006. The golf course owns water wells and provides ground
24 water for themselves in the amount of 125,026,000 gallons in year 2006. The golf course
25 does not receive or purchase any water from ICR.

1 **RATE DESIGN**

2 **Q Have you prepared a schedule summarizing the present, Company proposed, and**
3 **Staff recommended rates and service charges?**

4 A. Yes. A summary of the present, Company proposed, and Staff recommended rates and
5 service charges are provided on Schedule CRM-13.

6

7 **Q. Would you please summarize the current rate design?**

8 A. The present monthly minimum charges by meter sizes are as follows: 5/8 x 3/4 inch
9 \$20.00; 3/4 inch \$20.00 1 inch \$50.00; 1 1/2 inch \$100.00; 2 inch \$160.00; 3 inch
10 \$300.00; 4 inch \$500.00; 6 inch \$1,000.00. The monthly minimum charge for each meter
11 size includes 1,000 gallons. The present commodity rate has one tier. The tier is \$2.80
12 per 1,000 gallons which also includes construction or bulk gallons.

13

14 **Q. Would you please summarize the Company's proposed rate design?**

15 A. The Company's proposed monthly minimum charges by meter size are as follows:
16 5/8 x 3/4 inch \$25.50; 3/4 inch \$38.25; 1 inch \$63.75; 1 1/2 inch \$127.50; 2 inch \$204.00;
17 3 inch \$382.50; 4 inch \$637.50; 6 inch \$1,275.00. No gallons are included in the
18 minimum charge. The Company proposes an inverted three-tier commodity rate, for the
19 5/8 x 3/4 inch and 3/4 inch meter sizes with break over points for both meter sizes being
20 the same, and a two-tier commodity rate, with different break over points for all other
21 meter sizes. The first, second and third tier rates for the 5/8 x 3/4 inch and 3/4 inch meters
22 are \$3.19, \$3.83 and \$4.47 per thousand gallons.

23

24 For construction, standpipe and bulk usage the rate is \$3.83 per 1,000 gallons with no
25 minimum monthly charge.

1 **Q. Would you please summarize Staff's recommended rate design?**

2 A. Staff recommends an inverted tier rate design that consists of three-tiers for the 5/8 x 3/4
3 inch meter and the 3/4 inch meter and two-tiers for all others. No gallons are included in
4 the minimum charge. Staff recommends a three-tier commodity rate, with the same break
5 over points for the 5/8 x 3/4 inch meter, and the 3/4 inch meter and a two-tier commodity
6 rate, with different break over points for all other meter sizes. The first, second and third
7 tier rates are \$2.64, \$3.96 and \$4.74 per thousand gallons. Efficiency in water use is
8 encouraged by producing a higher customer bill with increased consumption or use of a
9 larger meter. Construction, bulk and standpipe commodity rate has been increased to
10 \$4.74 per thousand gallons so that they would be charged the second tier commodity
11 charge which is recommended for large users. See schedule CRM-13. A typical bill
12 analysis is provided for the average and median use under Company's present, Company
13 proposed, and Staff recommended rates as presented on Schedule CRM-14.

14
15 **Q. What is the rate impact on a typical 5/8 x 3/4 inch meter residential customer?**

16 A. The median usage of residential 5/8 x 3/4 inch meter customers is 4,500 gallons per
17 month. The median residential 5/8 x 3/4 inch-meter customers would experience a \$10.38
18 or 34.82 percent increase in their monthly bill from \$29.80 to \$40.18, under the
19 Company's proposed rates and an \$8.94 or 30.00 percent increase in their monthly bill
20 from \$29.80 to \$38.74, under Staff's recommended rates. See Schedule CRM-14.

21
22 **Q. Did Staff review the Company's proposed Meter and Service Line Charges and other
23 service charges?**

24 A. Yes. Staff concurs with the company except for the Company's proposed late fee charge
25 of \$5.00 minimum or 1.5 percent of unpaid balance whichever is greater. Staff is

1 recommending 1.5 percent of the unpaid balance per month which has been approved by
2 the Commission in prior rate case decisions. See Schedule CRM-13.

3

4 **Q. Did the Company propose a service charge for fire sprinklers?**

5 A. No.

6

7 **Q. Did Staff recommend a service charge for fire sprinklers?**

8 A. Yes. Staff is recommending a service charge for fire sprinklers for all new rate increase
9 applications. See Schedule CRM-13.

10

11 **RECOMMENDATIONS**

12 **Q. What additional recommendations does Staff have?**

13 A. Staff recommends a provision be included in the Company's tariff to allow for the flow-
14 through of all appropriate state and local taxes as provided for in A.A.C. Rule 14-2-
15 409(D)(5).

16

17 Staff further recommends approval of its rates and charges as shown on Schedule
18 CRM-18.

19

20 **Q. Does this conclude your direct testimony?**

21 A. Yes, it does.

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) Company ORIGINAL COST	(B) Company FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ (554,252)	\$ (554,252)	\$ (576,986)	\$ (576,986)
2	Adjusted Operating Income (Loss)	\$ (33,632)	\$ (33,632)	\$ (35,007)	\$ (35,007)
3	Current Rate of Return (L2 / L1)	6.07%	6.07%	6.07%	6.07%
4	Required Operating Margin	15.00%	15.00%	15.01%	15.01%
5	Required Operating Margin	\$ 53,276	\$ 53,276	\$ 53,540	\$ 53,540
6	Operating Income Deficiency (L5 - L2)	\$ 86,908	\$ 86,908	\$ 88,547	\$ 88,547
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	\$ 86,908	\$ 86,908	\$ 88,547	\$ 88,547
9	Adjusted Test Year Revenue	\$ 268,266	\$ 268,266	\$ 268,099	\$ 268,099
10	Proposed Annual Revenue (L8 + L9)	\$ 355,174	\$ 355,174	\$ 356,646	\$ 356,646
11	Required Increase in Revenue (%)	32.40%	32.40%	33.03%	33.03%

References:

Column (A): Company Schedule B-1
Column (B): Company Schedule B-1
Column (C): Staff Schedules CRM-3, CRM-6
Column (D): Staff Schedules CRM-3, CRM-6

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Schedule CRM-2 Blank

Schedule CRM-2 Blank--Left Blank Purposely

RATE BASE - ORIGINAL COST

LINE NO.	(A) Company AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	\$ 5,331,978	\$ -		\$ 5,331,978
2	(625,682)	-		(625,682)
3	<u>\$ 4,706,296</u>	<u>\$ -</u>		<u>\$ 4,706,296</u>
<u>LESS:</u>				
4	(1,330,469)			(1,330,469)
5	(3,932,263)	-		(3,932,263)
6	(20,550)	-		(20,550)
<u>ADD:</u>				
7	-	-		-
8	-	-		-
9	-	-		-
10	-	-		-
11	22,734	(22,734)	1	-
12	<u>\$ (554,252)</u>	<u>\$ (22,734)</u>		<u>\$ (576,986)</u>

References:
Column (A): Company Schedule B-1
Column (B): Testimony CRM
Column (C): Column (A) + Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] Company AS FILED	[E] ADJ #1	[I] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>					
1					
2	301	Organization	\$ -	\$ -	\$ -
3	302	Franchise Costs	-	-	-
4	303	Land and Land Rights	-	-	-
5	304	Structures and Improvements	398,048	-	398,048
6	305	Collecting and Impounding Res.	-	-	-
7	306	Lake, River and Other Intakes	-	-	-
8	307	Wells & Springs	656,998	-	656,998
9	308	Infiltration Galleries and Tunnels	-	-	-
10	309	Supply Mains	-	-	-
11	310	Power Generation Equipment	-	-	-
12	311	Electric Pumping Equipment	1,808	-	1,808
13	320	Water Treatment Equipment	106,689	-	106,689
14	330	Distribution Reservoirs & Standpipe	4,037,457	-	4,037,457
15	331	Transmission & Distribution Mains	-	-	-
16	333	Services	68,233	-	68,233
17	334	Meters	27,117	-	27,117
18	335	Hydrants	-	-	-
19	336	Backflow Prevention Devices	-	-	-
20	339	Other Plant and Miscellaneous Equipment	-	-	-
21	340	Office Furniture & Fixtures	141	-	141
22	341	Transportation Equipment	-	-	-
23	342	Stores Equipment	-	-	-
24	343	Tools and Work Equipment	-	-	-
25	344	Laboratory Equipment	-	-	-
26	345	Power Operated Equipment	-	-	-
27	346	Communications Equipment	10,533	-	10,533
28	347	Miscellaneous Equipment	1,495	-	1,495
29	348	Other Tangible Plant	23,458	-	23,458
			-	-	-
			-	-	-
30		Total Plant in Service	\$ 5,331,978	-	\$ 5,331,978
31		Less: Accumulated Depreciation	(625,682)	-	(625,682)
32		Net Plant in Service (L59 - L 60)	\$ 4,706,296	-	\$ 4,706,296
33		<u>LESS:</u>			
34		Net CIAC (L25 - L26)	(1,330,469)	-	(1,330,469)
35		Advances in Aid of Construction (AIAC)	(3,932,263)	-	(3,932,263)
36		Customer Meter Deposits	(20,550)	-	(20,550)
37		<u>ADD:</u>			
38		Unamortized Finance Charges	-	-	-
39		Deferred Tax Assets	-	-	-
40		Materials and Supplies Inventories	-	-	-
41		Prepayments	-	-	-
42		Working Capital	22,734	(22,734)	-
43		Intentionally Left Blank	-	-	-
44		Original Cost Rate Base	\$ (554,252)	\$ (22,734)	\$ (576,986)

ADJ #
1 Cash Working Capital

References:
CRM-5 Testimony CRM

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Schedule CRM-5

ORIGINAL COST RATE BASE ADJUSTMENT #1 - CASH WORKING CAPITAL

<u>Line</u> <u>No.</u>	<u>Description</u>	Company As <u>Filed</u>	Staff <u>Adjustments</u>	Staff As <u>Adjusted</u>
1	Cash Working Capital	\$ 22,734	\$ (22,734)	\$ -

Reference:

Col. [A] Company Schedule B-1

Col. [B] Testimony CRM

Col. [C] Col. [A] + Col. [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY ADJUSTED TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	Adj No.	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	REVENUES:						
2	Metered Water Sales	\$ 214,863	\$ (167)	1	\$ 214,696	\$ 88,547	\$ 303,243
3	Water Sales - Unmetered	-	-		-	-	-
4	Other Operating Revenue	53,403	-		53,403	-	53,403
5	Total Operating Revenues	\$ 268,266	\$ (167)		\$ 268,099	\$ 88,547	\$ 356,646
6	OPERATING EXPENSES:						
7	Salaries and Wages	\$ -	\$ -		\$ -	\$ -	\$ -
8	Employee Pensions and Benefits	-	-		-	-	-
9	Purchased Water	6,388	-		6,388	-	6,388
10	Purchased Power	16,239	-		16,239	-	16,239
11	Chemicals	2,516	-		2,516	-	2,516
12	Repairs and Maintenance	14,542	(153)	2	14,389	-	14,389
13	Office Supplies and Expenses	1,720	-		1,720	-	1,720
14	Contractual Services - Engineering	-	-		-	-	-
15	Contractual Services - Accounting	32,549	-		32,549	-	32,549
16	Contractual Services - Legal	513	-		513	-	513
17	Contractual Services - Other - Operations	83,863	2,264	3	86,227	-	86,227
18	Water Testing	4,946	(817)	4	4,029	-	4,029
19	Rents	3,600	-		3,600	-	3,600
20	Transportation Expense	-	-		-	-	-
21	Insurance - Vehicle	-	-		-	-	-
22	Insurance - General Liability	-	-		-	-	-
23	Insurance - Workers Comp	-	-		-	-	-
24	Insurance - Other	8,995	-		8,995	-	8,995
25	Regulatory Commission Expense - Rate Case	20,000	-		20,000	-	20,000
26	Telephone	751	-		751	-	751
27	Water Resource Conservation	-	-		-	-	-
28	Bad Debt Expense	-	-		-	-	-
29	Miscellaneous Expense	235	-		235	-	235
30	Depreciation Expense	93,748	-		93,748	-	93,748
31	Taxes Other than Income	-	-		-	-	-
32	Property Taxes	11,148	14	5	11,162	-	11,162
33	Income Tax	45	-		45	-	45
34	Intentionally Left Blank	-	-		-	-	-
35	Total Operating Expenses	\$ 301,898	\$ 1,208		\$ 303,106	\$ -	\$ 303,106
36	Operating Income (Loss)	\$ (33,632)	\$ (1,375)		\$ (35,007)	\$ 88,547	\$ 53,540

References:

- Column (A): Company Schedule C-1
- Column (B): Testimony CRM
- Column (C): Column (A) + Column (B)
- Column (D): Schedules CRM-1 and CRM-2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Annualize Revenue ADJ #1	[C] Repairs ADJ #2	[D] Contr Svcs Oper. ADJ #3	[E] Water Testing ADJ #4	[F] Property Tax ADJ #5	[G] STAFF ADJUSTED
1	REVENUES:							
2	Metered Water Sales	\$ 214,863	(167) \$	-	\$ -	\$ -	\$ -	\$ 214,696
3	Water Sales - Unmetered	-	-	-	-	-	-	-
4	Other Operating Revenue	53,403	-	-	-	-	-	53,403
5	Total Operating Revenues	\$ 268,266	(167) \$	-	\$ -	\$ -	\$ -	\$ 268,099
6	OPERATING EXPENSES:							
7	Salaries and Wages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Employee Pensions and Benefits	-	-	-	-	-	-	-
9	Purchased Water	6,388	-	-	-	-	-	6,388
10	Purchased Power	16,239	-	-	-	-	-	16,239
11	Chemicals	2,516	-	-	-	-	-	2,516
12	Repairs and Maintenance	14,542	-	(153)	-	-	-	14,389
13	Office Supplies and Expenses	1,720	-	-	-	-	-	1,720
14	Contractual Services - Engineering	-	-	-	-	-	-	-
15	Contractual Services - Accounting	32,549	-	-	-	-	-	32,549
16	Contractual Services - Legal	513	-	-	-	-	-	513
17	Contractual Services - Other - Operations	83,963	-	-	2,264	-	-	86,227
18	Water Testing	4,946	-	-	-	(917)	-	4,029
19	Rents	3,600	-	-	-	-	-	3,600
20	Transportation Expense	-	-	-	-	-	-	-
21	Insurance - Vehicle	-	-	-	-	-	-	-
22	Insurance - General Liability	-	-	-	-	-	-	-
23	Insurance - Workers Comp	-	-	-	-	-	-	-
24	Insurance - Other	8,995	-	-	-	-	-	8,995
25	Regulatory Commission Expense - Rate Case	20,000	-	-	-	-	-	20,000
26	Telephone	751	-	-	-	-	-	751
27	Water Resource Conservation	-	-	-	-	-	-	-
28	Bad Debt Expense	-	-	-	-	-	-	-
29	Miscellaneous Expense	235	-	-	-	-	-	235
30	Depreciation Expense	93,748	-	-	-	-	-	93,748
31	Taxes Other than Income	-	-	-	-	-	-	-
32	Property Taxes	11,148	-	-	-	-	14	11,162
33	Income Tax	45	-	-	-	-	-	45
34	Intentionally Left Blank	-	-	-	-	-	-	-
35	Total Operating Expenses	\$ 301,898	\$ -	\$ (153)	\$ 2,264	\$ (917)	\$ 14	\$ 303,106
36	Operating Income (Loss)	\$ (33,632)	\$ -	\$ (153)	\$ 2,264	\$ (917)	\$ (14)	\$ (35,007)

ADJ #		References:
1	Annualized Revenue	CRM-8
2	Repairs and Maintenance	CRM-9
3	Contractual Services - Operations	CRM-10
4	Water Testing Expense	CRM-11
5	Property Taxes	CRM-12

OPERATING INCOME ADJUSTMENT # 1 - Annualized Revenue

Line No.	Description	[A] Company As Filed	[B] Staff Adjustments	[C] Staff As Adjusted
1	Annualized Revenue	\$ 214,863	\$ (167.00)	\$ 214,696

References

Col. [A] Company Schedule H-1	\$ 9,957
Column (B): Testimony CRM	9,790
Col. [C]: Col. [A] + Col. [B]	\$ (167)

Adjustments by Meter Size

Meter Size	Company	Staff	Difference
5/8 inch	\$ 1,547	\$ 1,551	\$ 4
1 inch	1,563	1,344	(219)
2 inch	6,847	6,895	48
Total	\$ 9,957	\$ 9,790	\$ (167)

OPERATING INCOME ADJUSTMENT #2 - REPAIRS AND MAINTENANCE

Line No.	Description	[A] Company As Filed	[B] Staff Adjustments	[C] Staff As Adjusted
1	Repairs and Maintenance	\$ 14,542	\$ (153)	\$ 14,389

References

Col. [A] Company Schedule C-1
 Column [B]: Testimony CRM
 Col. [C]: Col. [A] + Col. [B]

Additional Repairs and Maintenance Adjustments

ADD:				
62000 IC	G/L Adjustment to remove credit posted in account			514
62000 TR	G/L Adjustment to remove credit posted in account			1,563
62000 IC	G/L Adjustment to remove credit posted in account			287
	Total			<u>2364</u>
LESS:				
Normalize Storage tanks expense from C.W. Divers				
62000 IC	C W Divers Inv. 06-505 dated 11/02/06		1520	
62000 TR	C W Divers Inv. 06-504 dated 11/02/06		1626	
	Total		<u>3146</u>	
	Normalize expense over 5 years		<u>629</u>	
	Amount not allowed in current test year.			<u>(2,517)</u>
	Net decrease in Repairs from test year amount			<u><u>(153)</u></u>

OPERATING INCOME ADJUSTMENT #3 - CONTRACTUAL SERVICES

Line No.	Description	[A]	[B]	[C]
		Company As Filed	Staff Adjustments	Staff As Adjusted
1	Contractual Services	\$ 83,963	\$ 2,264	\$ 86,227

References

Col. [A] Company Schedule C-1
Column [B]: Testimony CRM
Col. [C]: Col. [A] + Col. [B]

Computations

Amount claimed in rate application	\$	83,963
Increase/(decrease) to Contractual Services - Operations		<u>2,264</u>
Amount recommended by Staff	\$	<u>86,227</u>

Additional Contractual Services -Operations Adjustments

ADD: General Ledger Account Numbers

63000	\$	30
63000IC	\$	1,870
63000TR	\$	595
63010IC	\$	290
63010TR	\$	650
63010	\$	96
Total	\$	<u>3,531</u>

Less:

Erickson Landscaping invoices Company will no longer have a landscaping expense. Developer maintained.		<u>(1,267)</u>
Net increase (decrease) from test year amount		<u>2,264</u>

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Schedule CRM-11

OPERATING INCOME ADJUSTMENT # 4 - WATER TESTING EXPENSE

Line		[A] Company	[B]	[C] Staff
<u>No.</u>	<u>Description</u>	As <u>Filed</u>	Staff <u>Adjustments</u>	As <u>Adjusted</u>
1	Water Testing Expense	\$ 4,946	\$ (917.00)	\$ 4,029

References

Col. [A] Company Schedule H-1
Column [B]: Testimony Engineering
Col. [C]: Col. [A] + Col. [B]

OPERATING INCOME ADJUSTMENT #5 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	(A)	(B)
		CO-OP AS FILED	STAFF AS ADJUSTED
1	Staff Adjusted Test Year Revenues	\$ 268,266	\$ 268,099
2	Weight Factor		2
3	Subtotal (Line 1 * Line 2)		536,198
4	Staff Recommended Revenue, Per Schedule CRM-1		356,646
5	Subtotal (Line 4 + Line 5)		892,844
6	Number of Years		3
7	Three Year Average (Line 5 / Line 6)		297,615
8	Department of Revenue Multiplier		2
9	Revenue Base Value (Line 7 * Line 8)		595,229
10	Plus: 10% of CWIP		-
	Tax on Parcels		261
11	Less: Net Book Value of Licensed Vehicles		-
12	Full Cash Value (Line 9 + Line 10 - Line 11)		595,229
13	Assessment Ratio - Average of 2006 and 2007 Rate		0.2350
14	Assessment Value (Line 12 * Line 13)		139,879
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3)		7.9800000%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$	11,162
17	Company Proposed Property Tax		11,148
18	Increase/(Decrease) to Property Tax Expense	\$	14

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8 x 3/4" Meter	\$ 20.00	\$ 25.50	\$ 28.75
3/4" Meter	20.00	38.25	43.13
1" Meter	50.00	63.75	71.88
1½" Meter	100.00	127.50	143.75
2" Meter	160.00	204.00	230.00
3" Meter	300.00	382.50	460.00
4" Meter	500.00	637.50	718.75
6" Meter	1,000.00	1,275.00	1,437.50
Gallons included in Minimum	1,000	0	0
Commodity Rates			
All meter sizes			
Per 1,000 gallons in excess of gallons in monthly minimum	\$ 2.80	n/a	n/a
5/8 x3/4 inch Meter			
Tier 1 zero gallon to 4,000 gallons	n/a	3.19	n/a
Tier 2 4,001 gallons to 10,000 gallons	n/a	3.83	n/a
Tier 3 All gallons over 10,000 gallons	n/a	4.47	n/a
Tier 1 zero gallon to 4,000 gallons	n/a	n/a	2.64
Tier 2 4,001 gallons to 9,000 gallons	n/a	n/a	3.96
Tier 3 All gallons over 9,000 gallons	n/a	n/a	4.74
3/4 Inch Meter			
Tier 1 zero gallon to 4,000 gallons	n/a	\$ 3.19	n/a
Tier 2 4,001 gallons to 10,000 gallons	n/a	\$ 3.83	n/a
Tier 3 All gallons over 10,000 gallons	n/a	\$ 4.47	n/a
Tier 1 zero gallon to 4,000 gallons	n/a	n/a	2.64
Tier 2 4,001 gallons to 9,000 gallons	n/a	n/a	3.96
Tier 3 All gallons over 9,000 gallons	n/a	n/a	4.74
1 Inch Meter			
Tier 1 Up to 25,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 25,000 gallons	n/a	4.47	n/a
Tier 1 Up to 15,000 gallons	n/a	n/a	3.96
Tier 2 Over 15,000 gallons	n/a	n/a	4.74
1.5 Inch Meter			
Tier 1 Up to 50,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 50,000 gallons	n/a	\$ 4.47	n/a
Tier 1 Up to 50,000 gallons	n/a	n/a	3.96
Tier 2 Over 50,000 gallons	n/a	n/a	4.74
2 Inch Meter			
Tier 1 Up to 80,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 80,000 gallons	n/a	\$ 4.47	n/a
Tier 1 Up to 80,000 gallons	n/a	n/a	3.96
Tier 2 Over 80,000 gallons	n/a	n/a	4.74
3 Inch Meter			
Tier 1 Up to 160,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 160,000 gallons	n/a		n/a
Tier 1 Up to 150,000 gallons	n/a	n/a	3.96
Tier 2 Over 150,000 gallons	n/a	n/a	4.74

4 Inch Meter			
Tier 1 Up to 250,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 250,000 gallons	n/a		n/a
Tier 1 Up to 250,000 gallons	n/a	n/a	3.96
Tier 2 Over 250,000 gallons	n/a	n/a	4.74
6 Inch Meter			
Tier 1 Up to 500,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 500,000 gallons	n/a		n/a
Tier 1 Up to 500,000 gallons	n/a	n/a	3.96
Tier 2 Over 500,000 gallons	n/a	n/a	4.74
Construction/Bulk, per 1,000 gallons - all gallons.	n/a	3.83	4.74

Service Line and Meter Installation Charges	Present	COMPANY PROPOSED			STAFF RECOMMENDED		
		Service Line Charge	Meter Installation	Total Proposed	Service Line Charge	Meter Installation	Total Recommended
5/8" x 3/4" Meter	\$ 250.00	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
3/4" Meter	\$ 250.00	\$ 385.00	\$ 215.00	\$ 600.00	\$ 385.00	\$ 215.00	\$ 600.00
1" Meter	\$ 300.00	\$ 435.00	\$ 255.00	\$ 690.00	\$ 435.00	\$ 255.00	\$ 690.00
1 1/2" Meter	\$ 450.00	\$ 470.00	\$ 465.00	\$ 935.00	\$ 470.00	\$ 465.00	\$ 935.00
2" Turbine Meter	\$ 625.00	\$ 630.00	\$ 965.00	\$ 1,595.00	\$ 630.00	\$ 965.00	\$ 1,595.00
2" Compound Meter	\$ 625.00	\$ 630.00	\$1,690.00	\$ 2,320.00	\$ 630.00	\$ 1,690.00	\$ 2,320.00
3" Turbine Meter	\$ 825.00	\$ 805.00	\$1,470.00	\$ 2,275.00	\$ 805.00	\$ 1,470.00	\$ 2,275.00
3" Compound Meter	\$ 825.00	\$ 845.00	\$2,265.00	\$ 3,110.00	\$ 845.00	\$ 2,265.00	\$ 3,110.00
4" Turbine Meter	\$1,450.00	\$ 1,170.00	\$2,350.00	\$ 3,520.00	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00
4" Compound Meter	\$1,450.00	\$ 1,230.00	\$3,245.00	\$ 4,475.00	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00
6" Turbine Meter	\$3,100.00	\$ 1,730.00	\$4,545.00	\$ 6,275.00	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00
6" Compound Meter	\$3,100.00	\$ 1,770.00	\$6,280.00	\$ 8,050.00	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00
8 Inch	n/a	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10 Inch	n/a	At cost	At cost	At cost	At cost	At cost	At cost
12 Inch	n/a	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Service Charges	Present	Company Proposed	Staff Recommended
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	50.00	50.00	50.00
Reconnection (Delinquent)	20.00	20.00	20.00
Reconnection (After Hours)	n/a	40.00	40.00
Meter Test (Calibration or leak detection)	20.00	20.00	20.00
Deposit Requirement (Residential/ Commercial) (1)	per rule	per rule	*
Deposit Interest (2)	per rule	per rule	6.00%
Re-Establishment (Within 12 Months) (3)	per rule	per rule	**
NSF Check	15.00	15.00	15.00
Deferred Payment Per Month 1.5 %	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	10.00	10.00
Late Charge per Month	(a)	(a)	***

Monthly Service Charge for Fire Sprinkler	Present	Company Proposed	Staff Recommended
4 inch or Smaller	n/a	n/a	****
6 inch	n/a	n/a	****
8 inch	n/a	n/a	****
10 inch	n/a	n/a	****
Larger than 10 inch	n/a	n/a	****

Company Proposed

- 1 Per Rule Deposit (R-14-2-403.B)
- 2 Per Rule Deposit Interest (R-14-2-403.B.3)
- 3 Per Rule Reestablishment (14-2-403.D.1)

(a) \$5.00 minimum or 1.5% of unpaid balance whichever is greater.

Staff Recommended

- * Per rule R14-2-403.B
- ** Months off system time the minimum (R-14-2-403.D)
- *** 1.5 percent of the unpaid balance per month.
- **** 100 percent of monthly minimum for a comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,085	\$ 37.04	\$ 50.08	\$ 13.04	35.20%
Median Usage	4,500	\$ 29.80	\$ 40.18	\$ 10.38	34.82%
Staff Recommended					
Average Usage	7,085	\$ 37.04	\$ 48.98	\$ 11.94	32.23%
Median Usage	4,500	\$ 29.80	\$ 38.74	\$ 8.94	30.00%

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 20.00	\$ 25.50	27.50%	\$ 26.20	31.00%
1,000	22.80	29.33	28.63%	28.85	26.51%
2,000	25.60	33.16	29.52%	31.49	23.01%
3,000	28.40	36.99	30.24%	34.14	20.19%
4,000	31.20	40.82	30.83%	36.78	17.88%
5,000	34.00	44.65	31.32%	40.74	19.82%
6,000	36.80	48.48	31.73%	44.70	21.47%
7,000	39.60	52.31	32.09%	48.66	22.88%
8,000	42.40	56.14	32.40%	52.62	24.10%
9,000	45.20	59.97	32.67%	56.58	25.18%
7,085	39.84	52.63	32.12%	49.00	22.99%
10,000	48.00	63.80	32.91%	61.32	27.75%
11,000	50.80	67.63	33.12%	66.06	30.04%
12,000	53.60	71.46	33.32%	70.80	32.10%
13,000	56.40	75.29	33.49%	75.54	33.94%
14,000	59.20	79.12	33.64%	80.29	35.62%
15,000	62.00	82.95	33.79%	85.03	37.14%
16,000	64.80	86.78	33.92%	89.77	38.53%
17,000	67.60	90.61	34.03%	94.51	39.80%
18,000	70.40	94.44	34.14%	99.25	40.98%
19,000	73.20	98.27	34.25%	103.99	42.06%
20,000	76.00	102.10	34.34%	108.73	43.07%
25,000	90.00	121.25	34.72%	132.44	47.15%
30,000	104.00	140.40	35.00%	156.14	50.14%
35,000	118.00	159.55	35.21%	179.85	52.41%
40,000	132.00	178.70	35.38%	203.55	54.21%
45,000	146.00	197.85	35.51%	227.26	55.65%
50,000	160.00	217.00	35.62%	250.96	56.85%
75,000	230.00	312.75	35.98%	389.49	60.65%
100,000	300.00	408.50	36.17%	488.01	62.67%

LEGAL

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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AZ CORP COMMISSION
DOCKET CONTROL
LEGAL DIV.
ARIZ. CORPORATION COMMISSION

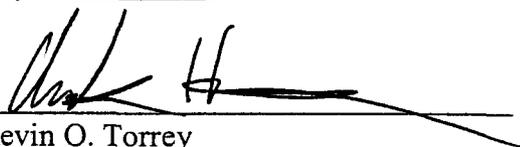
IN THE MATTER OF THE APPLICATION OF
ICR WATER USERS ASSOCIATION, INC.
FOR A PERMANENT RATE INCREASE.

DOCKET NO. W-02824A-07-0388

NOTICE OF FILING

Staff hereby provides notice of filing the attached revised rate design schedules CRM-13. The corrected schedules reflect a correction to the Staff proposed tier breakpoints for the 1 inch meter and change the commodity rates to carry the numbers out to typical three decimal places rather than the initial two decimal places in the original schedule. None of the changes have any effect on the numbers provided in the testimony filed on November 30, 2007.

RESPECTFULLY SUBMITTED this 5th day of December, 2007.

For 
Kevin O. Torrey
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and thirteen (13) copies
of the foregoing were filed this
5th day of December, 2007 with:

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

EXHIBIT
S-3
ADMITTED

1 Copy of the foregoing mailed this
2 5th day of December, 2007 to:

3 Robert M. Busch
4 ICR Water Users Association, Inc.
5 P.O. Box 5669
6 Chino Valley, Arizona 86323

7 Robert J. Metli
8 Marcie A. Shuman
9 Snell & Wilmer, L.L.P.
10 One Arizona Center
11 400 East Van Buren Street
12 Phoenix, Arizona 85004-2202
13 Attorney for ICR Water Users Assiation, Inc.

14 

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RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8 x 3/4" Meter	\$ 20.00	\$ 25.50	\$ 26.20
3/4" Meter	20.00	38.25	39.30
1" Meter	50.00	63.75	65.50
1½" Meter	100.00	127.50	131.00
2" Meter	160.00	204.00	209.60
3" Meter	300.00	382.50	419.20
4" Meter	500.00	637.50	655.00
6" Meter	1,000.00	1,275.00	1,310.00
Gallons included in Minimum	1,000	0	0
Commodity Rates			
All meter sizes			
Per 1,000 gallons in excess of gallons in monthly minimum	\$ 2.80	n/a	n/a
5/8 x3/4 Inch Meter			
Tier 1 zero gallon to 4,000 gallons	n/a	3.19	n/a
Tier 2 4,001 gallons to 10,000 gallons	n/a	3.83	n/a
Tier 3 All gallons over 10,000 gallons	n/a	4.47	n/a
Tier 1 zero gallon to 4,000 gallons	n/a	n/a	2.645
Tier 2 4,001 gallons to 9,000 gallons	n/a	n/a	3.960
Tier 3 All gallons over 9,000 gallons	n/a	n/a	4.741
3/4 Inch Meter			
Tier 1 zero gallon to 4,000 gallons	n/a	\$ 3.19	n/a
Tier 2 4,001 gallons to 10,000 gallons	n/a	\$ 3.83	n/a
Tier 3 All gallons over 10,000 gallons	n/a	\$ 4.47	n/a
Tier 1 zero gallon to 4,000 gallons	n/a	n/a	2.645
Tier 2 4,001 gallons to 9,000 gallons	n/a	n/a	3.960
Tier 3 All gallons over 9,000 gallons	n/a	n/a	4.741
1 Inch Meter			
Tier 1 Up to 25,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 25,000 gallons	n/a	4.47	n/a
Tier 1 Up to 22,500 gallons	n/a	n/a	3.960
Tier 2 Over 22,500 gallons	n/a	n/a	4.741
1.5 Inch Meter			
Tier 1 Up to 50,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 50,000 gallons	n/a	\$ 4.47	n/a
Tier 1 Up to 50,000 gallons	n/a	n/a	3.960
Tier 2 Over 50,000 gallons	n/a	n/a	4.741
2 Inch Meter			
Tier 1 Up to 80,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 80,000 gallons	n/a	\$ 4.47	n/a
Tier 1 Up to 80,000 gallons	n/a	n/a	3.960
Tier 2 Over 80,000 gallons	n/a	n/a	4.741
3 Inch Meter			
Tier 1 Up to 160,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 160,000 gallons	n/a		n/a
Tier 1 Up to 150,000 gallons	n/a	n/a	3.960
Tier 2 Over 150,000 gallons	n/a	n/a	4.741

4 Inch Meter			
Tier 1 Up to 250,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 250,000 gallons	n/a		n/a
Tier 1 Up to 250,000 gallons	n/a	n/a	396.0
Tier 2 Over 250,000 gallons	n/a	n/a	474.1
6 Inch Meter			
Tier 1 Up to 500,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 500,000 gallons	n/a		n/a
Tier 1 Up to 500,000 gallons	n/a	n/a	3.960
Tier 2 Over 500,000 gallons	n/a	n/a	4.741
Construction/Bulk, per 1,000 gallons - all gallons.	n/a	3.83	4.741

Service Line and Meter Installation Charges	Present	COMPANY PROPOSED			STAFF RECOMMENDED		
		Service Line Charge	Meter Installation	Total Proposed	Service Line Charge	Meter Installation	Total Recommended
5/8" x 3/4" Meter	\$ 250.00	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
3/4" Meter	\$ 250.00	\$ 385.00	\$ 215.00	\$ 600.00	\$ 385.00	\$ 215.00	\$ 600.00
1" Meter	\$ 300.00	\$ 435.00	\$ 255.00	\$ 690.00	\$ 435.00	\$ 255.00	\$ 690.00
1 1/2" Meter	\$ 450.00	\$ 470.00	\$ 465.00	\$ 935.00	\$ 470.00	\$ 465.00	\$ 935.00
2" Turbine Meter	\$ 625.00	\$ 630.00	\$ 965.00	\$ 1,595.00	\$ 630.00	\$ 965.00	\$ 1,595.00
2" Compound Meter	\$ 625.00	\$ 630.00	\$ 1,690.00	\$ 2,320.00	\$ 630.00	\$ 1,690.00	\$ 2,320.00
3" Turbine Meter	\$ 825.00	\$ 805.00	\$ 1,470.00	\$ 2,275.00	\$ 805.00	\$ 1,470.00	\$ 2,275.00
3" Compound Meter	\$ 825.00	\$ 845.00	\$ 2,265.00	\$ 3,110.00	\$ 845.00	\$ 2,265.00	\$ 3,110.00
4" Turbine Meter	\$ 1,450.00	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00
4" Compound Meter	\$ 1,450.00	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00
6" Turbine Meter	\$ 3,100.00	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00
6" Compound Meter	\$ 3,100.00	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00
8 inch	n/a	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10 inch	n/a	At cost	At cost	At cost	At cost	At cost	At cost
12 inch	n/a	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Service Charges	Present	Company Proposed	Staff Recommended
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	50.00	50.00	50.00
Reconnection (Delinquent)	20.00	20.00	20.00
Reconnection (After Hours)	n/a	40.00	40.00
Meter Test (Calibration or leak deception)	20.00	20.00	20.00
Deposit Requirement(Residential/ Commercial) (1)	per rule	per rule	*
Deposit Interest (2)	per rule	per rule	6.00%
Re-Establishment (Within 12 Months) (3)	per rule	per rule	**
NSF Check	15.00	15.00	15.00
Deferred Payment Per Month 1.5 %	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	10.00	10.00
Late Charge per Month	(a)	(a)	***

Monthly Service Charge for Fire Sprinkler			
4 inch or Smaller	n/a	n/a	****
6 inch	n/a	n/a	****
8 inch	n/a	n/a	****
10 inch	n/a	n/a	****
Larger than 10 inch	n/a	n/a	****

Company Proposed

- 1 Per Rule Deposit (R-14-2-403.B)
- 2 Per Rule Deposit Interest (R-14-2-403.B.3)
- 3 Per Rule Reestablishment (14-2-403.D.1)

(a) \$5.00 minimum or 1.5% of unpaid balance whichever is greater.

Staff Recommended

- * Per rule R14-2-403.B
- ** Months off system time the minimum (R-14-2-403.D)
- *** 1.5 percent of the unpaid balance per month.
- **** 100 percent of monthly minimum for a comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF)
ICR WATER USERS ASSOCIATION, AN)
ARIZONA CORPORATION, FOR)
DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
RATES AND CHARGES FOR UTILITY)
SERVICES)
_____)

DOCKET NO. W-02824A-07-0388

SURREBUTTAL

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

DECEMBER 21, 2007

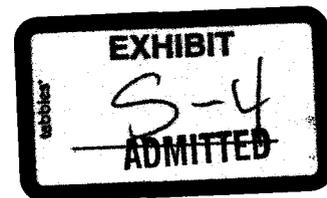


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Water Use Data.....	2

**EXECUTIVE SUMMARY
ICR WATER USERS ASSOCIATION
DOCKET NO. W-02824A-07-0388**

**1. ARIZONA DEPARTMENT OF ENVIRONMENTAL QUALITY ("ADEQ")
COMPLIANCE**

The Company's rebuttal testimony proposes a modification to Staff's recommendation. The Company proposes that it should file, as a compliance item, within one year of the decision date in this matter, documentation from ADEQ demonstrating that the Company is in compliance with ADEQ.

Staff continues to recommend that any increase in rates and charges approved in this proceeding shall not become effective until Staff receives notice that the ICR water systems are in total compliance with ADEQ regulations.

2. WATER USE DATA

Staff agrees that the Company's proposed information, which is consistent with Staff's original direct testimony, will satisfy the requirements. However, ICR should separate Inscription Canyon Ranch water system (PWS13-303) Water Use Data from Talking Rock Ranch water system (PWS13-263) Water Use Data.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Jian W. Liu. My job title is Water/Wastewater Engineer. My place of
4 employment is the Arizona Corporation Commission ("Commission"), Utilities Division,
5 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Jian W. Liu who filed Direct Testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your Surrebuttal Testimony in this proceeding?**

11 A. The purpose of my Surrebuttal Testimony in this proceeding is to respond, on behalf of
12 Staff, to the Rebuttal Testimony of ICR Water Users Association ("ICR" or "Company")
13 witness, Mr. Robert M. Busch regarding Arizona Department of Environmental Quality
14 ("ADEQ") compliance.

15
16 **Q. Did you attempt to address every issue the Company raised in its Rebuttal
17 Testimony?**

18 A. No. Staff limited its discussion to the specific issue as outlined below. Staff's lack of
19 response to any issue in this proceeding should not be construed as agreement with the
20 Company's position in its Rebuttal Testimony; rather where there is no response Staff
21 relies on its original direct testimony.

1 **RESPONSE TO MR. ROBERT M. BUSCH'S REBUTTAL TESTIMONY**

2 **Arizona Department of Environmental Quality ("ADEQ") Compliance:**

3 **Q. Does Staff agree with the Company proposed a modification to Staff's**
4 **recommendation?**

5 A. No, the Company indicated that it took ADEQ six months to update the Company's
6 Maximum Residual Disinfection Levels ("MRDLs") compliance status even though the
7 Company submitted its MRDLs reports on two different occasions.

8
9 While there may have been instances where it has taken six months or longer for ADEQ to
10 update a Company's compliance status it should be updated within weeks, not months
11 under normal circumstances. If a company has a concern or is in need of expedited
12 treatment, as would be the case for ICR if Staff recommendation is adopted, the company
13 can request that ADEQ provide expedited processing. It has been Staff's experience that
14 ADEQ will work to ensure that expedited treatment is provided.

15
16 It is important that ADEQ can confirm ICR's water systems are currently delivering water
17 that meets the water quality standards required by the Arizona Administrative Code, Title
18 18, Chapter 4. Therefore, Staff's original recommendation is reasonable and appropriate.

19
20 **Water Use Data**

21 **Q. Does Staff agree that the Company's proposed water use data information, which is**
22 **consistent with Staff's original Direct Testimony, will satisfy Staff's requirements?**

23 A. Yes, however, ICR should separate Inscription Canyon Ranch water system (PWS13-303)
24 Water Use Data from Talking Rock Ranch water system (PWS13-263) Water Use Data.

1 Q. Does this conclude your surrebuttal testimony?

2 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF)
ICR WATER USERS ASSOCIATION, AN)
ARIZONA CORPORATION, FOR)
DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
RATES AND CHARGES FOR UTILITY)
SERVICES)
_____)

DOCKET NO. W-02824A-07-0388

SURREBUTTAL
TESTIMONY
OF
CHARLES R. MYHLHOUSEN
PUBLIC UTILITIES ANALYST III
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

DECEMBER 21, 2007



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**EXECUTIVE SUMMARY
ICR WATER USERS ASSOCIATION
DOCKET NO. W-02824A-07-0388**

Rate Design

The Company's rebuttal testimony is in agreement with Staff's monthly minimums for each meter size. The Company's rebuttal testimony proposes three-tier break over points for 5/8 and 3/4 inch meters and two-tiers for all other meter sizes. The Company proposes different commodity rates than Staff's recommended commodity rates.

Staff's continues to recommend its tiers levels and commodity rates as per its direct testimony.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Charles R. Myhlhousen. I am a Public Utilities Analyst III employed by the
4 Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division
5 ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6
7 **Q. Are you the same Charles R. Myhlhousen who filed direct testimony in this case?**

8 A. Yes, I am.

9
10 **Q. What is the purpose of your surrebuttal testimony in this proceeding?**

11 A. The purpose of my surrebuttal testimony in this proceeding is to respond, on behalf of
12 Staff, to the rebuttal testimony of ICR Water Users Association ("ICR" or "Company")
13 witness, Mr. Thomas J. Bourassa regarding rate design.

14
15 **Q. Did you attempt to address every issue the Company raised in its rebuttal testimony?**

16 A. No. Staff limited its discussion to the specific issue as outlined below. Staff's lack of
17 response to any issue in this proceeding should not be construed as agreement with the
18 Company's position in its rebuttal testimony; rather where there is no response Staff relies
19 on its original direct testimony.

20
21 **Q. What issues will you address?**

22 A. Staff will address the rate design issue outlined below that is discussed in the rebuttal
23 testimony of the Company's witness, Mr. Bourassa.

1 Q. Please explain how Staff's surrebuttal testimony is organized.

2 A. Staff's surrebuttal testimony is generally organized to present the issue in the same
3 sequence as presented in Mr. Bourassa's rebuttal testimony.
4

5 **RESPONSE TO MR. THOMAS J. BOURASSA'S REBUTTAL TESTIMONY**

6 **Rate Design:**

7 Q. Does Staff agree with the Company proposed rate design?

8 A. No, while Staff's first tier rate is lower than the Company's present rate, the customer
9 monthly bill will increase because of a higher monthly minimum charge and the other tier
10 rates. No matter what usage level there is an increase in rate so that the message sent is
11 one of conservation. Staff's more volatile tier rates emphasize that higher usage causes
12 higher bills. Staff continues to recommend its rates as appropriate.
13

14 Q. Does this conclude your surrebuttal testimony?

15 A. Yes, it does.

**DIRECT
TESTIMONY**

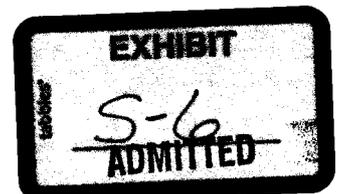
OF

CHARLES R. MYHLHOUSEN

DOCKET NO. W-02824A-07-0388

**IN THE MATTER OF THE APPLICATION OF
ICR WATER USERS ASSOCIATION FOR
DETERMINATION OF THE CURRENT FAIR
VALUE OF ITS UTILITY PLANT AND PROPERTY
AND FOR INCREASES IN ITS RATES AND
CHARGES FOR UTILITY SERVICES**

NOVEMBER 14, 2008



BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF)
ICR WATER USERS ASSOCIATION, FOR)
DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
RATES AND CHARGES FOR UTILITY)
SERVICES)
_____)

DOCKET NO. W-02824A-07-0388

DIRECT
TESTIMONY
OF
CHARLES R. MYHLHOUSEN
PUBLIC UTILITIES ANALYST III
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

NOVEMBER 14, 2008

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EXECUTIVE SUMMARY
ICR WATER USERS ASSOCIATION
DOCKET NO. W-02824A-07-0388

ICR Water Users Association ("ICR" or "Company") is an Arizona non-profit member-owned domestic water provider in Yavapai County. The Company is located approximately 12 miles northwest of Prescott, Arizona and serves a portion of Yavapai County. ICR is an Arizona non-profit corporation, and the members/customers elect a board of directors who manage and operate the Company through its by-laws. The Company served approximately 364 customers during the test year ended December 31, 2006. The Company's current rates were approved in Decision No. 64008, dated August 30, 2002. This is the first rate application filed by the Company since the approval of the original certificate of convenience and necessity.

The Company's supplemental testimony docketed October 15, 2008, proposes rates that would produce operating revenue of \$445,855 resulting in operating income of \$49,044 for an 11.00 percent operating margin. The Company's supplemental testimony proposal would increase annual operating revenue by \$53,905 or 13.75 percent over adjusted test year revenues of \$391,950. Under the Company's proposed rate, the typical residential 5/8 inch meter customers consuming the median of 4,500 gallons per month would experience a \$4.05 or 13.57 percent increase in their monthly bill from \$29.80 to \$33.85.

Staff concurs with the Company's supplemental testimony regarding total operating revenue of \$445,855 resulting in operating income of \$49,044 for an 11.00 percent operating margin. Staff's supplemental testimony recommended rate design would increase the typical residential 5/8 inch meter customer consuming the median of 4,500 gallons per month, by \$3.40 or 11.41 percent in their monthly bill from \$29.80 to \$33.20.

Staff recommends approval of its rates and charges as shown on Schedule CRM-13.

Staff further recommends a provision be included in the Company's tariff to allow for the flow-through of all appropriate state and local taxes as provided for in A.A.C. Rule 14-2-409(D)(5).

Staff further recommends that the land for the three wells be transferred and deeded to ICR.

Staff further recommends that the Commission deny approval of the Water Service Agreement.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Charles R. Myhlousen. I am a Public Utilities Analyst III employed by the
4 Arizona Corporation Commission ("ACC" or "Commission") in the Utilities Division
5 ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.
6

7 **Q. Are you the same Charles R. Myhlousen who filed direct testimony in this case?**

8 A. Yes, I am.
9

10 **Q. What is the purpose of your supplemental testimony in this proceeding?**

11 A. The purpose of my supplemental testimony in this proceeding is to respond, on behalf of
12 Staff, to the Company's additional information submitted October 15, 2008.
13

14 **Q. What issues will you address?**

15 A. Staff will address rate base, operating income, revenue requirement, basis for operating
16 income determination, Mr. Robert Busch's supplemental testimony, the water service
17 agreement, and rate design.
18

19 **Q. Please explain how Staff's supplemental testimony is organized.**

20 A. Staff's supplemental testimony is generally organized to present the issues in the same
21 sequence as stated above.
22

23 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

24 **Q. Please summarize the Company's filing.**

25 A. The Company's supplemental testimony proposes rates that would produce operating
26 revenue of \$445,855 resulting in operating income of \$49,044 for an 11.00 percent

1 operating margin. The Company's supplemental testimony proposal would increase
2 annual operating revenues by \$53,905 or 13.75 percent over adjusted test year revenues of
3 \$391,950.

4
5 **Q. Please summarize Staff's recommendations.**

6 A. Staff concurs with the Company's supplemental testimony proposed total operating
7 revenue of \$445,855 and operating income of \$49,044 for an 11.00 percent operating
8 margin.

9
10 **RATE BASE**

11 **Q. Please review the rate base recommendations addressed in this testimony.**

12 A. The Company has adopted Staff's recommended rate base adjustments as filed in Staff's
13 direct testimony Schedules CRM -3 and CRM-4.

14
15 **OPERATING INCOME**

16 **Q. How did the Company derive the proposed revenue increase in its supplemental**
17 **testimony?**

18 A. The Company started with its rebuttal adjusted test year revenues of \$268,047 and
19 expenses of \$303,105. The Company proposed proforma adjustments to other water
20 revenue for a decrease of \$51,123 and an increase of \$175,026, for a net increase of
21 \$123,903; an increase in purchased power expense of \$79,492; an increase in regulatory
22 Commission rate expense of \$10,000 and an increase in property taxes of \$4,214. The
23 adjusted test year revenue is \$391,950 and expenses of \$396,811 result in an operating
24 loss of \$4,861. The proposed revenue increase is \$53,905 or 13.75 percent over adjusted
25 test year revenues of \$391,950 for proposed revenue of \$445,855. This will provide an
26 operating margin of 11.00 percent.

1 Q. What are the results of Staff's analysis of test year revenues, expenses and operating
2 income/loss?

3 A. Staff concurs with the Company's supplemental analysis that reflects adjusted test year
4 revenues of \$391,950, expenses of \$396,811 and an operating loss of \$4,861 as shown on
5 the Company's Supplemental Exhibit 1, Schedule C-1.
6

7 Q. Please review the Company's adjustments to operating revenues, expenses and
8 Staff's recommendations.

9 A. Proforma adjustment Revenue Annualization – is from the Company's rebuttal testimony
10 Exhibit Rebuttal Schedule C-2 page 2. The Company decreased the revenue annualization
11 by \$219. Staff concurs with this adjustment.
12

13 Proforma adjustment Other Water Revenue – The Company's supplemental proforma
14 adjustments number 1 and 4 decrease other water revenue of \$53,403, by \$51,123 to
15 remove expense reimbursement the Company will no longer receive. Also Other Water
16 Revenue is increased by \$175,026. The \$175,026 consists of two parts. The first part is a
17 commodity charge of \$1.00 per 1,000 gallons of water sold to the Talking Rock Golf Club
18 ("TRGC") of 125,076 millions gallons in 2006. The second part is a reservation charge of
19 \$50,000 paid by TRGC. The adjusted test year revenues are \$391,950. The Company's
20 proposed rates will increase revenue in the amount of \$53,905, from \$391,950 to
21 \$445,855. See Company's Supplemental Exhibit 1, Schedule C-1 page 1 and the
22 Company's supplemental testimony pages 4 and 5. Staff concurs with the Company.
23

24 Proforma adjustment Purchased Power – The Company's supplemental proforma
25 adjustment number 2 increases purchased power by \$79,492 from \$16,239 to \$95,731.
26 TRGC will no longer pay the cost of electric power used by the Company. See the

1 Company's supplemental Exhibit 1, Schedule C-1 and supplemental exhibit 1, Schedule
2 C-2, page 2. Also see the Company's supplemental testimony, page 6 adjustment number
3 2. Staff concurs with the Company.
4

5 Proforma adjustment Regulatory Commission Expense – The Company's supplemental
6 proforma adjustment number 5 increases regulatory Commission expense by \$110,000,
7 from \$60,000 to \$150,000. The Company proposes to amortize the \$150,000 over five
8 years which would increase the expense in the test year by \$10,000, from \$20,000 to
9 \$30,000. This increase is necessary because of the additional issues raised in the rate case.
10 See the Company's supplemental exhibit 1, Schedule C-1 page 1 and supplemental exhibit
11 1, Schedule C-2 page 5. Also see the Company's supplemental testimony pages 6 and 7.
12

13 Staff's concurs with the Company's increase because of the issues that have been raised in
14 this rate case, however the expense is not a capital expenditure and should not be
15 amortized. Expenses are normalized. Staff recommends that this expense be normalized.
16

17 Proforma adjustment Property Taxes – The Company's supplemental proforma adjustment
18 number 3 increases property taxes by \$4,214 from \$11,160 to \$15,374. This increase is
19 necessary because of the Company's proposed increase in revenue. See the Company's
20 supplemental exhibit 1, Schedule C-1, page 1 and supplemental exhibit 2, Schedule C-2,
21 page 3. Staff concurs with the Company.
22

23 The Company has included in its adjusted test year revenue and expenses Staff's direct
24 testimony recommended adjustments to revenue and expenses, so Staff made no other
25 adjustments in this testimony. See Staff direct testimony Schedules CRM-1 through
26 CRM-5.

1 **REVENUE REQUIREMENT**

2 **Q. Would you please summarize the Company's proposed revenue requirement?**

3 A. The Company's supplemental filing proposes annual revenues of \$445,855, an increase of
4 \$53,905 or 13.75 percent over adjusted test year revenues of \$391,950. See Company's
5 supplemental exhibit 1, Schedule C-1, page 1. Staff concurs with the Company.

6
7 **BASIS FOR OPERATING INCOME DETERMINATION**

8 **Q. Why does Staff not recommend a rate of return?**

9 A. This is a non-profit corporation. A rate of return is based on rate base and would allow the
10 Company a return on its investment. The Commission generally uses operating margin to
11 determine revenue requirement for non-profit corporations.

12
13 **Q. What is the appropriate method to determine the Company's operating income and
14 revenue requirement?**

15 A. Operating income should be calculated by applying the recommended operating margin.
16 Operating margin equals operating income divided by revenue, expressed as a percentage.
17 The percentage represents the amount of each dollar of revenue that results in operating
18 income.

19
20 **Q. What is the appropriate operating margin for ICR?**

21 A. The appropriate operating margin is 11.00 percent. This will produce sufficient revenue to
22 cover operating expenses and an operating income of \$49,044.

23
24 **Q. Who provided TRGC water for the golf course and lake in the test year 2006?**

25 A. The golf course is not owned or operated by ICR. The golf course receives water from
26 two sources. Effluent water is received from the IRC Sanitary District in the amount of

1 9,920,819 gallons for year 2006. TRGC used 125,026,000 gallons of ground water in year
2 2006 for which no tariff rate was paid.

3

4 **ROBERT BUSCH TESTIMONY**

5 **Q. Did Staff review Robert Busch's supplemental testimony?**

6 A. Yes, Staff did.

7

8 **Q. Does Staff agree with Robert Busch's supplemental testimony?**

9 A. No, Staff does not agree.

10

11 **Q. Please explain why Staff is not in agreement with Robert Busch's supplemental**
12 **testimony?**

13 A. Mr. Busch proposes that the Commission accept the water service agreement ("WSA") as
14 it is written. The agreement leaves the Talking Rock Parties ("TRP") in control of ICR
15 water delivery to TRGC and what ICR can and cannot do in respect to TRGC and TRP.

16

17 **WATER SERVICE AGREEMENT**

18 **Q. Did Staff review the WSA?**

19 A. Yes, Staff did.

20

21 **Q. Does Staff agree with the WSA?**

22 A. No, Staff does not agree.

1 **Q. Please explain why Staff is not in agreement with the WSA.**

2 A. The WSA takes the Commission out of regulating the Company as to conditions of service
3 for TRGC and the charge for the water sold to TRGC. This would not be in the public
4 interest.

5
6 The WSA would also only transfer the third well to ICR if the Commission approved the
7 WSA. The WSA would only transfer wells but not the land on which they are located.
8 ICR would only receive perpetual right to enter the well field property and the TRP would
9 retain ownership of the real property upon which the Talking Rock Wells are located ("the
10 Well Field Property").

11
12 The WSA states the amount that TRP shall pay for the water delivered by ICR which
13 under the WSA would consist of a system reservation charge which would terminate after
14 ten (10) years and a commodity charge, which would be subject to annual adjustment
15 based on the consumers' price index ("CPI").

16
17 Staff believes the third well should be transferred to the Company since the golf club
18 receives the majority of water pumped by all three wells. The WSA states ICR would
19 only have perpetual right to enter the well field property and not own the land. Staff
20 believes that the land associated with the three wells should be transferred and deeded to
21 ICR.

22
23 The WSA states that within thirty (30) days of the approval of the WSA by the
24 Commission, the TRP shall convey to ICR and ICR shall accept from the TRP all utility
25 infrastructure constructed to serve TRGC which has not been transferred. Staff believes

1 that this transfer should not be based on the approval of the WSA but be transferred within
2 thirty (30) days after a Decision is issued in this matter.

3
4 Staff does not agree with the provisions of the WSA. Staff recommends that the WSA be
5 denied by the Commission.
6

7 **RATE DESIGN**

8 **Q Have you prepared a schedule summarizing the present, Company proposed, and**
9 **Staff recommended rates and service charges?**

10 A. Yes. A summary of the present rates, Company proposed, and Staff recommended rates
11 and service charges are provided on supplemental Schedule CRM-13.
12

13 **Q. Would you please summarize the current rate design?**

14 A. The present monthly minimum charges by meter sizes are as follows: 5/8 x 3/4 inch
15 \$20.00, 3/4 inch, \$20.00 1 inch \$50.00, 1 1/2 inch \$100.00, 2 inch \$160.00, 3 inch
16 \$300.00, 4 inch \$500.00, 6 inch \$1,000.00. The monthly minimum charge for each meter
17 size includes 1,000 gallons. The present commodity rate has one tier. The tier is \$2.80
18 per 1,000 gallons which also includes construction or bulk gallons.
19

20 **Q. Would you please summarize the Company's proposed rate design?**

21 A. The Company's proposed monthly minimum charges by meter size are as follows: 5/8 x
22 3/4 inch \$21.50, 3/4 inch \$38.75, 1 inch \$53.75; 1 1/2 inch \$127.50, 2 inch \$172.00, 3
23 inch \$209.60, 4 inch \$637.50, 6 inch \$1,275.00. No gallons are included in the minimum
24 charge. The Company proposes an inverted three-tier commodity rate, for the 5/8 x 3/4
25 inch and 3/4 inch meter sizes with break over points for both meter sizes being for tier one
26 at 4,000 gallons, tier two at 9,000 gallons and tier three all gallons over 9,000 gallons. All

1 other meter sizes would have two tiers with different break over points. The first, second
2 and third tier rates for the 5/8 x3/4 inch and 3/4 inch meters are \$2.66, \$3.41 and \$4.41 per
3 thousand gallons, respectively.

4
5 The construction, bulk and standpipe proposed commodity rate has been increased to
6 \$4.41 per thousand gallons so that they would be charged the second tier commodity
7 charge which is proposed for large users. There would be no minimum monthly charge.

8
9 The Company proposes a special turf rate for TRGC of \$1.00 per 1,000 gallons with no
10 monthly minimum charge. The commodity charge would be subject to increase each year
11 by the Company based on the government CPI.

12
13 **Q. Would you please summarize Staff's recommended rate design?**

14 **A.** Staff recommends monthly minimum charges by meter size as follows: 5/8 x3/4 inch
15 \$20.00, 3/4 inch \$20.00, 1 inch \$50.00; 1 1/2 inch \$100.00, 2 inch \$160.00, 3 inch
16 \$300.00, 4 inch \$500.00, 6 inch \$1,000.00. No gallons are included in the monthly
17 minimum charge. Staff recommends an inverted tier rate design that consists of three-tiers
18 for the 5/8 x 3/4 inch meter and the 3/4 inch meter with break over points for both meter
19 sizes being at 4,000 gallons for tier one, at 9,000 gallons for tier two and all gallons over
20 9,000 gallons for tier three. All other meter sizes would have two tiers with different
21 break over points. The first, second and third tier rates are \$2.80, \$4.00 and \$5.00 per
22 thousand gallons, respectively. Efficiency in water use is encouraged by producing a
23 higher customer bill with increased consumption or use of a larger meter. The
24 construction, bulk and standpipe commodity rate has been increased to \$5.00 per thousand
25 gallons so that customers would be charged the second tier commodity charge which is
26 recommended for large users. There would be no minimum monthly charge for this class.

1 See schedule CRM-13. A typical bill analysis is provided for the average and median use
2 under Company's present, Company proposed, and Staff recommended rates as presented
3 on Schedule CRM-14.

4
5 Staff is recommending a special commodity rate for the TRGC turf rate which includes
6 the monthly minimum charge, commodity rate, and the reservation charge at \$1.40 per
7 1,000 gallons. Staff recommends this rate because the golf course is an extremely large
8 user of water and it is replacing the reimbursement for expenses that the golf course has
9 been paying and will no longer pay.

10
11 Staff's recommendation would allow the Commission to set the tariff rate rather than the
12 Company proposal that would increase the commodity tariff rate yearly based on the
13 government consumer's price index and be set by the Company without the Commission's
14 approval.

15
16 **Q. What is the rate impact on a typical 5/8 x 3/4 inch meter residential customer?**

17 **A.** The median usage of residential 5/8 x 3/4 inch meter customers is 4,500 gallons per
18 month. With the Company's proposal, the median residential customers using 4,500
19 gallons per month would experience a \$4.05 or 13.57 percent increase in their monthly bill
20 from \$29.80 to \$33.85. With Staff's recommendation a median residential customer
21 would experience a \$3.40 or 11.41 percent increase in his/her monthly bill from \$29.80 to
22 \$33.20.

23
24 The Company is proposing a minimum monthly charge of \$21.50. Staff is recommending
25 a minimum monthly charge of \$20.00. See Schedule CRM-14.

26

1 **Q. Did Staff review the Company's proposed Meter and Service Line Charges and other**
2 **service charges?**

3 A. Yes. Staff concurs with the Company except for its proposed late fee charge of \$5.00
4 minimum or 1.5 percent of unpaid balance whichever is greater. Staff is recommending
5 1.5 percent of the unpaid balance per month which has been approved by the Commission
6 in prior rate case decisions. See Schedule CRM-13.

7

8 **Q. Did the Company propose a service charge fire for sprinklers?**

9 A. No.

10

11 **Q. Did Staff recommend a service charge for fire sprinklers?**

12 A. Yes. See Schedule CRM-13.

13

14 **RECOMMENDATIONS**

15 **Q. What is Staff recommending?**

16 A. Staff recommends approval of its rates and charges as shown on Schedule CRM-13.

17

18 Staff further recommends a provision be included in the Company's tariff to allow for the
19 flow-through of all appropriate state and local taxes as provided for in A.A.C. Rule 14-2-
20 409(D)(5).

21

22 Staff further recommends that the land for the three wells be transferred and deeded to
23 ICR.

24

25 Staff further recommends that the Water Service Agreement to not be approved by the
26 Commission.

1 **Q. Does this conclude your supplemental testimony?**

2 **A. Yes, it does.**

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,085	\$ 37.04	\$ 42.66	\$ 5.62	15.18%
Median Usage	4,500	\$ 29.80	\$ 33.85	\$ 4.05	13.57%
Staff Recommended					
Average Usage	7,085	\$ 37.04	\$ 43.54	\$ 6.50	17.55%
Median Usage	4,500	\$ 29.80	\$ 33.20	\$ 3.40	11.41%

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 20.00	\$ 25.50	27.50%	\$ 26.20	31.00%
1,000	22.80	29.33	28.63%	28.85	26.51%
2,000	25.60	33.16	29.52%	31.49	23.01%
3,000	28.40	36.99	30.24%	34.14	20.19%
4,000	31.20	40.82	30.83%	36.78	17.88%
5,000	34.00	44.65	31.32%	40.74	19.82%
6,000	36.80	48.48	31.73%	44.70	21.47%
7,000	39.60	52.31	32.09%	48.66	22.88%
8,000	42.40	56.14	32.40%	52.62	24.10%
9,000	45.20	59.97	32.67%	56.58	25.18%
7,085	39.84	52.63	32.12%	49.00	22.99%
10,000	48.00	63.80	32.91%	61.32	27.75%
11,000	50.80	67.63	33.12%	66.06	30.04%
12,000	53.60	71.46	33.32%	70.80	32.10%
13,000	56.40	75.29	33.49%	75.54	33.94%
14,000	59.20	79.12	33.64%	80.29	35.62%
15,000	62.00	82.95	33.79%	85.03	37.14%
16,000	64.80	86.78	33.92%	89.77	38.53%
17,000	67.60	90.61	34.03%	94.51	39.80%
18,000	70.40	94.44	34.14%	99.25	40.98%
19,000	73.20	98.27	34.25%	103.99	42.06%
20,000	76.00	102.10	34.34%	108.73	43.07%
25,000	90.00	121.25	34.72%	132.44	47.15%
30,000	104.00	140.40	35.00%	156.14	50.14%
35,000	118.00	159.55	35.21%	179.85	52.41%
40,000	132.00	178.70	35.38%	203.55	54.21%
45,000	146.00	197.85	35.51%	227.26	55.65%
50,000	160.00	217.00	35.62%	250.96	56.85%
75,000	230.00	312.75	35.98%	369.49	60.65%
100,000	300.00	408.50	36.17%	488.01	62.67%

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8 x 3/4" Meter	\$ 20.00	\$ 21.50	\$ 20.00
3/4" Meter	20.00	38.75	20.00
1" Meter	50.00	53.75	50.00
1 1/2" Meter	100.00	127.50	100.00
2" Meter	160.00	172.00	160.00
3" Meter	300.00	209.60	300.00
4" Meter	500.00	637.50	500.00
6" Meter	1,000.00	1,275.00	1,000.00
Gallons included in Minimum	1,000	0	0
Commodity Rates			
All meter sizes			
Per 1,000 gallons in excess of gallons in monthly minimum	\$ 2.80	n/a	n/a
5/8 x 3/4 Inch Meter			
Tier 1 zero gallon to 4,000 gallons	n/a	2.66	2.80
Tier 2 4,001 gallons to 9,000 gallons	n/a	3.41	4.00
Tier 3 All gallons over 9,000 gallons	n/a	4.41	5.00
3/4 Inch Meter			
Tier 1 zero gallon to 4,000 gallons	n/a	\$ 2.66	2.80
Tier 2 4,001 gallons to 9,000 gallons	n/a	\$ 3.41	4.00
Tier 3 All gallons over 9,000 gallons	n/a	\$ 4.41	5.00
1 Inch Meter			
Tier 1 Up to 22,500 gallons	n/a	\$ 3.41	4.00
Tier 2 Over 22,500 gallons	n/a	4.41	5.00
1.5 Inch Meter			
Tier 1 Up to 45,000 gallons	n/a	\$ 3.41	4.00
Tier 2 Over 45,000 gallons	n/a	\$ 4.41	5.00
2 Inch Meter			
Tier 1 Up to 22,500 gallons	n/a	\$ 3.41	4.00
Tier 2 Over 22,500 gallons	n/a	\$ 4.41	5.00
3 Inch Meter			
Tier 1 Up to 144,000 gallons	n/a	\$ 3.41	4.00
Tier 2 Over 144,000 gallons	n/a	4.41	5.00

4 Inch Meter			
Tier 1 Up to 225,000 gallons	n/a	\$ 3.41	4.00
Tier 2 Over 225,000 gallons	n/a	4.41	5.00
6 Inch Meter			
Tier 1 Up to 450,000 gallons	n/a	\$ 3.41	4.00
Tier 2 Over 450,000 gallons	n/a	4.41	5.00
Golf Course per 1,000 gallons	n/a	1.00	1.40
Standpipe/Construction/Bulk, per 1,000 gallons - all gallons.	\$2.80	\$ 4.41	5.00

Service Line and Meter Installation Charges	Present	COMPANY PROPOSED			STAFF RECOMMENDED		
		Service Line Charge	Meter Installation	Total Proposed	Service Line Charge	Meter Installation	Total Recommended
5/8" x 3/4" Meter	\$ 250.00	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
3/4" Meter	\$ 250.00	\$ 385.00	\$ 215.00	\$ 600.00	\$ 385.00	\$ 215.00	\$ 600.00
1" Meter	\$ 300.00	\$ 435.00	\$ 255.00	\$ 690.00	\$ 435.00	\$ 255.00	\$ 690.00
1 1/2" Meter	\$ 450.00	\$ 470.00	\$ 485.00	\$ 935.00	\$ 470.00	\$ 465.00	\$ 935.00
2" Turbine Meter	\$ 625.00	\$ 630.00	\$ 985.00	\$ 1,595.00	\$ 630.00	\$ 985.00	\$ 1,595.00
2" Compound Meter	\$ 625.00	\$ 630.00	\$ 1,690.00	\$ 2,320.00	\$ 630.00	\$ 1,690.00	\$ 2,320.00
3" Turbine Meter	\$ 825.00	\$ 805.00	\$ 1,470.00	\$ 2,275.00	\$ 805.00	\$ 1,470.00	\$ 2,275.00
3" Compound Meter	\$ 825.00	\$ 845.00	\$ 2,265.00	\$ 3,110.00	\$ 845.00	\$ 2,265.00	\$ 3,110.00
4" Turbine Meter	\$ 1,450.00	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00
4" Compound Meter	\$ 1,450.00	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00
6" Turbine Meter	\$ 3,100.00	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00
6" Compound Meter	\$ 3,100.00	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00
8 Inch	n/a	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10 Inch	n/a	At cost	At cost	At cost	At cost	At cost	At cost
12 Inch	n/a	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Service Charges	Present	Company Proposed	Staff Recommended
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	50.00	50.00	50.00
Reconnection (Delinquent)	20.00	20.00	20.00
Reconnection (After Hours)	n/a	40.00	40.00
Meter Test (Calibration or leak deception)	20.00	20.00	20.00
Deposit Requirement(Residential/ Commercial) (1)	per rule	per rule	*
Deposit Interest (2)	per rule	per rule	6.00%
Re-Establishment (Within 12 Months) (3)	per rule	per rule	**
NSF Check	15.00	15.00	15.00
Deferred Payment Per Month 1.5 %	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	10.00	10.00
Late Charge per Month	(a)	(a)	***

Monthly Service Charge for Fire Sprinkler

	Present	Company Proposed	Staff Recommended
4 inch or Smaller	n/a	n/a	****
6 inch	n/a	n/a	****
8 inch	n/a	n/a	****
10 inch	n/a	n/a	****
Larger than 10 inch	n/a	n/a	****

Company Proposed

- 1 Per Rule Deposit (R-14-2-403.B)
- 2 Per Rule Deposit Interest (R-14-2-403.B.3)
- 3 Per Rule Reestablishment (14-2-403.D.1)

(a) \$5.00 minimum or 1.5% of unpaid balance whichever is greater.

Staff Recommended

- * Per rule R14-2-403.B
- ** Months off system time the minimum (R-14-2-403.D)
- *** 1.5 percent of the unpaid balance per month.
- **** 100 percent of monthly minimum for a comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION
RECEIVED

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COMMISSIONERS

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

MAR 14 P 3 44

AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
ICR WATER USERS ASSOCIATION, INC.
FOR A PERMANENT RATE INCREASE.

DOCKET NO. W-02824A-07-0388

**NOTICE OF FILING OF DIRECT
TESTIMONY**

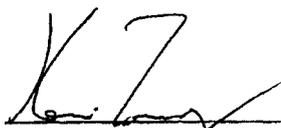
On February 27, 2008, Administrative Law Judge Marc E. Stern issued a Procedural Order setting deadlines for the pre-filing of testimony. Arizona Corporation Commission ("ACC") Utilities Division Staff ("Staff") was directed to file the testimony of its witnesses on or before March 14, 2008.

Pursuant to that order, Staff hereby provides the testimony of the following witnesses:

1. Mr. Charles R. Mylousen,
2. Mr. Jian Liu.

Any exhibits referred to within any testimony have been attached to the individual testimony.

RESPECTFULLY SUBMITTED this 14th day of March, 2008.



 Kevin O. Torrey
 Attorney, Legal Division
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007
 (602) 542-3402

Arizona Corporation Commission
DOCKETED
MAR 14 2008

EXHIBIT
5-7
ADMITTED

DOCKETED BY hr

1 Original and thirteen (13) copies
2 of the foregoing were filed this
3 14th day of March, 2008 with:

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

8 Copy of the foregoing mailed this
9 14th day of March, 2008 to:

10 Robert M. Busch
11 ICR Water Users Association, Inc.
12 P.O. Box 5669
13 Chino Valley, AZ 86323

14 Robert J. Metli
15 Marcie A. Shuman
16 Snell & Wilmer, L.L.P.
17 One Arizona Center
18 400 East Van Buren Street
19 Phoenix, AZ 85004-2202
20 Attorneys for ICR Water Users Association, Inc.

21 Dayne Taylor
22 13868 North Grey Bears Trail
23 Prescott, AZ 86305-1516

24
25
26
27
28


AMENDED

DIRECT

TESTIMONY

OF

CHARLES R. MYHLHOUSEN

JIAN W. LIU

DOCKET NO. W-02824A-07-0388

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

MARCH 14, 2008

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF)
ICR WATER USERS ASSOCIATION, AN)
ARIZONA CORPORATION, FOR)
DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
RATES AND CHARGES FOR UTILITY)
SERVICES)
_____)

DOCKET NO. W-02824A-07-0388

AMENDED

DIRECT

TESTIMONY

OF

CHARLES R. MYHLHOUSEN

PUBLIC UTILITIES ANALYST III

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 14, 2008

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EXECUTIVE SUMMARY
ICR WATER USERS ASSOCIATION, INC.
DOCKET NO. W-02824A-07-0388

ICR Water Users Association, Inc. ("ICR" or "Company") is an Arizona non-profit member-owned domestic water provider in Yavapai County. The Company is located approximately 12 miles northwest of Prescott, Arizona and serves a portion of Yavapai County. ICR is an Arizona non-profit corporation, and the members/customers elect a board of directors who manage and operate the Company through its by-laws. The Company served approximately 364 customers during the test year ended December 31, 2006. The Company's current rates were approved in Decision No. 59263, dated August 30, 2002. This is the first rate application filed by the Company since the approval of the original certificate of convenience and necessity.

The Company application proposes rates that would produce operating revenue of \$355,174 resulting in operating income of \$53,276 for a 15.00 percent operating margin. The Company proposal would increase annual operating revenue by \$86,908 or 32.40 percent over test year revenues of \$268,266. Under the Company proposed rates, the typical residential 5/8 inch meter customer consuming the median of 4,500 gallons per month, would experience a \$10.38 or 34.82 percent increase in their monthly bill from \$29.80 to \$40.18.

Staff Amended Testimony recommends including imputed revenue of \$114,290 from the Talking Rock Golf Course that was not collected by the Company and to increase various Company expenses by \$20,737 to reflect the loss of reimbursement for those expenses by the golf course. Staff now recommends rates that would produce total operating revenue of \$382,389 resulting in operating income of \$35,605 for a 9.31 percent operating margin. Staff's recommended revenue represents no increase over adjusted test year revenue of \$382,389. Under Staff's recommended rates, due to adjusting a single tier commodity rate to a 3-tier commodity rate; the typical residential 5/8 inch meter customer consuming the median of 4,500 gallons per month, would experience a decrease of (\$1.47) or 4.93 percent decrease in their monthly bill from \$29.80 to \$28.33.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Charles R. Myhlhousen. I am a Public Utilities Analyst III employed by the
4 Arizona Corporation Commission (“ACC” or “Commission”) in the Utilities Division
5 (“Staff”). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

6

7 **Q. Are you the same Charles R. Myhlhousen who filed direct testimony in this case?**

8 A. Yes, I am.

9

10 **Q. What is the purpose of your amended testimony in this proceeding?**

11 A. The purpose of my amended testimony in this proceeding is to respond, on behalf of Staff
12 to additional audit findings and adjustments.

13

14 **Q. What issues will you address?**

15 A. Staff will address rate base, operating, income, revenue requirement, basis for operating
16 income determination and rate design.

17

18 **Q. Please explain how Staff’s amended testimony is organized.**

19 A. Staff’s amended testimony is generally organized to present the issues in the same
20 sequence as presented in Staff’s direct testimony.

21

22 **RATE BASE**

23 **Q. Please review the rate base recommendations addressed in this testimony.**

24 A. The Company as filed proposes a rate base of a negative \$554,252. Staff recommends a
25 rate base of a negative \$576,986, see Schedule CRM-3. For a detailed account of Staff’s
26 recommended adjustment, see Schedules CRM-4.

1 **Q. Please review the rate base adjustment.**

2 A. My testimony addresses the following rate base issue:

3 Adjustment No. 1 Cash Working Capital – Staff’s adjustment decreases cash working
4 capital by \$22,734 to zero. Staff typically only allows cash working capital allowances
5 calculated by the formula method for small class D and E utilities. The formula method
6 always produces a positive cash working capital need. Utilities classified as A, B, or C are
7 much larger and Staff believes that the formula method does not accurately reflect cash
8 working capital needs. Typically Staff finds that proper lead/lag studies usually produce a
9 negative cash working capital need in utilities of larger sizes. Staff recommended
10 disallowance of any cash work capital allowance in this case. See Schedule CRM-5.

11

12 **OPERATING INCOME**

13 **Q. What are the results of Staff’s analysis of test year revenues, expenses and operating**
14 **income/loss?**

15 A. Staff’s supplemental analysis reflects adjusted test year revenues of \$382,389, expenses of
16 \$346,784 and an operating income of \$35,605 as shown on Schedules CRM-6 and CRM-
17 7. Staff made two adjustments to operating revenue and ten adjustments to operating
18 expenses. Some of the adjustments are the same as filed in Staff’s direct testimony.

19

20 **Q. Please review Staff’s adjustments to operating revenues and expenses.**

21 A. My amended testimony addresses the following issues:

22 Operating Income Adjustment No.1 Annualized Revenue - Staff’s adjustment decreased
23 revenue by \$167, to correct the amount annualized in revenue which was overstated. See
24 Schedule CRM-8.

1 Operating Income Adjustment No. 2 Metered Water Revenue - Staff's supplemental
2 adjustment increased test year revenue by \$114,290, to impute the amount of revenue
3 which was understated and should have been collected from Talking Rock Golf Course
4 ("TRGC") for water delivered from the Company's well. TRGC is located within the
5 Company's certificated area.

6
7 These two adjustments increased test year revenue by \$114,123 from \$268,266 to
8 \$382,389. See Schedules CRM-6, CRM-7, CRM-8, CRM-9, and CRM-24.

9
10 Operating Income Adjustment No. 3 Chemicals - Staff's adjustment increased chemical
11 expense by \$151 from \$2,516 to \$2,667 to include the prorated reimbursed amount paid
12 by TRGC that should have been paid by the Company. See Schedules CRM-6, CRM-7,
13 and CRM-10.

14
15 Operating Income Adjustment No. 4 Repairs and Maintenance - Staff made a
16 supplemental adjustment to increase repairs and maintenance expense by \$3,428 to
17 include the prorated reimbursed amount paid by TRGC that should have been paid by the
18 Company. Staff had previously made an adjustment that decreased repairs and
19 maintenance by (\$153). The net adjustment to repairs and maintenance is \$3,275
20 increasing it from 14,542 to \$17,817. See Schedules CRM-6, CRM-7, and CRM-11.

21
22 Operating Income Adjustment No. 5 Office Supplies - Staff's adjustment increased office
23 supplies expense by \$225 from \$1,720 to \$1,945 to include the prorated reimbursed
24 amount paid by TRGC that should have been paid by the Company. See Schedules CRM-
25 6, CRM-7, and CRM-12.

1 Operating Income Adjustment No. 6 Contracting Services-Accounting - Staff's
2 adjustment increased contracting services-accounting expense by \$1,093 from \$32,549 to
3 \$33,642 to include the prorated reimbursed amount paid by TRGC that should have been
4 paid by the Company. See Schedules CRM-6, CRM-7, and CRM-13.

5
6 Operating Income Adjustment No. 7 Contracting Services-Other - Staff made a
7 supplemental adjustment to increase contracting services-other expense by \$11,276 to
8 include the prorated reimbursed amount paid by TRGC that should have been paid by the
9 Company. Staff had previously made an adjustment that increased contracting services-
10 other by \$2,264. The net adjustment is \$13,540 increasing contracting services-other from
11 \$83,963 to \$97,503. See Schedules CRM-6, CRM-7, and CRM-14.

12
13 Operating Income Adjustment No. 8 Water Testing Expense - Staff's adjustment
14 decreased water testing expense by \$917 from \$4,946 to \$4,029 to conform with Staff's
15 estimated water testing expense. See Staff's engineering testimony. See Schedules CRM-
16 6, CRM-7, and CRM-15.

17
18 Operating Income Adjustment No. 9 Insurance - Other - Staff's adjustment increased
19 insurance-other expense by \$487 from \$8,995 to \$9,482 to include the prorated
20 reimbursed amount paid by TRGC that should have been paid by the Company. See
21 Schedules CRM-6, CRM-7, and CRM-16,

22
23 Operating Income Adjustment No. 10 - Miscellaneous Expense - Staff's adjustment
24 increased miscellaneous expense by \$2,087 from \$235 to \$2,322 to include the prorated
25 reimbursed amount paid by TRGC that should have been paid by the Company. See
26 Schedules CRM-6, CRM-7, and CRM-17.

1 Operating Income Adjustment No. 11 – Purchased Power - Staff's supplemental
2 adjustment increased purchased power expense by \$21,751 from \$16,239 to \$37,990 to
3 include the prorated reimbursed amount paid by TRGC that should have been paid by the
4 Company. See Schedules CRM-6, CRM-7, and CRM-18.

5
6 Operating Income Adjustment No. 12- Property Taxes - Staff made a supplemental
7 adjustment to increase property taxes by \$3,194 from \$11,148 to \$14,342 to reflect Staff's
8 adjusted test year and recommended revenues, using the modified Arizona Department of
9 Revenue property tax methodology. See Schedules CRM-6, CRM-7 and CRM-19.

10
11 **REVENUE REQUIREMENT**

12 **Q. Would you please summarize Staff's recommended revenue requirement.**

13 A. Staff recommends annual revenue of \$382,389, no increase over test year adjusted
14 revenue of \$ 382,389, as shown on Schedule CRM-6.

15
16 **Q. Did Staff impute the revenue that should have been collected by the Company from**
17 **TRGC for water received from the Company's well?**

18 A. Yes. TRGC received 36,544,000 gallons of water from the Company's well on which the
19 authorized tariff rate approved by the Commission was not billed or collected from the
20 TRGC. See Schedule CRM- 24.

21
22 **BASIS FOR OPERATING INCOME DETERMINATION**

23 **Q. What is the appropriate method to determine the Company's operating income and**
24 **revenue requirement?**

25 A. Because the Company is a non-profit organization, operating income should be calculated
26 by applying the recommended operating margin. Operating margin equals operating

1 income divided by revenue, expressed as a percentage. The percentage represents the
2 amount of each dollar of revenue that results in operating income.

3
4 **Q. What is the appropriate operating margin?**

5 A. The appropriate operating margin is 9.31 percent. This operating margin will produce
6 sufficient revenue to cover the operating expenses and an operating income of \$35,605.
7 The Commission has determined on other rate application decisions that an operating
8 margin between 9 to 14 percent will generally afford companies sufficient operating
9 income.

10
11 **RATE DESIGN**

12 **Q. Have you prepared a schedule summarizing the present, Company proposed, and**
13 **Staff recommended rates and service charges?**

14 A. Yes, A summary of the present, Company proposed, and Staff recommended rates and
15 service charges are provided on Schedule CRM - 20.

16
17 **Q. Would you please summarize Staff's recommended rate design?**

18 A. Staff recommends an inverted tier rate design that consists of three-tiers for the 5/8 x 3/4
19 inch meters and the 3/4 inch meters and two-tiers for all others. No gallons are included
20 in the minimum charge. Staff recommends a three-tier commodity rate, with the same
21 break over points for the 5/8 x 3/4 inch meters, and the 3/4 inch meters and a two-tier
22 commodity rate, with different break over points for all other meter sizes. The first,
23 second, and third tier rates are \$1.75, \$2.65 and \$3.20 per thousand gallons. Efficiency in
24 water use is encouraged by producing a higher customer bill with increased consumption
25 or use of a larger meter. The construction, bulk and standpipe commodity rate has been
26 increased to \$4.20 per thousand gallons so that they would be charged the second tier

1 commodity charge which is recommended for large users. A typical bill analysis is
2 provided for the 5/8 x 3/4 inch meter for average and median use under Company's
3 present, Company proposed, and Staff recommended rates as presented on Schedule
4 CRM-20.

5
6 **Q. What is the rate impact on a typical 5/8 x 3/4 inch meter residential customer?**

7 A. The median usage of residential 5/8 x 3/4 inch meter customers is 4,500 gallons per
8 month. The median residential 5/8 x 3/4 inch-meter customers would experience \$10.38
9 or 34.82 percent increase in their monthly bill from \$29.80 to \$40.18, under the
10 Company's proposed rates and a (\$1.47) or 4.93 percent decrease in their monthly bill
11 from \$29.80 to \$28.33, under Staff's recommended rates. See Schedule CRM-21.

12
13 **RECOMMENDATIONS**

14 **Q. What is Staff recommending?**

15 A. Staff recommends that the Company charge TRGC for all water that is received by the
16 golf course from the Company's well at the tariff rate that is in effect at the time of
17 delivery.

18
19 Staff further recommends that the second well be transferred to the Company's ownership
20 within 30 days of an order in this Docket. If the Company fails to provide Staff with
21 sufficient proof of this transfer within the time provided, Staff recommends the filing of an
22 Order to Show Cause.

23
24 **Q. Does this conclude your amended testimony?**

25 A. Yes, it does.

ICR WATER USERS ASSOCIATION.
Docket No. W-02824A-07-0338
Test Year Ended December 31, 2006
AMENDED TESTIMONY OF CHARLES R. MYHLHOUSEN

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CRM-25	Purchased Power Calculation

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) Company ORIGINAL COST	(B) Company FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ (554,252)	\$ (554,252)	\$ (576,986)	\$ (576,986)
2	Adjusted Operating Income (Loss)	\$ (33,632)	\$ (33,632)	\$ 35,605	\$ 35,605
3	Current Rate of Return (L2 / L1)	6.07%	6.07%	-6.17%	-6.17%
4	Required Operating Margin	15.00%	15.00%	9.31%	9.31%
5	Required Operating Margin	\$ 53,276	\$ 53,276	\$ 35,605	\$ 35,605
6	Operating Income Deficiency (L5 - L2)	\$ 86,908	\$ 86,908	\$ -	\$ -
7	Gross Revenue Conversion Factor	1.0000	1.0000	1.0000	1.0000
8	Required Revenue Increase (L7 * L6)	\$ 86,908	\$ 86,908	\$ -	\$ -
9	Adjusted Test Year Revenue	\$ 268,266	\$ 268,266	\$ 382,389	\$ 382,389
10	Proposed Annual Revenue (L8 + L9)	\$ 355,174	\$ 355,174	\$ 382,389	\$ 382,389
11	Required Increase in Revenue (%)	32.40%	32.40%	0.00%	0.00%

References:

Column (A): Company Schedule B-1
Column (B): Company Schedule B-1
Column (C): Staff Schedules CRM-3, CRM-6
Column (D): Staff Schedules CRM-3, CRM-6

ICR WATER USERS ASSOCIATION
Docket No. W-2824A-07-0388
Test Year Ending December 31,2006

Amended Schedule CRM-2 Blank

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ICR WATER USERS ASSOCIATION
Docket No. W-2824A-07-0388
Test Year Ending December 31,2006

Amended Schedule CRM-3

RATE BASE - ORIGINAL COST

LINE NO.	(A) Company AS FILED	(B) STAFF ADJUSTMENTS	REF	(C) STAFF AS ADJUSTED
1	\$ 5,331,978	\$ -		\$ 5,331,978
2	(625,682)	-		(625,682)
3	<u>\$ 4,706,296</u>	<u>\$ -</u>		<u>\$ 4,706,296</u>
LESS:				
4	(1,330,469)			(1,330,469)
5	(3,932,263)	-		(3,932,263)
6	(20,550)	-		(20,550)
ADD:				
7	-	-		-
8	-	-		-
9	-	-		-
10	-	-		-
11	22,734	(22,734)	1	-
12	<u>\$ (554,252)</u>	<u>\$ (22,734)</u>		<u>\$ (576,986)</u>

References:

Column (A): Company Schedule B-1
Column (B): Testimony CRM
Column (C):Column (A) +Column (B)

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] Company AS FILED	[E] ADJ #1	[I] STAFF ADJUSTED
<u>PLANT IN SERVICE:</u>					
1					
2	301	Organization	\$ -	\$ -	\$ -
3	302	Franchise Costs	-	-	-
4	303	Land and Land Rights	-	-	-
5	304	Structures and Improvements	398,048	-	398,048
6	305	Collecting and Impounding Res.	-	-	-
7	306	Lake, River and Other Intakes	-	-	-
8	307	Wells & Springs	656,998	-	656,998
9	308	Infiltration Galleries and Tunnels	-	-	-
10	309	Supply Mains	-	-	-
11	310	Power Generation Equipment	-	-	-
12	311	Electric Pumping Equipment	1,808	-	1,808
13	320	Water Treatment Equipment	106,689	-	106,689
14	330	Distribution Reservoirs & Standpipe	4,037,457	-	4,037,457
15	331	Transmission & Distribution Mains	-	-	-
16	333	Services	68,233	-	68,233
17	334	Meters	27,117	-	27,117
18	335	Hydrants	-	-	-
19	336	Backflow Prevention Devices	-	-	-
20	339	Other Plant and Miscellaneous Equipment	-	-	-
21	340	Office Furniture & Fixtures	141	-	141
22	341	Transportation Equipment	-	-	-
23	342	Stores Equipment	-	-	-
24	343	Tools and Work Equipment	-	-	-
25	344	Laboratory Equipment	-	-	-
26	345	Power Operated Equipment	-	-	-
27	346	Communications Equipment	10,533	-	10,533
28	347	Miscellaneous Equipment	1,495	-	1,495
29	348	Other Tangible Plant	23,458	-	23,458
			-	-	-
			-	-	-
30		Total Plant in Service	\$ 5,331,978	-	5,331,978
31		Less: Accumulated Depreciation	(625,682)	-	(625,682)
32		Net Plant in Service (L59 - L 60)	\$ 4,706,296	-	\$ 4,706,296
33		<u>LESS:</u>			
34		Net CIAC (L25 - L26)	(1,330,469)	-	(1,330,469)
35		Advances in Aid of Construction (AIAC)	(3,932,263)	-	(3,932,263)
36		Customer Meter Deposits	(20,550)	-	(20,550)
37		<u>ADD:</u>			
38		Unamortized Finance Charges	-	-	-
39		Deferred Tax Assets	-	-	-
40		Materials and Supplies Inventories	-	-	-
41		Prepayments	-	-	-
42		Working Capital	22,734	(22,734)	-
43		Intentionally Left Blank	-	-	-
44		Original Cost Rate Base	\$ (554,252)	\$ (22,734)	\$ (576,986)

ADJ #
1 Cash Working Capital

References:
CRM-5 Testimony CRM

ICR WATER USERS ASSOCIATION
Docket No. W-2824A-07-0388
Test Year Ending December 31,2006

Amended Schedule CRM-5

ORIGINAL COST RATE BASE ADJUSTMENT #1 - CASH WORKING CAPITAL

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Company</u> <u>As</u> <u>Filed</u>	<u>Staff</u> <u>Adjustments</u>	<u>Staff</u> <u>As</u> <u>Adjusted</u>
1	Cash Working Capital	\$ 22,734	\$ (22,734)	\$ -

Reference:
Col. [A] Company Schedule B-1
Col. [B] Testimony CRM
Col. [C] Col. [A] + Col. [B]

OPERATING INCOME STATEMENT - ADJUSTED TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	(A) COMPANY ADJUSTED TEST YEAR AS FILED	(B) STAFF TEST YEAR ADJUSTMENTS	Adj No.	(C) STAFF TEST YEAR AS ADJUSTED	(D) STAFF RECOMMENDED CHANGES	(E) STAFF RECOMMENDED
1	REVENUES:						
2	Metered Water Sales	\$ 214,863	\$ 114,123	1&2	\$ 328,986		\$ 328,986
3	Water Sales - Unmetered	-	-		-		-
4	Other Operating Revenue	53,403	-		53,403		53,403
5	Total Operating Revenues	\$ 268,266	\$ 114,123		\$ 382,389	\$ -	\$ 382,389
6	OPERATING EXPENSES:						
7	Salaries and Wages	\$ -	\$ -		\$ -	\$ -	\$ -
8	Employee Pensions and Benefits	-	-		-	-	-
9	Purchased Water	6,388	-		6,388	-	6,388
10	Purchased Power	16,239	21,751	11	37,990	-	37,990
11	Chemicals	2,516	151	3	2,667	-	2,667
12	Repairs and Maintenance	14,542	3,275	4	17,817	-	17,817
13	Office Supplies and Expenses	1,720	225	5	1,945	-	1,945
14	Contractual Services - Engineering	-	-		-	-	-
15	Contractual Services - Accounting	32,549	1,093	6	33,642	-	33,642
16	Contractual Services - Legal	513	-		513	-	513
17	Contractual Services - Other - Operations	83,963	13,540	7	97,503	-	97,503
18	Water Testing	4,946	(917)	8	4,029	-	4,029
19	Rents	3,600	-		3,600	-	3,600
20	Transportation Expense	-	-		-	-	-
21	Insurance - Vehicle	-	-		-	-	-
22	Insurance - General Liability	-	-		-	-	-
23	Insurance - Workers Comp	-	-		-	-	-
24	Insurance - Other	8,995	487	9	9,482	-	9,482
25	Regulatory Commission Expense - Rate Case	20,000	-		20,000	-	20,000
26	Telephone	751	-		751	-	751
27	Water Resource Conservation	-	-		-	-	-
28	Bad Debt Expense	-	-		-	-	-
29	Miscellaneous Expense	235	2,087	10	2,322	-	2,322
30	Depreciation Expense	93,748	-		93,748	-	93,748
31	Taxes Other than Income	-	-		-	-	-
32	Property Taxes	11,148	3,194	12	14,342	-	14,342
33	Income Tax	45	-		45	-	45
34	Intentionally Left Blank	-	-		-	-	-
35	Total Operating Expenses	\$ 301,898	\$ 44,886		\$ 346,784	\$ -	\$ 346,784
36	Operating Income (Loss)	\$ (33,632)	\$ 69,237		\$ 35,605	\$ -	\$ 35,605

References:

- Column (A): Company Schedule C-1
- Column (B): Testimony CRM
- Column (C): Column (A) + Column (B)
- Column (D): Schedules CRM-1 and CRM-2
- Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME STATEMENT ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) Annualized Revenue ADJ #1	(C) Unaudited Revenue ADJ #2	(D) Checked ADJ #3	(E) Repair Maint. ADJ #4	(F) Office Supplies ADJ #5	(G) Cont. Srvs-Acctg. ADJ #6	(H) Water Testing ADJ #7	(I) Insurance-Other ADJ #8	(J) Miscellaneous ADJ #9	(K) Purchased Power ADJ #10	(L) Property Tax ADJ #11	(M) STAFF ADJUSTED
1	REVENUES:													
2	Metered Water Sales	\$ 214,865	(187) \$	114,280 \$										\$ 329,085
3	Water Sales - Unmetered	53,403												53,403
4	Other Operating Revenue	280,286	(187) \$	114,280 \$										367,469
5	Total Operating Revenues													\$ 749,957
6	OPERATING EXPENSES:													
7	Salaries and Wages													
8	Employee Pensions and Benefits	6,388												6,388
9	Purchased Water	16,230												16,230
10	Purchased Power	2,516										21,751		24,267
11	Chemicals	14,542			151									14,693
12	Repairs and Maintenance	1,720			3,275									4,995
13	Office Supplies and Expenses					225								225
14	Contractual Services - Engineering	32,549					1,093							33,642
15	Contractual Services - Accounting	513												513
16	Contractual Services - Legal	83,963												83,963
17	Contractual Services - Other - Operations	4,946							13,540					18,486
18	Water Testing	3,600							(817)					2,783
19	Rent													
20	Transportation Expense													
21	Insurance - Vehicle													
22	Insurance - General Liability													
23	Insurance - Workers Comp													
24	Insurance - Other	8,965								487				9,452
25	Regulatory Commission Expense - Rate Case	20,000												20,000
26	Telephone	751												751
27	Water Resource Conservation													
28	Bad Debt Expense													
29	Miscellaneous Expense	235										2,067		2,302
30	Depreciation Expense	63,748												63,748
31	Taxes Other than Income													
32	Property Taxes	11,148												11,148
33	Income Tax	45												45
34	Intentionally Left Blank													
35	Total Operating Expenses	\$ 301,898	(187) \$	114,280 \$	151 \$	3,275 \$	225 \$	1,093 \$	13,540 \$	(817) \$	487 \$	2,067 \$	21,751 \$	\$ 346,784
36	Operating Income (Loss)	\$ (33,632)				6,549 \$		1,083 \$	1,318 \$	(817) \$		(430) \$		\$ 35,076

References:

ADJ #

References:
 CRM-14
 CRM-15
 CRM-16
 CRM-17
 CRM-18
 CRM-19

ADJ #
 7
 8
 9
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 12

References:
 CRM-5
 CRM-9
 CRM-10
 CRM-11
 CRM-12
 CRM-13

ADJ #
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ICR WATER USERS ASSOCIATION
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Amended Schedule CRM-8

OPERATING INCOME ADJUSTMENT # 1 - Annualized Revenue D.T.

Line No.	Description	[A] Company As Filed	[B] Staff Adjustments	[C] Staff As Adjusted
1	Annualized Revenue	\$ 214,863	\$ (167)	\$ 214,696

References

Col. [A] Company Schedule H-1	\$ 9,957
Column (B): Testimony CRM	9,790
Col. [C]: Col. [A] + Col. [B]	\$ (167)

Meter Size	Adjustments by Meter Size		Difference
	Company	Staff	
5/8 inch	\$ 1,547	\$ 1,551	\$ 4
1 inch	1,563	1,344	(219)
2 inch	6,847	6,895	48
Total	\$ 9,957	\$ 9,790	\$ (167)

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Amended Schedule CRM-9

OPERATING INCOME ADJUSTMENT # 2 - Metered Revenue

Year 2006

Supplemental Schedule Allocation

	[A] Golf Course Well one	[B] Golf Course Well two	[C] Company Well three	[D] Total Gallons pumped
Total gallons pumped	80,621,000	9,802,000	62,874,000	153,097,000
Total gallons used by golf course	125,026,000			
gallons pumped from golf course wells	88,482,000			
gallons from ICR Wells to golf course				
Less:1,000 gallons included in monthly minimum for 12 months.	12,000			
Gallons subject to commodity rate.	<u>34,791,000</u>		<u>\$ 38,532</u>	
Tariff Rate amount.				
			Monthly Minimum \$1,000 12 months	\$12,000
			Commodity rate \$2.80 per 1,000 gallons	<u>\$102,290</u>
Total due from golf course				<u>\$114,290</u>

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Amended Schedule CRM-10

OPERATING INCOME ADJUSTMENT #3 - Chemicals

Description	[A] Company As Filed	[B] Staff Adjustments	[C] Staff As Adjusted
Chemicals	\$2,516	\$ 151	\$2,667

Supplemental Schedule Allocation 0.405630529

Year 2006 reimbursed expenses allocation CRM-22

Account	Description	True Up Amount	Allocated Amount
618	Chemicals	\$ 371.20	\$ 151

Amount recommended by Staff	\$ 2,667
Amount per Company's adjusted test year as filed	2,516
Increase/loss in expense	\$ 151

References

Col. [A] Company Schedule C-1
 Col [B]: Supplemental Testimony CRM
 Col [C]: [A+Col. [B]
 Supplemental Schedule CRM-7 Col: [D]
 Supplemental Allocation Schedule CRM-22

OPERATING INCOME ADJUSTMENT #4- REPAIRS AND MAINTENANCE

<u>Line</u> No.	Description	[A]	[B]	[C]
		Company Filed <u>As</u>	Staff Adjustments <u>As</u>	Staff Adjusted <u>As</u>
1	Repairs and Maintenance [\$14,542	\$ (153.00)	\$17,817
	Supplemental Schedule		3,428	
			<u>\$ 3,275</u>	

<u>Acct. No.</u>	Additional Repairs and Maintenance Adjustments	
	ADD:	
62000 IC	G/L Adjustment to remove credit posted in account	514
62000 TR	G/L Adjustment to remove credit posted in account	1563
62000 IC	G/L Adjustment to remove credit posted in account	287
	Total	2364
	LESS:	
62000 IC	Normalize Storage tanks expense from C.W. Divers	
62000 TR	C W Divers Inv. 06-505 dated 11/02/06	1,520.00
	C W Divers Inv. 06-504 dated 11/02/06	1628
	Total	3,146
	Normalize expense over 5 years	629
	Amount not allowed in current test year.	<u>(\$2,517)</u>
	Net decrease in Repairs from test year amount	<u>(\$153)</u>

Supplemental Schedule Allocation Percentage 0.405630529

	True Up Amount	Allocated Amount
620 Repairs & Maintenance	\$ 8,450.38	<u>\$ 3,428</u>

References

Col. [A] Company Schedule C-1
Column [B]: Direct Testimony and Supplemental Testimony CRM
Col. [C]: Col. [A] + Col. [B]
Supplemental Allocation Schedule CRM-22
Supplemental Schedule CRM-7 Col: [E]

ICR WATER USERS ASSOCIATION
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Amended Schedule CRM-12

OPERATING INCOME ADJUSTMENT # 5 - Office Supplies

Description	[A] Company As Filed	[B] Staff Adjustments	[C] Staff As Adjusted
Office Supplies	\$1,720	\$ 225	\$1,945

Supplemental Schedule Allocation 0.405630529

Year 2006 reimbursed expenses allocation CRM-22

Account	Description	True Up Amount	Allocated Amount
621	Office Expense	\$ 1,256.05	\$ 516
	Telephone	\$ 94.98	\$ 39
			<u>\$ 555</u>

Amount recommended by Staff	\$ 1,945
Amount per Company's adjusted test year as filed	<u>1,720</u>
Increase/loss in expense	<u>\$ 225</u>

References

Col. [A] Company Schedule C-1
 Col [B]: Supplemental Testimony CRM
 Col [C]: [A+Col. [B]
 Supplemental Schedule CRM-7 Col: [F]
 Supplemental Allocation Schedule CRM-22

ICR WATER USERS ASSOCIATION
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Amended Schedule CRM-13

OPERATING INCOME ADJUSTMENT # 6 - Contracting Services-Accounting

Supplemental Schedule Allocation Percentage 0.405631

Description	[A] Company <u>As</u> Filed	[B] Staff <u>Staff</u> Adjustment:	[C] Staff <u>As</u> Adjusted
	Contr Serv-Accounting	\$32,549	\$ 1,093

Supplemental Schedule Allocation

Year 2006 reimbursed expenses allocation CRM-22

Account	Description	True Up Am	Allocated Amount
601-1	Accounting Expense	\$ 4,824.00	\$ 1,957
	Accounting Extras	\$ 1,818.00	\$ 737
			\$ 2,694

Amount recommended by Staff	\$ 33,642
Amount per Company's adjusted test year as filed	32,549
Increase/loss in expense	<u>\$ 1,093</u>

References

Col. [A] Company Schedule C-1
 Col [B]: Supplemental Testimony CRM
 Col [C]: [A+Col. [B]
 Supplemental Schedule CRM-7 Col: [G]
 Supplemental Allocation Schedule CRM-22

ICR WATER USERS ASSOCIATION
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Amended Schedule CRM-14

OPERATING INCOME ADJUSTMENT #7 - CONTRACTUAL SERVICES

Line No.	[A] Company As Filed	[B] Staff Adjustments	[C] Staff As Adjusted
1	Contractua \$ 83,963	\$ 2,264	\$ 86,227
	Supplemental	<u>\$11,276</u>	
		\$ 13,540	<u>\$ 97,503</u>

Computations	
Amount claimed in rate application	\$ 83,963
Increase/(decrease) to Contractual Services - Operations	2,264
Amount recommended by Staff	86,227

Additional Contractual Services -Operations Adjustments	
ADD: General Ledger Account Numbers	
63000	30
63000IC	1870
63000TR	595
63010IC	290
63010TR	650
63010	96
Total	3531
Less:	
Erickson Landscaping invoices Company will no longer have a landscaping expense. Developer maintained.	(1,267)
Net increase (decrease) from test year amount	<u>\$ 2,264</u>

Supplemental Schedule Allocation I 0.40563053

	True Up Amount	Allocated Amount
630	\$27,279.27	\$11,065
630.1	519.47	211
Total		<u>\$11,276</u>

References

References

Col. [A] Company Schedule C-1

Col [B]: Direct Testimony and Supplemental Testimony CRM

Col [C]: [A+Col. [B]

Supplemental Schedule CRM-7 Col: [H]

Supplemental Allocation Schedule CRM-22

ICR WATER USERS ASSOCIATION
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Amended Schedule CRM-15

OPERATING INCOME ADJUSTMENT # 8 - WATER TESTING EXPENSE

Line No.	[A] Company As Descriptor Filed	[B] Staff Adjustments	[C] Staff As Adjusted
1	Water Test \$4,946	(\$917)	<u>\$4,029</u>

References

Col. [A] Company Schedule H-1

Column [B]: Testimony Engineering

Col. [C]: Col. [A] + Col. [B]

ICR WATER USERS ASSOCIATION
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Amended Schedule CRM-16

OPERATING INCOME ADJUSTMENT # 9 - Insurance - Other

Supplemental Schedule Allocation Percentage 0.405631

Description	[A] Company <u>As</u> Filed	[B] <u>Staff</u> Adjustment:	[C] Staff <u>As</u> Adjusted
	Insurance Othe	\$8,995	\$ 487

Supplemental Schedule Allocation 0.41068081

Year 2006 reimbursed expenses allocation CRM-22

Account	Description	True Up Am	Allocated Amount
601-1	Insurance-Other	\$ 1,201	\$ 493

Amount recommded by Staff	\$ 9,482
Amount per Company's adjusted test year as filed	8,995
Increase/loss in expense	<u>\$ 487</u>

References

Col. [A] Company Schedule C-1
 Col [B]: Supplemental Testimony CRM
 Col [C]: [A+Col. [B]
 Supplemental Schedule CRM-7 Col: [J]
 Supplemental Allocation Schedule CRM-22

ICR WATER USERS ASSOCIATION
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Amended Schedule CRM-17

OPERATING INCOME ADJUSTMENT # 10 - Miscellaneous Expense

Supplemental Schedule Allocation Percentage 0.410681

Description	[A] Company As Filed	[B] Staff Adjustments	[C] Staff As Adjusted
	Insurance Other	\$235	\$ 2,087

Supplemental Schedule Allocation 0.405630529

Year 2006 reimbursed expenses allocation CRM-22

Account	Description	True Up Amount	Allocated Amount
675	Misc Operating	\$ 4,004	\$ 1,624
426	Non- Misc	1,142	463
			<u>\$ 2,087</u>

Amount recommended by Staff	\$ 2,087
Amount per Company's adjusted test year as filed	235
Increase/loss in expense	<u>\$ 2,322</u>

References

Col. [A] Company Schedule C-1
 Col [B]: Supplemental Testimony CRM
 Col [C]: [A+Col. [B]
 Supplemental Schedule CRM-7 Col: [K]
 Supplemental Allocation Schedule CRM-22

ICR WATER USERS ASSOCIATION
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Amended Schedule CRM-18

OPERATING INCOME ADJUSTMENT # 11 - Purchased Power

		Total
Electric Power allocation gallons pumped	78,882,000	9,600,000 60,385,000 148,867,000
Cost of electric power paid by golf course	\$53,623	
Cost of electric power per 1,000 gallons of water pumped	0.0003602074	
Cost of electric power for well No. three	<u>\$21,751</u>	

References:
 Supplemental Allocation Schedule 0.4056305

	[A] Company <u>As</u> Filed	[B] Staff <u>Staff</u> Adjustments	[C] Staff <u>As</u> Adjusted
Description			
Purchased Power	<u>\$16,239</u>	<u>\$ 21,751</u>	<u>\$37,990</u>

Supplemental Schedule Allocation 0.41068081

Year 2006 reimbursed expenses allocation CRM-22

<u>Account</u>	<u>Description</u>	<u>True Up Amount</u>	<u>Allocated Amount</u>
	Purchased F	<u>\$ 53,623</u>	<u>\$ 21,751</u>

Amount recommended by Staff	\$ 37,990
Amount per Company's adjusted test year as filed	16,239
Increase/loss in expense	<u>\$ 21,751</u>

References
 Col. [A] Company Schedule C-1
 Col [B]: Supplemental Testimony CRM
 Col [C]: [A+Col. [B]
 Supplemental Schedule CRM-7 Col: [J]
 Supplemental Allocation Schedule CRM-22

OPERATING INCOME ADJUSTMENT #12 - PROPERTY TAXES

LINE NO.	Property Tax Calculation	[A]		(B)	
		COMPANY AS FILED		STAFF AS ADJUSTED	
1	Staff Adjusted Test Year Revenues	\$	268,266	\$	382,389
2	Weight Factor				2
3	Subtotal (Line 1 * Line 2)				764,777
4	Staff Recommended Revenue, Per Schedule CRM-1				382,389
5	Subtotal (Line 4 + Line 5)				1,147,166
6	Number of Years				3
7	Three Year Average (Line 5 / Line 6)				382,389
8	Department of Revenue Multiplier				2
9	Revenue Base Value (Line 7 * Line 8)				764,777
10	Plus: 10% of CWIP				-
	Tax on Parcels				261
11	Less: Net Book Value of Licensed Vehicles				-
12	Full Cash Value (Line 9 + Line 10 - Line 11)				764,777
13	Assessment Ratio - Average of 2006 and 2007 Rate				0.2350
14	Assessment Value (Line 12 * Line 13)				179,723
15	Composite Property Tax Rate (Per Company Schedule C-2, Page 3)				7.9800000%
16	Staff Proposed Property Tax Expense (Line 14 * Line 15)	\$		\$	14,342
17	Company Proposed Property Tax				11,148
18	Increase/(Decrease) to Property Tax Expense	\$		\$	3,194

References:
Supplemental Testimony CRm

RATE DESIGN

Monthly Usage Charge	Present Rates	Company Proposed Rates	Staff Recommended Rates
5/8 x 3/4" Meter	\$ 20.00	\$ 25.50	\$ 20.00
3/4" Meter	20.00	38.25	30.00
1" Meter	50.00	63.75	50.00
1 1/2" Meter	100.00	127.50	100.00
2" Meter	160.00	204.00	160.00
3" Meter	300.00	382.50	320.00
4" Meter	500.00	637.50	500.00
6" Meter	1,000.00	1,275.00	1,000.00
Gallons included in Minimum	1,000	0	0
Commodity Rates			
All meter sizes			
Per 1,000 gallons in excess of gallons in monthly minimum	\$ 2.80	n/a	n/a
5/8 x 3/4 Inch Meter			
Tier 1 zero gallon to 4,000 gallons	n/a	3.19	n/a
Tier 2 4,001 gallons to 10,000 gallons	n/a	3.83	n/a
Tier 3 All gallons over 10,000 gallons	n/a	4.47	n/a
Tier 1 zero gallon to 4,000 gallons	n/a	n/a	1.75
Tier 2 4,001 gallons to 10,000 gallons	n/a	n/a	2.65
Tier 3 All gallons over 10,000 gallons	n/a	n/a	3.20
3/4 Inch Meter			
Tier 1 zero gallon to 4,000 gallons	n/a	\$ 3.19	n/a
Tier 2 4,001 gallons to 10,000 gallons	n/a	\$ 3.83	n/a
Tier 3 All gallons over 10,000 gallons	n/a	\$ 4.47	n/a
Tier 1 zero gallon to 4,000 gallons	n/a	n/a	1.75
Tier 2 4,001 gallons to 10,000 gallons	n/a	n/a	2.65
Tier 3 All gallons over 10,000 gallons	n/a	n/a	3.20
1 Inch Meter			
Tier 1 Up to 25,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 25,000 gallons	n/a	4.47	n/a
Tier 1 Up to 140,000	n/a	n/a	2.80
Tier 2 Over 140,000 gallons	n/a	n/a	4.20
1.5 Inch Meter			
Tier 1 Up to 50,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 50,000 gallons	n/a	\$ 4.47	n/a
Tier 1 Up to 700,000 gallons	n/a	n/a	2.80
Tier 2 Over 700,000 gallons	n/a	n/a	4.20
2 Inch Meter			
Tier 1 Up to 80,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 80,000 gallons	n/a	\$ 4.47	n/a
Tier 1 Up to 1,025,000 gallons	n/a	n/a	2.80
Tier 2 Over 1,025,000 gallons	n/a	n/a	4.20
3 Inch Meter			
Tier 1 Up to 160,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 160,000 gallons	n/a		n/a
Tier 1 Up to 1,500,000 gallons	n/a	n/a	2.80
Tier 2 Over 1,500,000 gallons	n/a	n/a	4.20

4 Inch Meter			
Tier 1 Up to 250,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 250,000 gallons	n/a		n/a
<hr/>			
Tier 1 Up to 2,275,000 gallons	n/a	n/a	2.80
Tier 2 Over 2,275,000 gallons	n/a	n/a	4.20
<hr/>			
6 Inch Meter			
Tier 1 Up to 500,000 gallons	n/a	\$ 3.83	n/a
Tier 2 Over 500,000 gallons	n/a		n/a
<hr/>			
Tier 1 Up to 3,050,000 gallons	n/a	n/a	2.80
Tier 2 Over 3,050,000 gallons	n/a	n/a	4.20
<hr/>			
Construction/Bulk, per 1,000 gallons - all gallons.	n/a	3.83	4.20

Service Line and Meter Installation Charges	Present	COMPANY PROPOSED			STAFF RECOMMENDED		
		Service Line Charge	Meter Installation	Total Proposed	Service Line Charge	Meter Installation	Total Recommended
5/8" x 3/4" Meter	\$ 250.00	\$ 385.00	\$ 135.00	\$ 520.00	\$ 385.00	\$ 135.00	\$ 520.00
3/4" Meter	\$ 250.00	\$ 385.00	\$ 215.00	\$ 600.00	\$ 385.00	\$ 215.00	\$ 600.00
1" Meter	\$ 300.00	\$ 435.00	\$ 255.00	\$ 690.00	\$ 435.00	\$ 255.00	\$ 690.00
1 1/2" Meter	\$ 450.00	\$ 470.00	\$ 465.00	\$ 935.00	\$ 470.00	\$ 465.00	\$ 935.00
2" Turbine Meter	\$ 625.00	\$ 630.00	\$ 965.00	\$ 1,595.00	\$ 630.00	\$ 965.00	\$ 1,595.00
2" Compound Meter	\$ 625.00	\$ 630.00	\$ 1,690.00	\$ 2,320.00	\$ 630.00	\$ 1,690.00	\$ 2,320.00
3" Turbine Meter	\$ 825.00	\$ 805.00	\$ 1,470.00	\$ 2,275.00	\$ 805.00	\$ 1,470.00	\$ 2,275.00
3" Compound Meter	\$ 825.00	\$ 845.00	\$ 2,265.00	\$ 3,110.00	\$ 845.00	\$ 2,265.00	\$ 3,110.00
4" Turbine Meter	\$ 1,450.00	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00	\$ 1,170.00	\$ 2,350.00	\$ 3,520.00
4" Compound Meter	\$ 1,450.00	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00	\$ 1,230.00	\$ 3,245.00	\$ 4,475.00
6" Turbine Meter	\$ 3,100.00	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00	\$ 1,730.00	\$ 4,545.00	\$ 6,275.00
6" Compound Meter	\$ 3,100.00	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00	\$ 1,770.00	\$ 6,280.00	\$ 8,050.00
8 Inch	n/a	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost
10 Inch	n/a	At cost	At cost	At cost	At cost	At cost	At cost
12 Inch	n/a	At Cost	At Cost	At Cost	At Cost	At Cost	At Cost

Service Charges	Present	Company Proposed	Staff Recommended
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	50.00	50.00	50.00
Reconnection (Delinquent)	20.00	20.00	20.00
Reconnection (After Hours)	n/a	40.00	40.00
Meter Test (Calibration or leak deception)	20.00	20.00	20.00
Deposit Requirement(Residential/ Commercial) (1)	per rule	per rule	*
Deposit Interest (2)	per rule	per rule	6.00%
Re-Establishment (Within 12 Months) (3)	per rule	per rule	**
NSF Check	15.00	15.00	15.00
Deferred Payment Per Month 1.5 %	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	10.00	10.00	10.00
Late Charge per Month	(a)	(a)	***

Monthly Service Charge for Fire Sprinkler	Present	Company Proposed	Staff Recommended
4 inch or Smaller	n/a	n/a	****
6 inch	n/a	n/a	****
8 inch	n/a	n/a	****
10 inch	n/a	n/a	****
Larger than 10 Inch	n/a	n/a	****

Company Proposed

- 1 Per Rule Deposit (R-14-2-403.B)
- 2 Per Rule Deposit Interest (R-14-2-403.B.3)
- 3 Per Rule Reestablishment (14-2-403.D.1)

(a) \$5.00 minimum or 1.5% of unpaid balance whichever is greater.

Staff Recommended

- * Per rule R14-2-403.B
- ** Months off system time the minimum (R-14-2-403.D)
- *** 1.5 percent of the unpaid balance per month.
- **** 100 percent of monthly minimum for a comparable Sized Meter Connection, but no less than \$5.00 per month. The Service Charge for Fire Sprinklers is only applicable for service lines separate and distinct from the primary water service line.

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	7,085	\$ 37.04	\$ 50.08	\$ 13.04	35.20%
Median Usage	4,500	\$ 29.80	\$ 40.18	\$ 10.38	34.82%
Staff Recommended					
Average Usage	7,085	\$ 37.04	\$ 35.26	\$ (1.78)	-4.81%
Median Usage	4,500	\$ 29.80	\$ 28.33	\$ (1.47)	-4.93%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Gallons	Company Present		Company Proposed		%	Staff Recommended		%
	5/8*	Rates	5/8*	Rates		5/8*	Increase	
Consumption								
-	\$	20.00	\$	25.50	27.50%	\$	20.00	0.00%
1,000		20.00		28.69	43.45%		21.77	8.85%
2,000		22.80		31.88	39.82%		23.54	3.25%
3,000		25.60		35.07	36.99%		25.31	-1.13%
4,000		28.40		38.26	34.72%		27.08	-4.65%
5,000		31.20		42.09	34.90%		29.73	-4.71%
6,000		34.00		45.92	35.06%		32.38	-4.76%
7,000		36.80		49.75	35.19%		35.03	-4.81%
8,000		39.60		53.58	35.34%		37.68	-4.85%
9,000		42.40		57.41	26.37%		40.33	-4.88%
7,085		37.04		53.00	43.10%		35.26	-4.81%
10,000		45.20		61.24	35.49%		42.98	-4.91%
11,000		48.00		65.71	36.90%		46.16	-3.83%
12,000		50.80		70.18	38.15%		49.34	-2.87%
13,000		53.60		74.65	39.27%		52.52	-2.01%
14,000		56.40		79.12	40.28%		55.70	-1.24%
15,000		59.20		83.59	41.20%		58.88	-0.54%
16,000		62.00		88.07	42.05%		62.06	0.10%
17,000		64.80		92.53	42.79%		65.24	0.68%
18,000		67.60		97.00	43.49%		68.42	1.21%
19,000		70.40		101.47	44.13%		71.60	1.70%
20,000		73.20		105.94	44.73%		74.78	2.16%
25,000		87.20		128.29	47.12%		90.68	3.99%
30,000		101.20		150.64	48.85%		106.58	5.32%
35,000		115.20		172.99	50.16%		122.48	6.32%
40,000		129.20		195.34	51.19%		138.38	7.11%
45,000		143.20		217.69	52.02%		154.28	7.74%
50,000		157.20		240.04	52.70%		170.18	8.26%
75,000		227.20		351.79	54.84%		249.68	9.89%
100,000		297.20		483.54	55.97%		329.18	10.76%

ICR WATER USERS ASSOCIATION
Docket No. W-2824A-07-0388
Test Year Ending December 31,2006

Amended Schedule CRM-22

REIMBURSED EXPENSES

Year 2006 reimbursed expenses allocation per Company

0.4056305

Account	Description	Amount Reimbursed	Amt. Allocated
	426 Misc Non Util Expense	\$1,141.86	\$ 463.17
	601 Accounting Expense	4,824.17	1,956.83
601-1	Accounting Extras	1,817.77	737.34
	618 Chemical	371.20	150.57
	620 Repairs & Maintenance	8,450.38	3,427.73
	621 Office Expense	1,256.06	509.50
	630 Outside Services	27,279.27	11,065.30
	6301 Outside Services Other	519.47	210.71
	635 Testing	162.37	65.86
	657 Insurance	1,201.29	487.28
	675 Misc. Operating Expense	4,004.13	1,624.20
	760 Telephone	94.98	38.53
	Total	<u>\$ 51,122.95</u>	<u>\$20,737.03</u>

ICR WATER USERS ASSOCIATION
Docket No. W-2824A-07-0388
Test Year Ending December 31,2006

Amended Schedule CRM-23

GALLONS PUMPED

	<u>Golf Course</u> <u>Well one</u>	<u>Golf Course</u> <u>Well two</u>	<u>Company</u> <u>Well three</u>	<u>Total gallons</u>
Total gallons pumped	78,882,000	9,600,000	60,385,000	148,867,000
total gallons percentage allocation to each well	52.98824%	6.4487%	40.56305%	1.00

ICR WATER USERS ASSOCIATION
 Docket No. W-2824A-07-0388
 Test Year Ending December 31,2006

Amended Schedule CRM-24

WATER GALLONS TO GOLF COURSE CALCULATION

Year 2006

	Golf Course Well one	Golf Course Well two	Company Well three	Total gallons pumped
Total gallons pumped	78,882,000	9,600,000	60,385,000	148,867,000
Total gallons sent by golf course	125,026,000			0.4056305
Well No. 1	78,882,000			
Well No. 2	9,600,000			
Well No. 3 to golf course	36,544,000			
Less:1,000 gallons included in monthly minimum for 12 months.	12,000			
Gallons subject to commodity rate.	36,532,000			
Tariff Rate amount.				
Monthly Minimum \$1,000				12,000
Commodity rate \$2.80 per 1,000 gallons				102,290
Total due from golf course				\$ 114,290

	Well No. 1		Well No. 2		Well No. 3	
					(000's)	
Jan	2,166,000	2,166	226,000	226	3,613,000	3,613
Feb	2,043,000	2,043	178,000	178	3,806,000	3,806
Mar	1,191,000	1,191	-	-	2,583,000	2,583
Apr	7,045,000	7,045	130,000	130	3,135,000	3,135
May	17,557,000	17,557	2,046,000	2,046	7,255,000	7,255
Jun	13,769,000	13,769	5,490,000	5,490	9,608,000	9,608
Jul	6,670,000	6,670	759,000	759	7,207,000	7,207
Aug	10,378,000	10,378	242,000	242	5,205,000	5,205
Sep	6,951,000	6,951	69,000	69	5,007,000	5,007
Oct	4,580,000	4,580	215,000	215	7,231,000	7,231
Nov	3,860,000	3,860	224,000	224	2,794,000	2,794
Dec	2,672,000	2,672	21,000	21	2,941,000	2,941
Totals	78,882,000	78,882	9,600,000	9,600	60,385,000	60,385
	656,000	656	-	-	1,107,000	1,107
	1,083,000	1,083	2,000	2	1,382,000	1,382
	80,621,000	80,621	9,602,000	9,602	62,874,000	62,874

88,482,000

ICR WATER USERS ASSOCIATION
 Docket No. W-2824A-07-0388
 Test Year Ending December 31,2006

Amended Schedule CRM-25

PURCHASED POWER CALCUALTION

	Golf Course Well one	Golf Course Well two	Company Well three	Total gallons
Total gallons pumped	78,882,000	9,600,000	60,385,000	148,867,000
total gallons percentage allocation to each well	0.52988238	0.06448709	0.40563053	1.00
Total O&M expenses per ICR true up				\$ 60,674.99
Golf Course share of O&M expenses				\$ 51,122.92
allocation of reimburse expenses per ICR	\$ 27,089.13	\$ 3,296.77	\$ 20,737.02	\$ 51,122.92
Allocation of total O&M expenses	<u>\$ 32,150.61</u>	<u>\$ 3,912.75</u>	<u>\$ 24,611.63</u>	\$ 60,674.99
O&M expenses decreased golf course wells	<u>\$ 5,061.47</u>	<u>\$ 615.99</u>		
O&M expenses increased ICR well does not include electric power purchased			<u>\$ 20,737.02</u>	
Electric Power allocation gallons pumped	<u>78,882,000</u>	<u>9,600,000</u>	<u>60,385,000</u>	<u>148,867,000</u>
Cost of electric power paid by golf course	\$53,623.00			
Cost of electric power per 1,000 gallons of water pumped	0.00036021			
Cost of electric power for well No. three			<u>\$21,751</u>	

BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02824A-07-0388
ICR WATER USERS ASSOCIATION, AN)
ARIZONA CORPORATION, FOR)
DETERMINATION OF THE CURRENT FAIR)
VALUE OF ITS UTILITY PLANT AND)
PROPERTY AND FOR INCREASES IN ITS)
RATES AND CHARGES FOR UTILITY)
SERVICES)
_____)

AMENDED

DIRECT

TESTIMONY

OF

JIAN W. LIU

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

MARCH 14, 2008

TABLE OF CONTENTS

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INTRODUCTION	1
ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE:	1

EXHIBIT

MR. BRIAN K. BOZZO’S MEMORANDUM.....	EXHIBIT 1
--------------------------------------	-----------

EXECUTIVE SUMMARY
ICR WATER USERS ASSOCIATION
DOCKET NO. W-02824A-07-0388

Staff has determined that ICR Water Users Association ("ICR" or "Company") did not achieve compliance as outlined and required in Decision No. 64360 (See Attached Exhibit 1 Mr. Brian K. Bozzo's Memorandum dated January 15, 2008). Therefore, Staff recommends that any increase in rates and charges approved in this proceeding shall not become effective until the month after ICR submits documentation to Docket Control verifying that the Company has achieved total compliance with Decision No. 64360.

1 **INTRODUCTION**

2 **Q. Please state your name, occupation, and business address.**

3 A. My name is Jian W. Liu. My job title is Water/Wastewater Engineer. My place of
4 employment is the Arizona Corporation Commission (“Commission”), Utilities Division,
5 1200 West Washington Street, Phoenix, Arizona 85007.

6

7 **Q. Are you the same Jian W. Liu who filed Direct Testimony in this case?**

8 A. Yes, I am.

9

10 **Q. What is the purpose of your Amended Direct Testimony in this proceeding?**

11 A. The purpose of my Amended Direct Testimony in this proceeding is to present Utilities
12 Division Staff’s (“Staff”) finding of non-compliance with Decision No. 64360 for ICR
13 Water users Association (See Mr. Brian K. Bozzo’s Memorandum dated January 15,
14 2008, regarding the Company’s compliance with prior Commission orders).

15

16 **ARIZONA CORPORATION COMMISSION (“ACC”) COMPLIANCE:**

17 **Q. What is Staff’s finding according to its Memorandum dated January 15, 2008?**

18 A. This Memorandum states the following: “Staff has conducted a current review of the
19 Company’s March 7, 2003, filing relating to the transfer of the ownership of the wells.
20 Specifically, Staff reviewed Exhibit A, the “First Amendment to the Main Extension
21 Agreement” (“First Amendment Agreement”) within the filing and compared it to the
22 requirement outlined in Decision No. 64360. Upon inspection of the First Amendment
23 Agreement, Staff determined that the Company has not complied with the well
24 ownership transfer issue as ordered by the Commission.

25

1 As outlined in Decision No. 64360, the Company was given 365 days to include the
2 wells in the MXA and "file a copy of the relevant documents transferring ownership of
3 the wells and related water production facilities to ICR". The decision required the
4 Company to transfer two wells within that timeframe. Staff compared this requirement
5 with the actions of the Company in this regard as highlighted in the First Amendment
6 Agreement document. A closer inspection of the "Transfer of Ownership" section
7 (Section 1 (c)) of the First Amendment Agreement shows that the language calls for the
8 second well to be transferred "on or before the date that the Company provides water
9 service to the 800th single-family residence". This qualification on the timing of transfer
10 for the second well is contrary to the specific language and the intent of Decision No.
11 64360.

12
13 There is no doubt that Decision No. 64360 required the transfer of the second well, as
14 Finding of Fact 20 clearly states that "Harvard will utilize the second well as a back-up
15 emergency well". Further, the due date applied by the Commission on the transfer of the
16 wells was a specific date which did not include any variable element. Staff saw nothing
17 in its current review to indicate that the Commission's intent was to base the due date on
18 any specific level of construction or number of residential customers served. Rather, the
19 Commission imposed due date was based on an actual and specific calendar date.

20
21 Based on all of the above, Staff has determined that the First Amendment Agreement did
22 not result in the timely transfer of two wells to ICR and therefore the Company did not
23 achieve compliance as outlined and required in Decision No. 64360. This memorandum
24 has been docketed to correct previous information provided to Engineering Staff and to
25 communicate to the parties Staff's determination that the Company is not in compliance
26 with the Commission's requirement relating to the transfer of the two wells."

1 **Q. Are you proposing any changes to your Direct Testimony because of this**
2 **Memorandum?**

3 A. Yes, Staff now recommends that any increase in rates and charges approved in this
4 proceeding shall not become effective until the month after ICR submits documentation to
5 Docket Control verifying that the Company has achieved total compliance with Decision
6 No. 64360.

7
8 **Q. Does this conclude your Amended Direct Testimony?**

9 A. Yes, it does.

ORIGINAL

EXHIBIT 1

MEMORANDUM

RECEIVED

5

TO: Docket Control Center
FROM: Brian K. Bozzo *BKB*
Manager, Compliance and Enforcement
Utilities Division

2008 JAN 15 A 11: 26

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

JAN 15 2008

DATE: January 15, 2008

DOCKETED BY *[Signature]*

RE: ICR WATER USERS ASSOCIATION, INC. - COMPLIANCE REQUIREMENT
TRANSFER ISSUE OF WELLS FROM HARVARD SIMON I, L.L.C. TO UTILITY
PER DECISION NO. 64360. (DOCKET NO. W-02824A-01-0450)

In Decision No. 64360, dated January 15, 2002, the Arizona Corporation Commission ("A.C.C." or "Commission") approved the application of ICR Water Users Association, Inc. ("ICR" or "Company") for an extension of its Certificate of Convenience and Necessity ("CC&N"). In issuing its decision, the Commission ordered the Company to provide a filing relating the advance of certain wells from Harvard Simon I, L.L.C.

Specifically, Decision No. 64360 ordered the following:

"...as an additional condition for the extension of the Certificate herein, as part of the Agreement, Harvard should include in its advance, the wells which it has drilled for the purpose of providing water to the extension area described in Exhibit A to ensure that the utility has adequate water for its customers and to ensure that they are not subject to relying for their water on a third party over which the Commission lacks jurisdiction."

"We believe that this additional condition can be met by amending the Agreement between the parties and we shall require ICR to file a copy of the relevant documents transferring ownership of the wells and related water production facilities to ICR within 365 days of the effective date of this Decision ..."

The original due date for this item was January 15, 2003. The Company requested a sixty day extension of time to comply and was granted, via Procedural Order of the Commission, until March 12, 2003, to comply with the above requirement.

On March 7, 2003, the Company filed a document titled "ICR Water Users Association, Inc. Notice of Compliance" which purported compliance with the above requirement. The filing was formatted as a compliance filing, referred to amending the advance/main extension agreement ("MXA") as ordered in the decision above, and specifically amended the "Off-Site Facilities" section of the MXA to include the two production wells. The item was marked as complied in the Compliance database and has continued to maintain that classification. As it was marked as complied in the database, this item did not register as a delinquency during a recent compliance

check requested by Engineering Staff. Staff subsequently communicated that this item was not delinquent and Engineering Staff relied on this information in a November 30, 2007 Engineering Report filed in relation to a current rate case.

Staff has conducted a current review of the Company's March 7, 2003 filing relating to the transfer of the ownership of the wells. Specifically, Staff reviewed Exhibit A, the "First Amendment to the Main Extension Agreement" ("First Amendment Agreement") within the filing and compared it to the requirement outlined in Decision No. 64360. Upon inspection of the First Amendment Agreement, Staff determined that the Company has not complied with the well ownership transfer issue as ordered by the Commission.

As outlined in Decision No. 64360, the Company was given 365 days to include the wells in the MXA and "file a copy of the relevant documents transferring ownership of the wells and related water production facilities to ICR". The decision required the Company to transfer two wells within that timeframe. Staff compared this requirement with the actions of the Company in this regard as highlighted in the First Amendment Agreement document. A closer inspection of the "Transfer of Ownership" section (Section 1 (c)) of the First Amendment Agreement shows that the language calls for the second well to be transferred "on or before the date that the Company provides water service to the 800th single-family residence". This qualification on the timing of transfer for the second well is contrary to the specific language and the intent of Decision No. 64360.

There is no doubt that Decision No. 64360 required the transfer of the second well, as Finding of Fact No. 20 clearly states that "Harvard will utilize the second well as a back-up emergency well". Further, the due date applied by the Commission on the transfer of the wells was a specific date which did not include any variable element. Staff saw nothing in its current review to indicate that the Commission's intent was to base the due date on any specific level of construction or number of residential customers served. Rather, the Commission imposed due date was based on an actual and specific calendar date.

Based on all of the above, Staff has determined that the First Amendment Agreement did not result in the timely transfer of two wells to ICR and therefore the Company did not achieve compliance as outlined and required in Decision No. 64360. This memorandum has been docketed to correct previous information provided to Engineering Staff and to communicate to the parties Staff's determination that the Company is not in compliance with the Commission's requirement relating to the transfer of the two wells.

EGJ:BKB:lmh

Originator: Brian K. Bozzo

Attachment

SERVICE LIST FOR: ICR WATER USERS ASSOCIATION, INC.
DOCKET NO. W-02824A-01-0450

Mr. Thomas H. Campbell
Mr. Michael Hallam
Mr. Robert Metli
Lewis & Roca
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Attorneys for Harvard Simon I, L.L.C.

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

Mr. Christopher C. Kempley
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

ORIGINAL

RECEIVED

BEFORE THE ARIZONA CORPORATION COMMISSION

2003 MAR -7 P 4:39

AZ CORP COMMISSION
DOCUMENT CONTROL

MARC SPITZER
Chairman

JIM IRVIN
Commissioner

WILLIAM A. MUNDELL
Commissioner

MIKE GLEASON
Commissioner

JEFF HATCH-MILLER
Commissioner

Arizona Corporation Commission
DOCKETED

MAR - 7 2003

DOCKETED BY **CAT**

IN THE MATTER OF THE APPLICATION
OF ICR WATER USERS ASSOCIATION,
INC. FOR AN EXTENSION FOR ITS
CERTIFICATE OF CONVENIENCE AND
NECESSITY

Docket No: W-02824A-01-0450

**ICR WATER USERS
ASSOCIATION, INC.'S
NOTICE OF COMPLIANCE**

On June 1, 2001, ICR Water Users Association, Inc. ("ICR") filed with the Arizona Corporation Commission ("Commission") an application for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide public water utility service to various parts of Yavapai County. That application included a copy of the Main Extension Agreement with Harvard Simon I, L.L.C. ("Harvard") dated March 5, 2001.

On January 15, 2002, the Commission issued Decision No. 64360, granting ICR's request for an extension of its CC&N, subject to certain conditions. These conditions are:

1. That ICR file with the Director of the Commission's Utilities Division within 365 days of the effective date of Decision No. 64360:

1 a. a copy of the developer's water adequacy report for Phase I which is
2 to be issued by the Arizona Department of Water Resources;

3 b. a copy of the developer's Certificate of Approval to Construct with
4 the appropriate main extension agreement;

5 c. a copy of ICR's Yavapai County franchise for the extension area; and

6 d. an amended agreement between ICR and Harvard which provides that
7 ownership of the wells which Harvard has drilled for the purpose of providing water to the
8 extension area be transferred to ICR.

9 On June 14, 2002, Intervenor Harvard filed a copy of the water adequacy
10 report for Phase I of Talking Rock Ranch, issued by the Arizona Department of Water
11 Resources.

12 On January 13 2003, ICR filed with the Commission the developer's
13 Approval to Construct and ICR's franchise agreement with Yavapai County. ICR also
14 requested an extension of sixty (60) days from the January 15, 2003 deadline to file an
15 amendment to its Main Extension Agreement with Harvard providing, in part, for the
16 advance of production wells from Harvard to ICR, and to file a copy of the relevant
17 documents transferring ownership of the production wells from Harvard to ICR as
18 required by Commission Decision No. 64360.

19 In a Procedural Order dated March 3, 2003, the Administrative Law Judge
20 granted that extension.

21 ICR hereby submits a copy of the First Amendment to Main Extension
22 Agreement dated February 25, 2003, attached as Exhibit A, and the amended Well
23 Agreement dated February 25, 2003, attached as Exhibit B.

24
25
26

LEWIS
AND
ROCA
LLP
LAWYERS

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Copy of the foregoing mailed
this 7th day of March, 2003, to:

Jay Shapiro
Patrick Black
FENNEMORE CRAIG
3003 N. Central Avenue
Suite 2600
Phoenix, Arizona 85012-2913
Attorneys for Harvard Simon I, L.L.C.



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EXHIBIT A

FIRST AMENDMENT TO MAIN EXTENSION AGREEMENT

25th THIS FIRST AMENDMENT TO MAIN EXTENSION AGREEMENT is made this day of February, 2003, by and between ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Company"), and HARVARD SIMON I, L.L.C., an Arizona corporation ("Developer"), for the purposes and consideration hereinafter set forth.

RECITALS

A. Company and Developer previously entered into that certain Main Extension Agreement, dated March 5, 2001 ("the Agreement"), pertaining to the extension of water utility service to 3470 acres of real property generally situated in Yavapai County, Arizona ("the Property").

B. Subsequent to execution of the Agreement, on January 15, 2002 the Arizona Corporation Commission ("Commission") issued Decision No. 64360 extending Company's CC&N conditioned upon Developer transferring ownership of certain wells and related water production facilities to the Company.

C. Based on the Commission's Order, the parties desire to amend and modify certain provisions of the Agreement, as set forth below.

NOW, THEREFORE, in consideration of the following covenants and agreements, and other good and valuable consideration, Company and Developer hereby agree to amend the Agreement, as follows:

1. Amendment to Agreement.

(a) Off-Site Facilities. Paragraph 1(a) of the Agreement is amended to provide that the "Facilities" include two production wells that have been installed and constructed by Developer and are described as Production Well 3 and Production Well 2 in that Well Agreement to be executed by Company, Developer and Talking Rock Golf, L.L.C. concurrently with the execution of this Agreement (the "Well Agreement"). A Revised Exhibit "C" reflecting the actual costs of the two production wells is attached hereto and incorporated herein by this reference.

(b) Utility's Use of the Facilities. Paragraph 1(b) of the Agreement is amended to provide that Company covenants and agrees that Company shall use and operate the production wells installed and constructed by Developer and transferred to Company pursuant to the Well Agreement only in accordance with the use restrictions contained in the Well Agreement and the conditions and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona, pursuant to which Developer's affiliate acquired the location of the production wells.

(c) Transfer of Ownership. Paragraph 5(a) of the Agreement is amended to provide that, pursuant to the Well Agreement, (i) immediately after the approval of this First

Amendment by the Commission or its staff, Developer will transfer and convey Production Well 3 to the Company, via Bill of Sale in form attached to the Well Agreement; and (ii) on or before the date that the Company provides water service to the 800th single-family residence at the Property, Developer's affiliate, Talking Rock Golf, will transfer and convey Production Well 2 to the Company, via Bill of Sale in form attached to the Well Agreement. All other Facilities shall be conveyed in accordance with the terms of the Agreement.

(d) Determination of Amount of Developer Advances. Paragraph 8 of the Agreement is amended to provide that the actual costs of Production Well 3 and Production Well 2, including all equipment, pumps, motors, valves, pipes, electrical system and other appurtenances installed and constructed by Developer and transferred and conveyed by Developer or by Talking Rock Golf to Company, shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9 of the Agreement.

(e) Agreement Submission. Paragraph 13(a) of the Agreement is amended to provide that the Company shall be responsible for promptly seeking Commission approval of this First Amendment.

2. Inconsistencies: Governing Agreement. With regard to Production Well 3 and Production Well 2, in the event of any inconsistencies between the terms and provisions of the Well Agreement and the terms and provisions of the Agreement, the terms and provisions of the Well Agreement shall govern and prevail.

3. Effect on the Agreement. Except as otherwise expressly provided herein, all terms, covenants and conditions of the Agreement shall remain in full force and effect and be binding upon the parties.

IN WITNESS WHEREOF, ICR WATER USERS ASSOCIATION and HARVARD SIMON I, L.L.C., have caused this First Amendment to Main Extension Agreement to be executed on their behalf by their duly authorized representatives as of the day and year first above written.

ICR WATER USERS ASSOCIATION

By 
Joyce McCraine, President

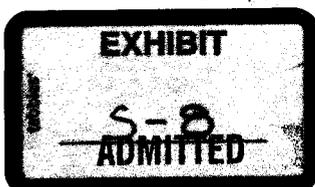
HARVARD SIMON I, L.L.C., an Arizona limited liability company,

By: Harvard Talking Rock, L.L.C.
Its Operating Member

By: Harvard Investments, Inc., an
Nevada corporation
Its Manager

By 
Its President

PHX/MGALLOGL/1257894.3/47094.005



ORIGINAL

MEMORANDUM

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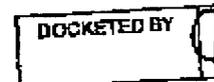
TO: Docket Control Center

FROM: Brian K. Bozzo *BKB*
 Manager, Compliance and Enforcement
 Utilities Division

2008 JAN 15 A 11: 26
 AZ CORP COMMISSION
 DOCKET CONTROL

Arizona Corporation Comm
DOCKETE
 JAN 15 2008

DATE: January 15, 2008



RE: ICR WATER USERS ASSOCIATION, INC. - COMPLIANCE REQUIREMENT
 TRANSFER ISSUE OF WELLS FROM HARVARD SIMON I, L.L.C. TO UTILITY
 PER DECISION NO. 64360. (DOCKET NO. W-02824A-01-0450)

In Decision No. 64360, dated January 15, 2002, the Arizona Corporation Commission ("A.C.C." or "Commission") approved the application of ICR Water Users Association, Inc. ("ICR" or "Company") for an extension of its Certificate of Convenience and Necessity ("CC&N"). In issuing its decision, the Commission ordered the Company to provide a filing relating the advance of certain wells from Harvard Simon I, L.L.C.

Specifically, Decision No. 64360 ordered the following:

"...as an additional condition for the extension of the Certificate herein, as part of the Agreement, Harvard should include in its advance, the wells which it has drilled for the purpose of providing water to the extension area described in Exhibit A to ensure that the utility has adequate water for its customers and to ensure that they are not subject to relying for their water on a third party over which the Commission lacks jurisdiction."

"We believe that this additional condition can be met by amending the Agreement between the parties and we shall require ICR to file a copy of the relevant documents transferring ownership of the wells and related water production facilities to ICR within 365 days of the effective date of this Decision ..."

The original due date for this item was January 15, 2003. The Company requested a sixty day extension of time to comply and was granted, via Procedural Order of the Commission, until March 12, 2003, to comply with the above requirement.

On March 7, 2003, the Company filed a document titled "ICR Water Users Association, Inc. Notice of Compliance" which purported compliance with the above requirement. The filing was formatted as a compliance filing, referred to amending the advance/main extension agreement ("MXA") as ordered in the decision above, and specifically amended the "Off-Site Facilities" section of the MXA to include the two production wells. The item was marked as complied in the Compliance database and has continued to maintain that classification. As it was marked as complied in the database, this item did not register as a delinquency during a recent compliance

check requested by Engineering Staff. Staff subsequently communicated that this item was not delinquent and Engineering Staff relied on this information in a November 30, 2007 Engineering Report filed in relation to a current rate case.

Staff has conducted a current review of the Company's March 7, 2003 filing relating to the transfer of the ownership of the wells. Specifically, Staff reviewed Exhibit A, the "First Amendment to the Main Extension Agreement" ("First Amendment Agreement") within the filing and compared it to the requirement outlined in Decision No. 64360. Upon inspection of the First Amendment Agreement, Staff determined that the Company has not complied with the well ownership transfer issue as ordered by the Commission.

As outlined in Decision No. 64360, the Company was given 365 days to include the wells in the MXA and "file a copy of the relevant documents transferring ownership of the wells and related water production facilities to ICR". The decision required the Company to transfer two wells within that timeframe. Staff compared this requirement with the actions of the Company in this regard as highlighted in the First Amendment Agreement document. A closer inspection of the "Transfer of Ownership" section (Section 1 (c)) of the First Amendment Agreement shows that the language calls for the second well to be transferred "on or before the date that the Company provides water service to the 800th single-family residence". This qualification on the timing of transfer for the second well is contrary to the specific language and the intent of Decision No. 64360.

There is no doubt that Decision No. 64360 required the transfer of the second well, as Finding of Fact No. 20 clearly states that "Harvard will utilize the second well as a back-up emergency well". Further, the due date applied by the Commission on the transfer of the wells was a specific date which did not include any variable element. Staff saw nothing in its current review to indicate that the Commission's intent was to base the due date on any specific level of construction or number of residential customers served. Rather, the Commission imposed due date was based on an actual and specific calendar date.

Based on all of the above, Staff has determined that the First Amendment Agreement did not result in the timely transfer of two wells to ICR and therefore the Company did not achieve compliance as outlined and required in Decision No. 64360. This memorandum has been docketed to correct previous information provided to Engineering Staff and to communicate to the parties Staff's determination that the Company is not in compliance with the Commission's requirement relating to the transfer of the two wells.

EGJ:BKB:lhM

Originator: Brian K. Bozzo

Attachment

SERVICE LIST FOR: ICR WATER USERS ASSOCIATION, INC.
DOCKET NO. W-02824A-01-0450

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Attorneys for Harvard Simon I, L.L.C.

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
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Phoenix, Arizona 85007

Mr. Christopher C. Kempley
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

ORIGINAL

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BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION
DOCUMENT CONTROL

MARC SPITZER
Chairman

Arizona Corporation Commission

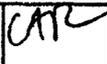
JIM IRVIN
Commissioner

DOCKETED

WILLIAM A. MUNDELL
Commissioner

MAR - 7 2003

MIKE GLEASON
Commissioner

DOCKETED BY	
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JEFF HATCH-MILLER
Commissioner

IN THE MATTER OF THE APPLICATION
OF ICR WATER USERS ASSOCIATION,
INC. FOR AN EXTENSION FOR ITS
CERTIFICATE OF CONVENIENCE AND
NECESSITY

Docket No: W-02824A-01-0450

**ICR WATER USERS
ASSOCIATION, INC.'S
NOTICE OF COMPLIANCE**

On June 1, 2001, ICR Water Users Association, Inc. ("ICR") filed with the Arizona Corporation Commission ("Commission") an application for an extension of its Certificate of Convenience and Necessity ("CC&N") to provide public water utility service to various parts of Yavapai County. That application included a copy of the Main Extension Agreement with Harvard Simon I, L.L.C. ("Harvard") dated March 5, 2001.

On January 15, 2002, the Commission issued Decision No. 64360, granting ICR's request for an extension of its CC&N, subject to certain conditions. These conditions are:

1. That ICR file with the Director of the Commission's Utilities Division within 365 days of the effective date of Decision No. 64360:

1 a. a copy of the developer's water adequacy report for Phase I which is
2 to be issued by the Arizona Department of Water Resources;

3 b. a copy of the developer's Certificate of Approval to Construct with
4 the appropriate main extension agreement;

5 c. a copy of ICR's Yavapai County franchise for the extension area; and

6 d. an amended agreement between ICR and Harvard which provides that
7 ownership of the wells which Harvard has drilled for the purpose of providing water to the
8 extension area be transferred to ICR.

9 On June 14, 2002, Intervenor Harvard filed a copy of the water adequacy
10 report for Phase I of Talking Rock Ranch, issued by the Arizona Department of Water
11 Resources.

12 On January 13 2003, ICR filed with the Commission the developer's
13 Approval to Construct and ICR's franchise agreement with Yavapai County. ICR also
14 requested an extension of sixty (60) days from the January 15, 2003 deadline to file an
15 amendment to its Main Extension Agreement with Harvard providing, in part, for the
16 advance of production wells from Harvard to ICR, and to file a copy of the relevant
17 documents transferring ownership of the production wells from Harvard to ICR as
18 required by Commission Decision No. 64360.

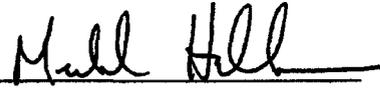
19 In a Procedural Order dated March 3, 2003, the Administrative Law Judge
20 granted that extension.

21 ICR hereby submits a copy of the First Amendment to Main Extension
22 Agreement dated February 25, 2003, attached as Exhibit A, and the amended Well
23 Agreement dated February 25, 2003, attached as Exhibit B.

24
25
26

1 RESPECTFULLY SUBMITTED this 7th day of March, 2003.

2 LEWIS AND ROCA LLP

3
4 By: 

5 Thomas H. Campbell
6 Michael T. Hallam
7 40 N. Central Avenue
8 Phoenix, Arizona 85004

Attorneys ICR Water Users Association, Inc.

8
9 Original and thirteen (13) copies of
10 the foregoing hand-delivered
11 this 7th day of March, 2003, to:

11 ARIZONA CORPORATION COMMISSION
12 Docket Control
13 1200 W. Washington Street
14 Phoenix, Arizona 85007

15 Copy of the foregoing hand-delivered
16 this 7th day of March, 2003, to:

17 Marc E. Stern, Administrative Law Judge
18 Hearing Division

19 ARIZONA CORPORATION COMMISSION
20 1200 W. Washington Street
21 Phoenix, Arizona 85007

22 Patrick Williams, Compliance Manager
23 Utilities Division

24 ARIZONA CORPORATION COMMISSION
25 1200 W. Washington Street
26 Phoenix, Arizona 85007

Ernest Johnson, Director
Utilities Division

ARIZONA CORPORATION COMMISSION
1200 W. Washington Street
Phoenix, Arizona 85007

LEWIS
AND
ROCA
LLP
LAWYERS

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Copy of the foregoing mailed
this 7th day of March, 2003, to:

Jay Shapiro
Patrick Black
FENNEMORE CRAIG
3003 N. Central Avenue
Suite 2600
Phoenix, Arizona 85012-2913
Attorneys for Harvard Simon I, L.L.C.

Jayne Williams

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EXHIBIT A

FIRST AMENDMENT TO MAIN EXTENSION AGREEMENT

25th THIS FIRST AMENDMENT TO MAIN EXTENSION AGREEMENT is made this day of February, 2003, by and between ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Company"), and HARVARD SIMON I, L.L.C., an Arizona corporation ("Developer"), for the purposes and consideration hereinafter set forth.

RECITALS

A. Company and Developer previously entered into that certain Main Extension Agreement, dated March 5, 2001 ("the Agreement"), pertaining to the extension of water utility service to 3470 acres of real property generally situated in Yavapai County, Arizona ("the Property").

B. Subsequent to execution of the Agreement, on January 15, 2002 the Arizona Corporation Commission ("Commission") issued Decision No. 64360 extending Company's CC&N conditioned upon Developer transferring ownership of certain wells and related water production facilities to the Company.

C. Based on the Commission's Order, the parties desire to amend and modify certain provisions of the Agreement, as set forth below.

NOW, THEREFORE, in consideration of the following covenants and agreements, and other good and valuable consideration, Company and Developer hereby agree to amend the Agreement, as follows:

1. **Amendment to Agreement.**

(a) **Off-Site Facilities.** Paragraph 1(a) of the Agreement is amended to provide that the "Facilities" include two production wells that have been installed and constructed by Developer and are described as Production Well 3 and Production Well 2 in that Well Agreement to be executed by Company, Developer and Talking Rock Golf, L.L.C. concurrently with the execution of this Agreement (the "Well Agreement"). A Revised Exhibit "C" reflecting the actual costs of the two production wells is attached hereto and incorporated herein by this reference.

(b) **Utility's Use of the Facilities.** Paragraph 1(b) of the Agreement is amended to provide that Company covenants and agrees that Company shall use and operate the production wells installed and constructed by Developer and transferred to Company pursuant to the Well Agreement only in accordance with the use restrictions contained in the Well Agreement and the conditions and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona, pursuant to which Developer's affiliate acquired the location of the production wells.

(c) **Transfer of Ownership.** Paragraph 5(a) of the Agreement is amended to provide that, pursuant to the Well Agreement, (i) immediately after the approval of this First

Amendment by the Commission or its staff, Developer will transfer and convey Production Well 3 to the Company, via Bill of Sale in form attached to the Well Agreement; and (ii) on or before the date that the Company provides water service to the 800th single-family residence at the Property, Developer's affiliate, Talking Rock Golf, will transfer and convey Production Well 2 to the Company, via Bill of Sale in form attached to the Well Agreement. All other Facilities shall be conveyed in accordance with the terms of the Agreement.

(d) Determination of Amount of Developer Advances. Paragraph 8 of the Agreement is amended to provide that the actual costs of Production Well 3 and Production Well 2, including all equipment, pumps, motors, valves, pipes, electrical system and other appurtenances installed and constructed by Developer and transferred and conveyed by Developer or by Talking Rock Golf to Company, shall constitute an advance in aid of construction and shall be refundable to Developer in accordance with paragraph 9 of the Agreement.

(e) Agreement Submission. Paragraph 13(a) of the Agreement is amended to provide that the Company shall be responsible for promptly seeking Commission approval of this First Amendment.

2. Inconsistencies: Governing Agreement. With regard to Production Well 3 and Production Well 2, in the event of any inconsistencies between the terms and provisions of the Well Agreement and the terms and provisions of the Agreement, the terms and provisions of the Well Agreement shall govern and prevail.

3. Effect on the Agreement. Except as otherwise expressly provided herein, all terms, covenants and conditions of the Agreement shall remain in full force and effect and be binding upon the parties.

IN WITNESS WHEREOF, ICR WATER USERS ASSOCIATION and HARVARD SIMON I, L.L.C., have caused this First Amendment to Main Extension Agreement to be executed on their behalf by their duly authorized representatives as of the day and year first above written.

ICR WATER USERS ASSOCIATION

By 
Wayze McCraine, President

HARVARD SIMON I, L.L.C., an Arizona limited liability company,

By: Harvard Talking Rock, L.L.C.
Its Operating Member

By: Harvard Investments, Inc., an
Nevada corporation
Its Manager

By 
Its President

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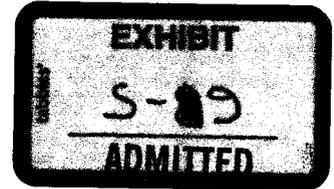
MEMORANDUM

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TO: Docket Control Center
FROM: Brian K. Bozzo *BKB*
Manager, Compliance and Enforcement
Utilities Division

2008 NOV 21 P 4: 10

AZ CORP COMMISSION
DOCKET CONTROL



DATE: November 21, 2008

RE: ICR WATER USERS ASSOCIATION, INC. - COMPLIANCE REQUIREMENT
TRANSFER ISSUE OF WELLS FROM HARVARD SIMON I, LLC TO UTILITY
PER DECISION NO. 64360 (DOCKET NO. W-02824A-01-0450)

On January 15, 2002, the Arizona Corporation Commission ("Commission") issued Decision No. 64360, approving the application of ICR Water Users Association, Inc. ("ICR" or "Company") for an extension of its Certificate of Convenience and Necessity ("CC&N"), subject to several conditions. The Commission expressed concern regarding "the fact that ICR does not own or have its own production facilities". Therefore, one of the conditions under which the extension was granted was that ICR arrange to have Harvard Simon I, LLC ("Harvard") transfer to ICR "the wells which it has drilled for the purposes of providing water to the extension area". The Commission stated that the purpose of the transfer was "to ensure that the utility has adequate water for its customers and to ensure that they are not subject to relying for their water on a third party over which the Commission lacks jurisdiction." The decision did not specifically identify any particular well. All that is clear is that the Commission ordered that two wells should be transferred.

On March 7, 2003, the Company filed a document titled "ICR Water Users Association, Inc. Notice of Compliance" which purported compliance with the above requirement. This item was accepted by Staff at that time. However, an intervenor in the instant docket challenged that compliance. As a result, Staff re-evaluated ICR's previous compliance filing. As a result of that re-evaluation, on January 15, 2008, Staff docketed a memorandum of compliance stating that the March 7, 2003 filing "did not result in the timely transfer of two wells to ICR and therefore the Company did not achieve compliance", since the agreement submitted in the Company's compliance filing only resulted in the *immediate* transfer of one well.

In response to Staff's January filing, Harvard transferred a second well to ICR. Staff has reviewed the documents submitted by ICR which indicate that transfer was accomplished on May 21, 2008. Staff is now satisfied that ICR is in compliance with the requirements of Decision No. 64360.

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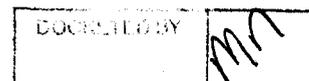
Originator: Brian K. Bozzo

Attachment

Arizona Corporation Commission

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SERVICE LIST FOR:
DOCKET NO.

ICR WATER USERS ASSOCIATION, INC.
W-02824A-01-0450

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Ms. Lyn Farmer
Chief Administrative Law Judge
Hearing Division
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Phoenix, Arizona 85007

Monthly Comparison Report

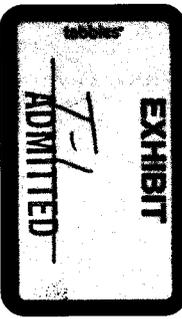
ICR Water Users Association
 March 2006

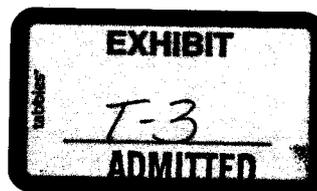
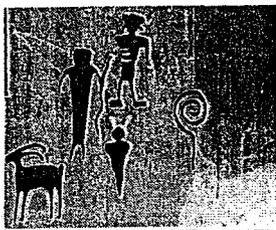
	ICR/MWC	Talking Rock	TOTAL
Well #1	0	1,191,000	
Well #2	1,556,000	0	
Well #3		2,583,000	
Water Pumped(well Total)	Gal 1,556,000	3,774,000	5,330,000
Water Sold This Month	1,213,577	3,082,761 includes Golf Course	4,296,338
Dist. Pump Totals	N/A	N/A	

Water Loss(pumped/sold) 342,423 691,239 1,033,662
Water Loss (%) 22.01% 18.32% 19.39%

Number of Active Accounts 242 94 336
 Average Usage for Active Meters Gal 5,015 3,444 excludes golf course

Usage Groups Gallons	ICR/MWC		Talking Rock		TOTAL # of Accounts (Gallons)	Usage (Gallons)
	# of Accounts	% of Accounts	# of Accounts	% of Accounts		
Golf Course	0	0.00%	1	1.06%	1	81,600
Over 50,000	2	0.83%	0	0.00%	2	81,190
40,001 - 50,000	0	0.00%	0	0.00%	0	0
30,001 - 40,000	0	0.00%	0	0.00%	0	0
20,001 - 30,000	4	1.65%	3	3.19%	7	155,618
10,001 - 20,000	18	7.44%	3	3.19%	21	278,808
8,001 - 10,000	14	5.79%	2	2.13%	16	143,757
6,001 - 8,000	32	13.22%	4	4.26%	36	250,058
4,001 - 6,000	50	20.66%	5	5.32%	55	277,596
2,001 - 4,000	53	21.90%	12	12.77%	65	194,957
1 - 2,000	53	21.90%	45	47.87%	98	73,755
Zero Usage	16	6.61%	19	20.21%	35	0
Total Cust. Use	242	100.00%	94	100.00%	336	1,537,338
Total incl Golf Course						3,082,761





ICR WATER USERS ASSOCIATION

HYDRANT METER USERS
INSTRUCTION SHEET

How many rates does the ICRWUA have?

1. Complete the User Information at the bottom of this form.
2. Complete the Application for Service form for ICR Water Users Association
3. Drop the Application and this Sheet at the ICR Water Users Assn. business office at MDI Financial Services, Inc., 246 N. HWY 89, Suite A, Chino Valley, AZ along with your payment for the amount of use you select. (Rate for hydrant water is \$10.00 per 1000 gallons, plus tax.)
4. The hydrant is located on Whispering Canyon Drive across from Whispering Canyon Sales Office (trailer). (approximately 1/4 mi. from WV Rd)
5. If you wish to purchase additional water, contact the business office at 583-0741.

Company Name: Rafter 2 Address: 11835 N Cielo Grande
 City: Prescott Zip: Arizona Phone No: (928) 925-0966
 Contact Name: Cory Pritchard Phone: (928) 925-0966
 Owner Name: Same Owner Address: Same
 City: _____ State: _____ Zip: _____ Phone: _____

Quantity of water desired (to nearest 500 gallons): 8000 Gallons x .01 per gal = 80.00
 (.0635)= Tax 5.08
 Date 6/24/08 Amt Paid \$85.08

Account Number (Office Use)

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

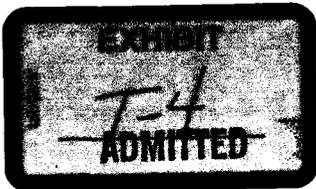
By

William Meyer

For

The Board of Directors, ICR Water Users Association

December 10, 2007



RESULTS OF THE 3-DAY TEST OF TRR WELL FIELD

2007 1024 - 1027

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.

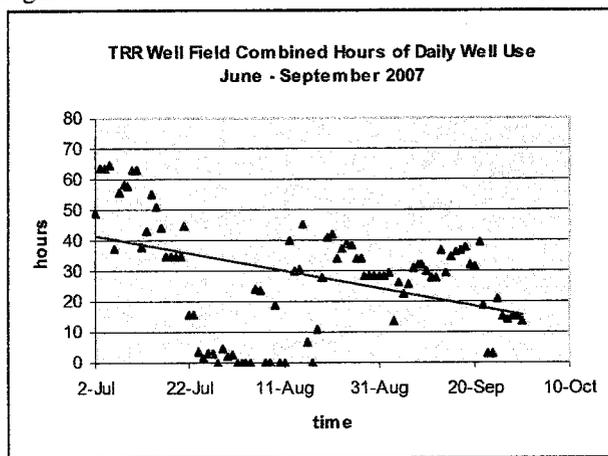
The test had two main purposes. One purpose of the test therefore was to establish the three day yield of the well field with all three wells pumping with the understanding that the short duration of the test combined with other hydrologic issues would not allow the ultimate long-term capacity of the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

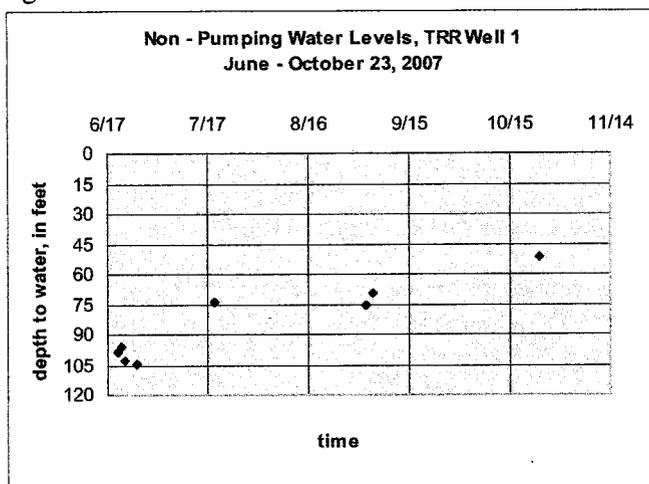
Following the on-set of the monsoon rains in mid-July 2007, water demand from the well field decreased with combined hours of daily well field usage falling from pre- monsoon values (June – July 11) between 50 to just below 70 hours per day to values ranging from zero to about 40 hours per hours ~~per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

Figure 1



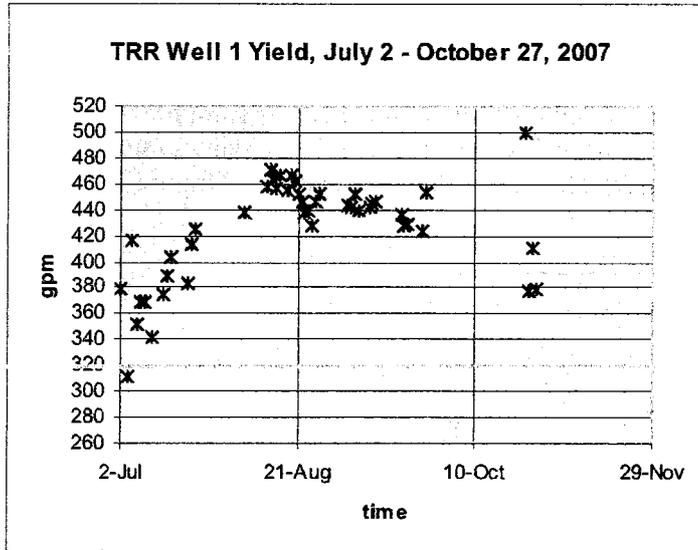
In response to reduced demand, non-pumping water levels in the well field increased, figure 2.

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

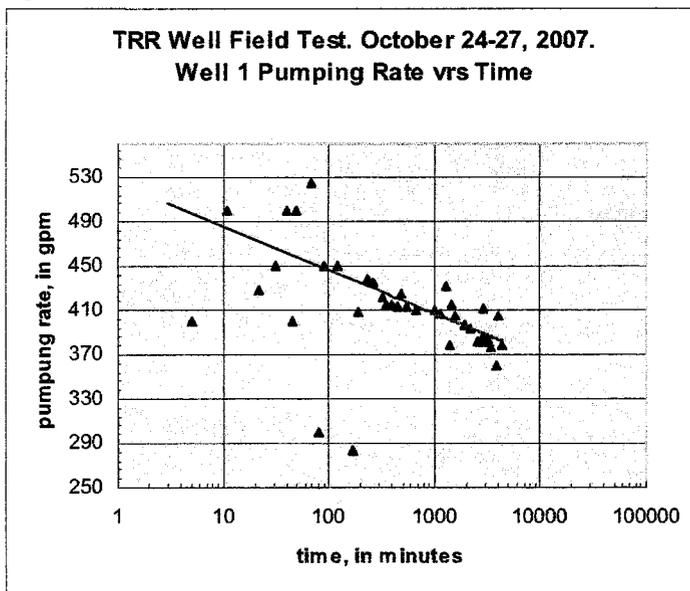


Well Yield during the Three Day Test

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.

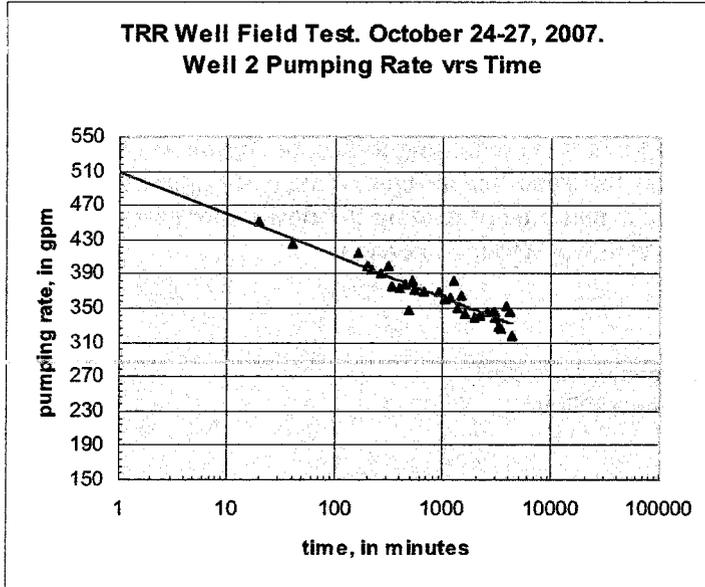
The initial yield from well 1 was 500 gallons per minute (gpm). At the end of the test its yield had declined to 379 gpm and yield was continuing to decline, figure 4. The rates that are significantly above or below the trend line in figure 4 are early time data when the highest potential for error in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

Figure 4



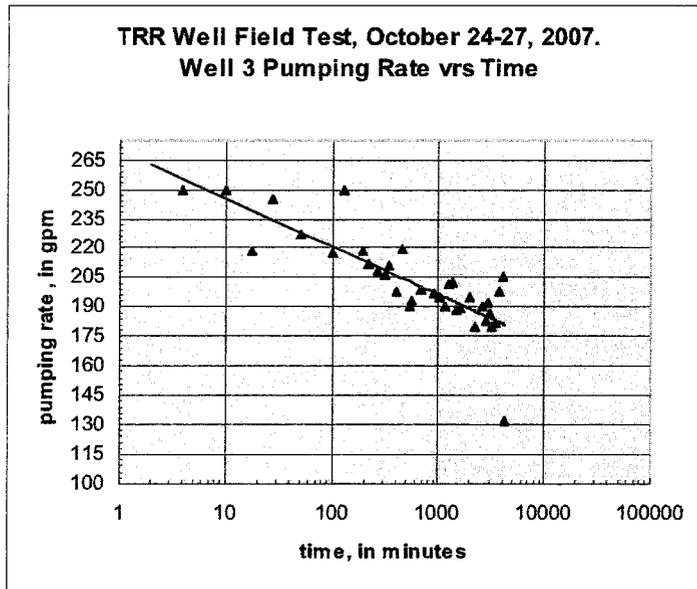
Initial and final yields from well 2 during the October 24-27, 2007 test were 451 gpm and 317 gpm respectively, figure 5. The overall decline in production from the well was about 30 percent.

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

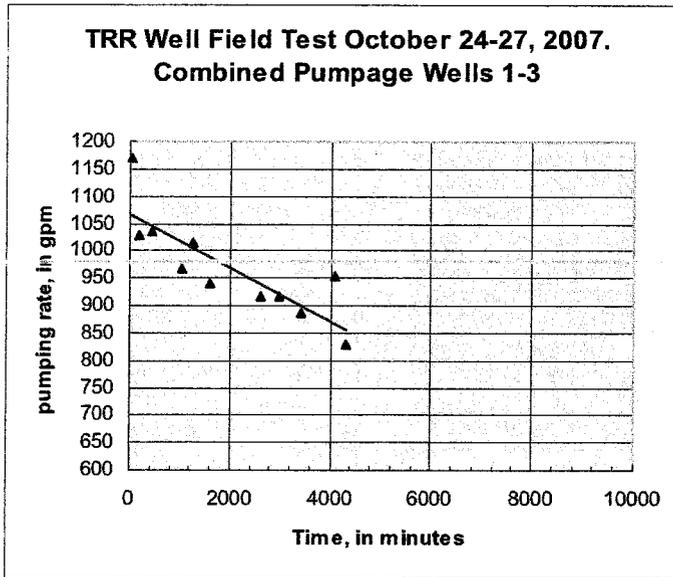
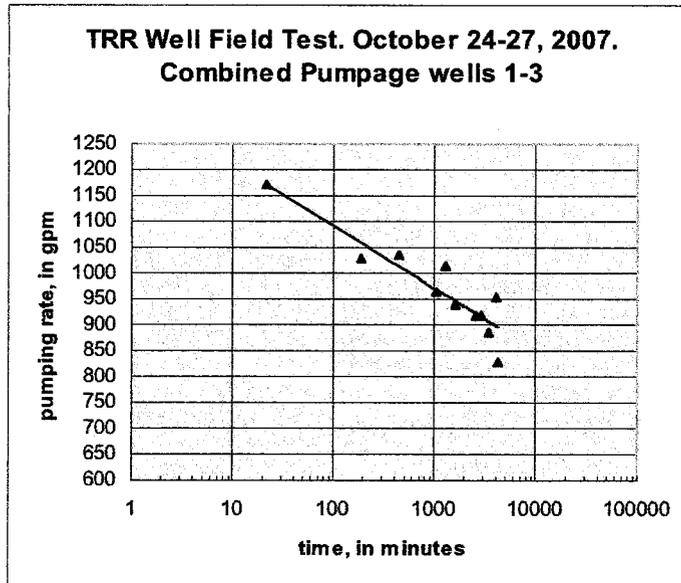


Figure 8



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

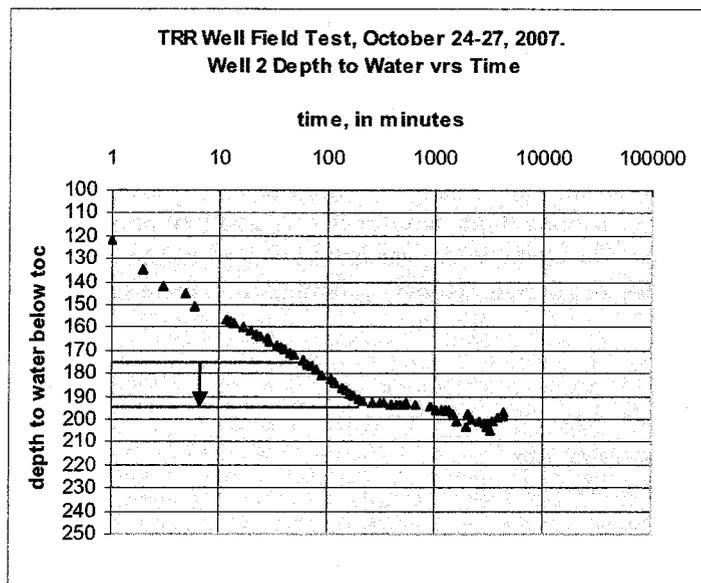
Although production of air from well 1 was less than that observed in the other two wells, past experience has shown this well to be a significant producer of air also. This was particularly true during the June-July pre monsoon season when the average daily use of the well averaged about 16 hours per 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.

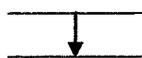
As shown in table 1, the production of air at well 2 increased from 3.78 percent per unit volume at 80 minutes into the test to 12.31 percent at 305 minutes. After this, the production of air remained relatively stable averaging about 12.6 percent. At 80 minutes into the test the depth to water in the 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



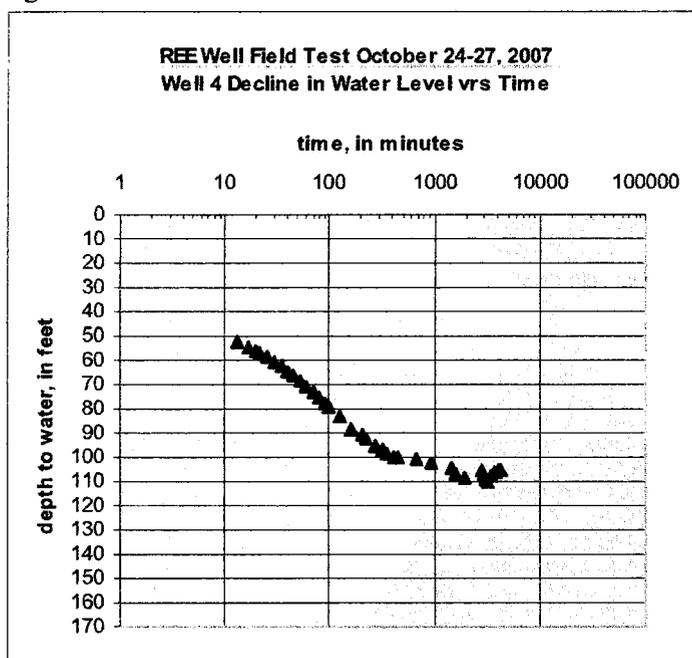
Potential zone of air production.

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 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.

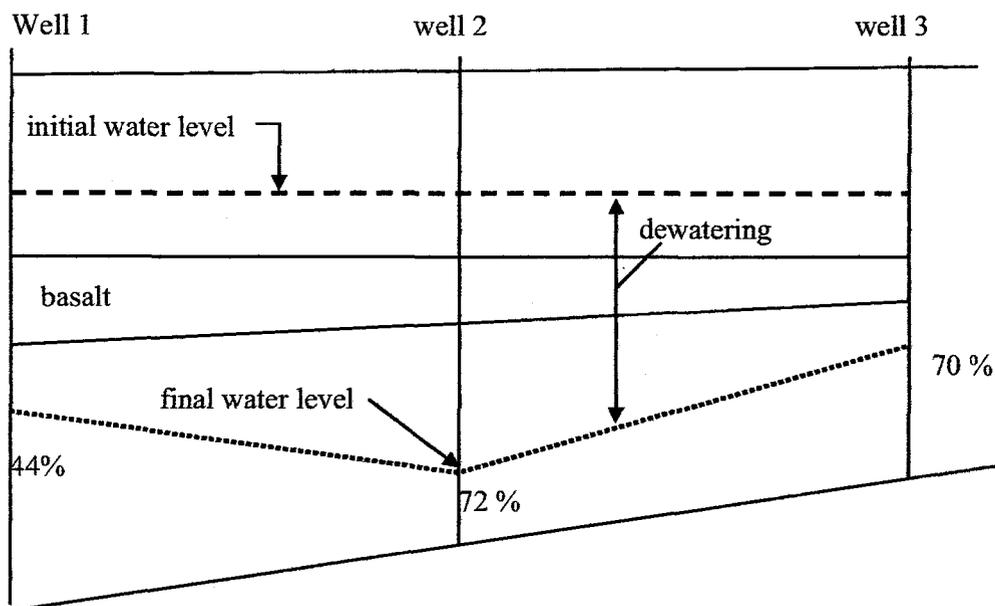
Aquifer Thinning

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.

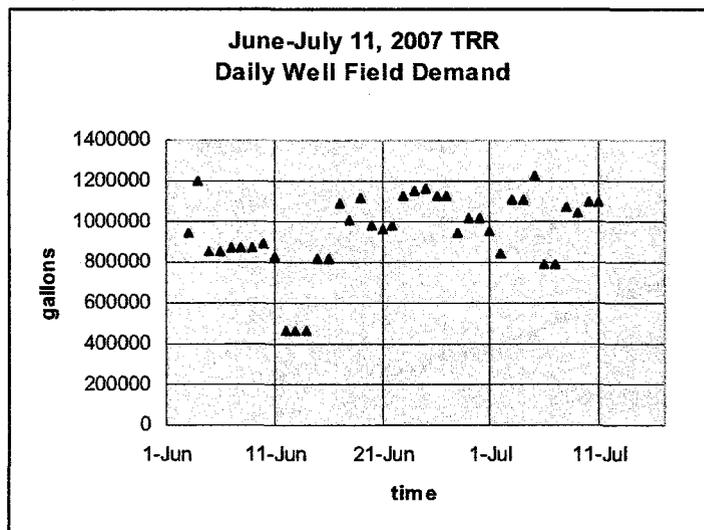
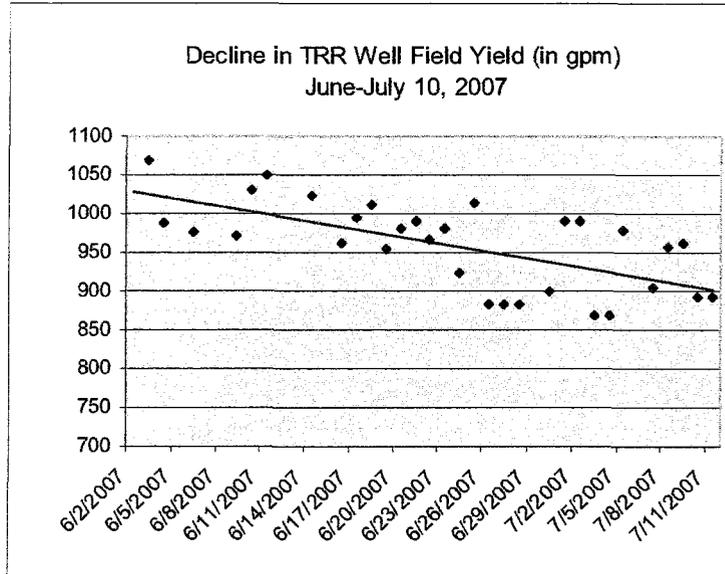
4. Ultimately, assuming that the pumps on the wells are not oversized, the yield from the well field would be expected to stabilize at a value below 828 gpm that is sustainable.
5. The decline in well yield as the test progressed is not a normal characteristic of a well field unless it is being over-pumped 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.

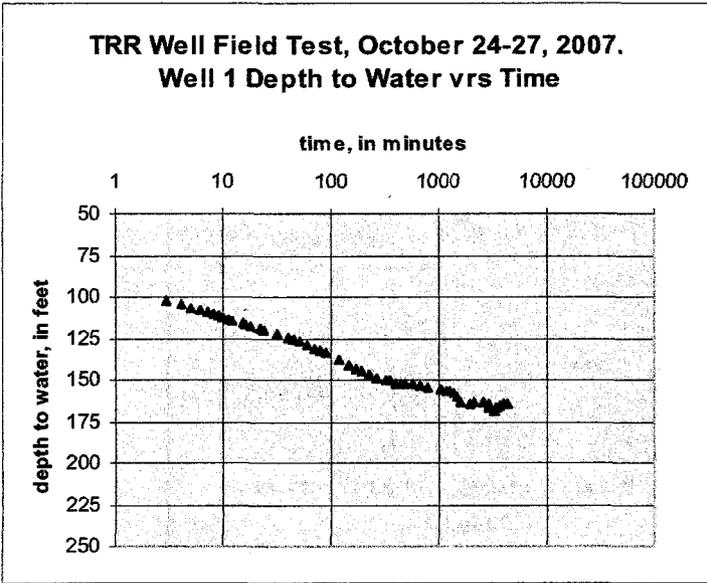
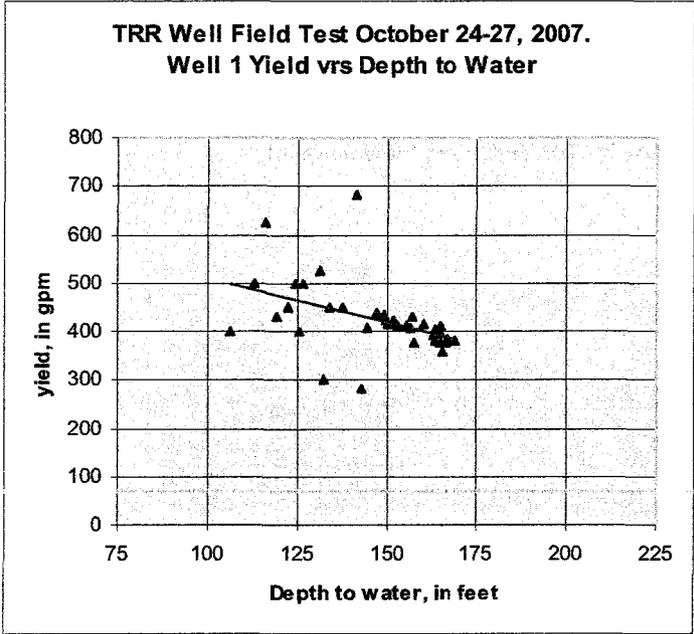
7. Maximum demand from the well field over the 2007 pre-monsoon season equaled 1,227,500 gallons on July 5, most of which was golf course demand. This demand required an average combined well field yield of 852 gpm, about 24 gpm more than the combined yield at the end of the three-day test.
8. **Based 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.

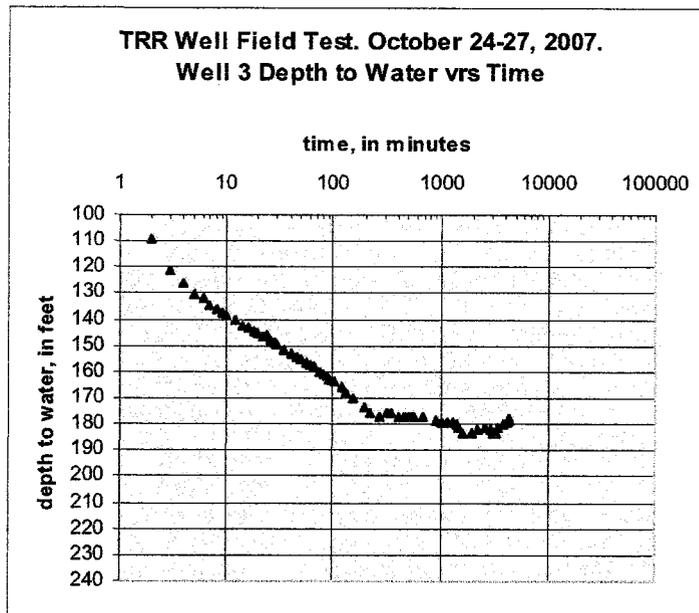
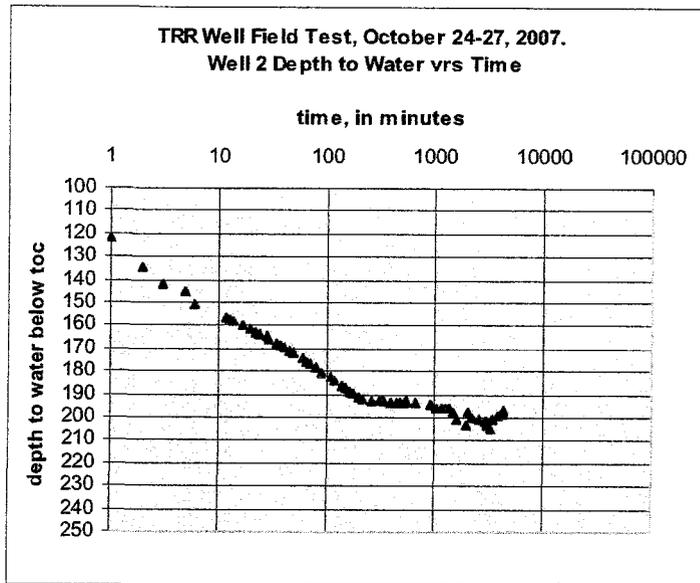
Although production of air from well 1 was less than that observed in the other two wells, past experience has shown this well to be a significant producer of air also. This was particularly true during the June-July pre monsoon season when the average daily use of the well averaged about 16 hours per 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







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

Minutes Approved: November 26, 2007

Those Present:

Board Members

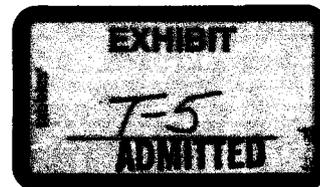
Earl Cummings, President
Bill Meyer, Secretary/Treasurer
Shirley Lilien, Director
R J Howard, Director
Hal Lobaugh, Director

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.

COMPANY NAME	ICR Water Users Association, Inc
Name of System	ADEQ Public Water System Number 13-303

WATER COMPANY PLANT DESCRIPTION

WELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-542062 <i>ICR</i>	50	225	260	10	3	1994
55-589660 <i>TR</i>	50	430	250	8	4	2002
55-590550 <i>w/c</i>	75	580	220	10	4	2002

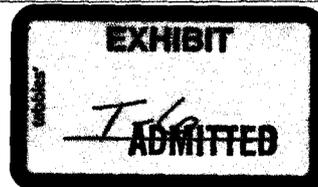
* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)
Aqua Meadows LLC		32,265

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
20	5	125	
25	3		
15	1		
50	2		
30	2		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
210,000	1	3,200	2
300,000	2		



Supplemental Testimony from Dayne Taylor, Intervener, Docket No. W-
BEFORE THE ARIZONA CORPORATION COI

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

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ARIZONA CORPORATION COI
DOCKET CONTROL

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

18 DOCKET NO. W-02824A-07-0388
19 NOTICE OF FILING
20
21 ADDITIONAL SUPPLEMENTAL
22 TESTIMONY OF DAYNE TAYLOR
23 OPPOSING THE REQUEST FOR THE
24 WATER SERVICE AGREEMENT (WSA)

ORIGINAL and THIRTEEN (13) copies hand-delivered this 14th day of November, 2008, to:

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

COPY of the foregoing hand-delivered this 14th day of November, 2008, to:

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Arizona Corporation Commission

DOCKETED

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DOCKETED BY *MM*

Respectfully submitted this 14th day of November, 2008

Dayne Taylor

Dayne Taylor
Intervener
13868 N Grey Bears Trail
Prescott, AZ 86305-1516

EXHIBIT
T-8
ADMITTED

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INTRODUCTION AND BACKGROUND

Please state your name and address.

My name is Dayne Taylor. My address is 13868 North Grey Bears Trail, Prescott, AZ, 86305. I was granted intervener status by Judge Marc Stern on January 8, 2008.

Have you previously submitted testimony in this proceeding?

I have—Direct Testimony dated January 29, 2008, and Surrebuttal dated April 1, 2008.

How are you involved in the local community?

I moved to Inscription Canyon Ranch subdivision in 2001. In December 2008, I begin a second four-year term with the ICR Sanitary District board. From April 2005 to December 2006, I served as Board Chairman. Also, in an unofficial capacity, I have been involved in various efforts of both the Board of Directors of the ICRWUA and the ICR Sanitary District.

What is the purpose of your additional supplemental testimony?

The Water Service Agreement was negotiated and compiled by the Talking Rock Parties and the ICRWUA Board without my input even though Judge Marc Stern said these discussions should include me. These negotiations resulted in yet another "Agreement" that circumvents Decision 64360. I am presenting evidence of the inconsistencies and inaccuracies as set forth in the Water Service Agreement.

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RESPONSE TO THE WATER SERVICE AGREEMENT

- ACC = Arizona Corporation Commission
- Harvard = Harvard Simon L.L.C.
- ICR Board = ICRWUA ICR Board of Directors
- ICRWUA = Inscription Canyon Ranch Water Users Association
- MXA = Main Extension Agreement
- Staff = Arizona Corporation Commission Staff
- TR = Talking Rock
- TRGC = Talking Rock Golf Club, L.L.C.
- TR Parties = Harvard, Talking Rock Land, L.L.C., and TRGC, collectively
- WA = Well Agreement
- WSA = Water Service Agreement

I, intervener Dayne Taylor, hereby file my response to the WSA entered into between ICRWUA, Inc., Harvard Simon I, L.L.C., Talking Rock Land, L.L.C., and Intervener TRGC, L.L.C. on September 12, 2008. My response is attached hereto as Attachment A. It includes, with the permission of the submitter, statements originally made in Docket No. W-02824A-07-0388, Bar Code 0000088862 on September 23, 2008.

BACKGROUND

On June 26, 2007, ICRWUA filed with the ACC an application for an increase in its permanent rates and charges.

On August 9, 2007, a Procedural Order was issued scheduling a hearing on January 8, 2008.

On January 8, 2008, a full public hearing was convened. At that time, I, as a customer of ICRWUA, was granted intervention claiming, among other things, that ICRWUA had failed to comply with some of the requirements imposed by Decision 64360. Among the principal issues being reviewed by the ACC as a result of my intervention are: 1) whether the rate that TRGC is paying ICRWUA for water the latter delivers from its wells for irrigation of the golf course is the rate required by the 2002 Decision 64360; and, 2) whether Harvard appropriately transferred two wells (that it had drilled for the purpose of supplying water to the TR sub-division) to ICRWUA as required by Decision 64360, thereby giving ICRWUA ownership and control of its own water supply with which to

1 meet the domestic demand of the sub-division. Harvard ultimately transferred two wells, but they are not the correct
2 wells.

3 On February 15, 2008, Staff filed a Motion for an Extension of Time until March 14, 2008, in which to file
4 any amended testimony or an amended Staff Report.

5 On March 14, 2008 Staff filed amended testimony to the rate case stating that ICRWUA had failed to
6 charge the ACC-approved rate for water delivered to the golf course in the rate case test year (2006). According to
7 Staff, this failure resulted in lost income to ICRWUA of \$114,290. If Staff's amended testimony is adopted by the
8 ACC, ICRWUA would have failed to charge TRGC the correct rate from 2003, when ICRWUA first began supplying
9 water to the golf course, to the present time, thereby resulting in a loss of several hundreds of thousands of dollars
10 or more to ICRWUA.

11 Staff also filed additional amended testimony on March 14, 2008 stating that ICRWUA had not complied
12 with the requirement for transferring well ownership. Initially the non-compliance issue related to the timing of the
13 transfer of the second well, but it has apparently grown to include a concern related to whether improper constraints
14 were placed on the amount of water that ICRWUA may withdraw from the two transferred wells; and, it may also
15 include the question of whether the appropriate wells were transferred.

16 Slightly more than two weeks after the filing of Staff's amended testimony, TRGC on April 3, 2008 asked for
17 and was granted intervener status in the rate case on the basis that it had a direct and substantial interest in the
18 proceeding. On April 16, 2008 ICRWUA asked for a delay in the rate case to allow ICRWUA and TRGC time to
19 negotiate an agreement that reportably would address the compliance issues and other issues that have surfaced
20 during the rate case.

21 On September 12, 2008 ICRWUA docketed an agreement with the ACC between them and TR Parties.
22 ICRWUA stated that the agreement, now known as the WSA is intended to: (1) resolve and settle the parties'
23 respective concerns over existing agreements and compliance with Decision 64360; (2) supersede, replace and
24 terminate any and all existing agreements between the parties, except for certain provisions specifically identified
25 herein; and (3) govern the parties' relationship from the time of final ACC approval, if obtained, until the expiration of
26 the WSA according to its express terms and conditions.

27 Although Judge Stern required my involvement in the potential agreement, stating that the agreement could
28 not simply be between ICRWUA and TRGC, I was rebuffed by the ICR Board in my attempts to participate and had
29 no involvement whatsoever until the ICR Board Counsel, Mr. Crockett, sent me an email of the WSA on August 29,
30 2008. Although it was referred to as a "draft," it is essentially the same agreement docketed by ICRWUA on
31 September 12, 2008. Until receipt of this "draft", I was completely in the dark. Mr. Pryor, President of the ICR Board,
32 also emailed me at this time and said he would be glad to meet with me if I had questions. He said another ICR
33 Board member and Counsel would attend. On September 6, I responded saying that I would meet with the full ICR

Supplemental Testimony from Dayne Taylor, Intervener, Docket No. W-02824A-07-0388 Page 5
1 Board without Counsel. On September 8, I asked Mr. Pryor if he would be responding. On September 9, the
2 ICRWUA counsel, Mr. Crockett responded! Mr. Crockett asked for a meeting or conference call to discuss the
3 WSA.

4 On September 11, a teleconference was held between me, Mr. Crockett, Mr. Pryor, Mr. Shapiro,
5 representing TR Parties, and Kevin Torrey, counsel for Staff. As it turned out, it was basically a teleconference
6 between Mr. Crockett and me. It now appears to me that Mr. Crockett's only goal was to be able to say that I had
7 "been involved in the process." I brought up the WSA's lack of compliance with Decision 64360. Mr. Crockett
8 requested that I spell out compliance issues, but I felt it would be repetition of ground already covered. Mr. Crockett
9 and Mr. Shapiro continually badgered me to explain what I didn't like about the WSA. When I tried to explain that
10 they were again trying to circumvent 64360, I was accused of being uncooperative.

11 I asked whether a meeting was going to be allowed between the ICR Board and me, and Mr. Crockett
12 replied that he would have to talk with Mr. Pryor to see if that could be arranged, even though Mr. Pryor was, as
13 stated above, a participant in the conference. Before the teleconference ended, Mr. Shapiro said some harsh things
14 about me, but he did say one thing true, and that was that the teleconference was a waste of time. It was that, for
15 sure; it especially was, once again, a waste of money for the ICRWUA shareholders.

16 My requested meeting with the ICR Board was never arranged.

17 Besides the failure of the WSA to meet the requirements of Decision 64360, I have an additional concern at
18 this time. This concern regards the ICR Board meeting on August 22, 2008 wherein Mr. Meyer, Secretary/Treasurer
19 of the ICR Board, discussed ICRWUA's financial status as of July 2008 and the legal and CPA costs that the ICR
20 Board has incurred due to the Rate Case.

21 As shown in the ICRWUA's financial statement for July 2008, ICRWUA had cash reserves in the amount of
22 about \$107,000. Also, according to the information handed out at the meeting, ICRWUA's outstanding balance for
23 legal and CPA charges was about \$127,000 through June 2008. Mr. Bush, Manager of the ICRWUA indicated that
24 charges for July would add approximately \$20,000 more in legal cost thereby substantially increasing the
25 ICRWUA's outstanding debt. Given this information it was apparent to me that ICRWUA is technically insolvent.

26 Even so, the ICR Board at that time was still continuing negotiations, seemingly unconcerned with the
27 continual mounting legal costs. They simply failed to take the initiative to quickly end the negotiations in order to
28 meet their financial responsibility to the ICRWUA's membership.

29 Instead of being concerned, the ICR Board appears to be somewhat dismissive of ICRWUA's growing debt,
30 reporting in the September 2008 membership Newsletter that *"with the Rate Case dragging on and legal costs
31 mounting, the company's financial condition becomes more clouded. Legal and professional fees have cost
32 many times more than anticipated due to the intervention and subsequent negotiations involved in
33 attempting to reach a viable settlement. At present, ICRWUA has incurred more in legal expenses than it presently*

1 *has cash on hand. It will take some time to pay what is presently owed.* Thus, the ICR Board's only apparent
2 concern about mounting cost and ICRWUA debt is that *it will take some time to pay off the debt.*

3 The above statement by the ICR Board also implies that my intervention is responsible for legal cost for the
4 Rate Case exceeding those originally anticipated. This position blithely overlooks the fact that it has been a
5 combination of failures by previous ICR Boards and by the current ICR Board to meet and adhere to the
6 requirements of Decision 64360 that has resulted in ICRWUA's present financial condition. Had the requirements of
7 Decision 64360 been met, I would have had no reason to intervene and there would not be a financial problem.
8 Rather than admit that legal costs have mounted significantly since April of this year while this ICR Board has
9 continued to attempt to "reach a viable settlement," with the TR Parties, i.e., the WSA, an agreement that continues
10 to circumvent the requirements of Decision 64360, the ICR Board blames my intervention for mounting cost.

11 An important question to me is, "Why has this ICR Board incurred significant legal and other costs that
12 have driven ICRWUA into debt in order to assist and join the TR Parties in attempting to circumvent the ACC's
13 order that Harvard transfer the appropriate wells to ICRWUA and that TRGC pay ACC-approved rates for water
14 delivered to the golf course? Isn't it more logical for the ICR Board, that supposedly represents a membership
15 consisting almost exclusively of home owners, to endorse the rulings of the ACC as a means to protect that
16 membership rather than assist the TR Parties in circumventing the ACC?"

17 On September 25, 2008, a Status Conference was held with Judge Stern presiding. ICRWUA, TRGC, and
18 Staff appeared with counsel. Commissioner Kristin Mayes also attended. I appeared on my own behalf. Possible
19 filing and hearing dates were discussed after which it was agreed between parties that the Hearing should be held
20 on December 1-3, 2008. Regarding interveners, it was further ordered that amended testimony and associated
21 exhibits be reduced to writing and filed on or before November 14, 2008.

22 Throughout this rate case, it is becoming more apparent that the ICR Board is ignoring their fiduciary duty
23 to represent the entire membership of the ICRWUA; instead, they are catering to a special-interest group—TR
24 Parties. At the September 23, 2008 ICRWUA ICR Board Meeting, Mr. Bush stated that TR Parties had paid
25 ICRWUA \$30,000 for signing the Water Service Agreement. I question that payment. I don't want to call it
26 something it isn't, but it does seem like a payment towards achieving a goal for a special-interest group that isn't in
27 the best interests of the entire ICRWUA membership.

28 Prior to signing the WSA, ICRWUA and the TR Parties have entered into two agreements (the First
29 Amendment to the MXA and the WA) that significantly favor the TR Parties over ICRWUA's residential customers.
30 The WSA continues this trend. The ICR Board's stated justification is that these agreements comply with Decision
31 64360 and financially favor the residential customers of ICRWUA. This is simply not the case. ICRWUA has lost
32 hundreds of thousands of dollars in revenue from the TR Parties by instituting these agreements, and ICRWUA now
33 finds itself significantly in debt because of the ICR Board's attempt to continue along the same path. Either

1 ICRWUA and the TR Parties should be required to adhere to the requirements of Decision 64360 or the ACC
2 should follow through on its initial position that the extension of ICRWUA's CC&N to include the Talking Rock sub-
3 division is null and void. The TR Parties need to be lifted from the back of ICRWUA's residential customers; either
4 decision will accomplish this.

5
6 **Summary**

7 ICRWUA's Rate Case includes concerns and questions about compliance with the requirements of
8 Decision 64360. Although a stated purpose of the WSA is to resolve and settle these concerns, there is no
9 discussion in the document of what the concerns are or how the WSA "resolves" them. The WSA could, in part,
10 meet one of the requirements of Decision 64360 in that it provides for the transfer of ownership of one of the wells
11 called for in the Decision (well 1 in the TR well field), but this occurs if, and only if, the ACC approves the WSA. The
12 WSA, however, continues to circumvent the requirement in Decision 64360 that ICRWUA charge its existing rates
13 to customers within the TR sub-division. The WSA also imposes new expenses on ICRWUA, the amount of which
14 is unknown, and a new water requirement that has not been reviewed by the Arizona Department of Water
15 Resources in terms of Water Adequacy.

16 Fundamentally, rather than addressing compliance issues with regard to Decision 64360, the most basic
17 objectives of the WSA are; 1) the establishment of a rate that the TR Parties will pay for ICRWUA's delivery of
18 water from ICRWUA's wells that is significantly below that paid by ICRWUA's residential customers for the term of
19 the WSA, i.e., 35 years, 2) the removal of the ACC from its State-mandated role of setting the rate over the term of
20 the WSA after approval of the initial rate, and 3) providing the TR Parties a principle role in setting their own rate
21 during the life of the agreement.

22 The WSA states that the rate the TR Parties will pay ICRWUA for water delivered to the golf course will
23 allow ICRWUA to recover its cost of service plus an appropriate operating margin, but, in actuality, the rate is not
24 designed to accomplish this and almost assuredly will be less than cost alone. The initial rate will not meet cost for
25 the year the WSA would become valid if approved by the ACC; and the method of setting the rate over time does
26 not account for increases that ICRWUA will incur for electric power, operation, equipment maintenance, repair, and
27 replacement, depreciation and general accounting to name some of the major areas where the WSA is lacking.
28 ICRWUA's residential customers will have to pick up the shortfall.

29 Because Arizona State Law empowers the ACC as the entity that sets water rates, including the rate paid
30 for water delivered to a golf course, the WSA requires ACC approval. Rates set by the ACC are designed to protect
31 the public's interest while at the same time allowing ICRWUA to meet its financial requirements. Although, as
32 discussed below, the WSA requires ACC approval of the initial rate paid for water delivered to the golf course and

1 the methodology for calculating this rate, it thereafter removes the ACC from any input, oversight, or approval of the
2 rate or changes in the rate for the remaining 35-year life of the WSA.

3 The removal of the ACC from its mandated role and the protection this role provides to ICRWUA's
4 residential customers is a principle and fundamental goal of the WSA. This objective is definitely not in the best
5 interest of ICRWUA's membership. As stated, the WSA provides the TR Parties a principal role in setting their own
6 rates over the 35 years, another arrangement that is definitely not in the best interest of ICRWUA's membership.

7 The WSA allows the TR Parties to connect additional wells and/or additional transmission facilities owned
8 by any of the TR Parties to ICRWUA's TR water system. Water from the wells will be used to irrigate the golf
9 course. Despite the intended use and despite the ownership of these facilities by the TR Parties, ICRWUA has
10 agreed to operate, test, inspect, repair and maintain these facilities at ICRWUA's sole expense over the life of the
11 WSA even though these cost are unknown.

12 In return, ICRWUA is granted the right to pump the additional well(s) and withdraw groundwater without any
13 charge to ICRWUA for the groundwater withdrawn, as long as such pumping does not interfere with the use of the
14 additional wells by the TR Parties! Not only is ICRWUA's potential use of the water limited in this regard, ICRWUA
15 doesn't even know if extra water will be available since the yield from these wells is unknown. The results of the
16 October 2007 TR well field test clearly indicate that ICRWUA does not need this water. The WSA allows ICRWUA
17 to charge the same rate for water from these wells as it will charge for water from its own wells, but this rate will not
18 allow ICRWUA to recover its cost because the rate does not incorporate the cost associated with the additional
19 wells and transmission facilities.

20 In effect, and despite the fact that the intended use of the water obtained from the additional wells is to
21 irrigate the golf course, the ICR Board has agreed to accept financial responsibility for operating, testing, inspecting,
22 repairing and maintaining the additional wells and transmission facilities that are owned by the TR Parties without
23 knowledge of the cost associated with this commitment and without a means to be fully reimbursed by the TR
24 Parties for incurring this unknown cost. The ICR Board has also agreed to this unknown cost without knowledge of
25 the actual yield of the additional wells and, therefore, without knowledge of whether any extra water for ICRWUA is
26 actually available—all in order to obtain the potential, but restricted use of a water supply it does not need. Once
27 again, ICRWUA's residential customers will have to pick up the shortfall.

28 The WSA requires ICRWUA to deliver up to 400 acre-feet of fresh groundwater per year for irrigation of the
29 golf course and 125 acre-feet per year for construction purposes at TR into perpetuity. This requirement fails to
30 recognize that, as the use of effluent for irrigation of the golf course increases over time, the need for groundwater
31 will decline. It also fails to recognize that the need for construction water will decline as build-out of infrastructure is
32 completed over time. More importantly, with regard to construction water, the WSA fails to recognize that the
33 requirement for ICRWUA to deliver 125 acre-feet per year for construction purposes is a significant addition to

1 ICRWUA's water demand that does not appear to have been approved by the Arizona Department of Water
2 Resources (ADWR) in terms of ICRWUA's Water Adequacy Certification. That certification only considered
3 the demand of the golf course and residential demand.

4 The only agreements between ICRWUA and Harvard that have been approved by the ACC (the MXA and
5 the First Amendment to the MXA) do not require ICRWUA to deliver 125 acre-feet of water annually from its own
6 wells for Construction Purposes. This is an inappropriate condition placed on ICRWUA in the WA (an agreement
7 not approved by the ACC) that is being carried forward into the WSA.

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9 **Request for Denial**

10 I am requesting that the ACC deny ICRWUA's request for approval of the WSA. Although a stated goal of
11 the WSA is to resolve all parties' respective concerns over compliance with Decision 64360, the agreement does
12 not identify the compliance issues it is addressing or how it resolves them. In fact the WSA does not result in
13 compliance with the requirements of Decision 64360.

14 Decision 64360 required Harvard to transfer well 1 and an unidentified backup well to ICRWUA within 360
15 days of the Decision or the permission for ICRWUA to extend its service area to include TR would be null and void.
16 To date, nearly 7 years after Decision 64360, neither transfer has occurred. The requirement for well transfer did
17 not allow Harvard and ICRWUA to transfer ownership of whatever wells they chose to ICRWUA, which is what
18 actually occurred. Although the WSA transfers well 1, this only occurs with the ACC's approval of the WSA and
19 ICRWUA still does not have complete ownership and control of its own water supply for meeting the residential
20 needs of the TR sub-division.

21 Decision 64360 also required ICRWUA to charge its existing tariff rates to customers within the extension
22 area that included the golf course and ICRWUA failed to do this. Instead, ICRWUA entered into the WA with
23 Harvard and TRGC whereby it agreed to provide water utility service to Harvard and TRGC at a rate significantly
24 below its approved tariff.

25 Although the WA was submitted to the ACC, it was never approved. Instead of pursuing this failure with
26 the ACC, ICRWUA simply adhered to the terms of the agreement with the result that since 2003, ICRWUA has lost
27 several hundreds of thousands of dollars in revenue and it is technically insolvent. The WSA simply continues
28 ICRWUA's unfavorable financial relationship with the TR Parties. In addition to requiring ICRWUA to provide water
29 utility service to the TR Parties at less than cost, the WSA permanently removes the ACC from approving the rate
30 after the latter provides its initial approval, while it provides the TR Parties a principle role in setting their own rate. It
31 requires ICRWUA to accept an unknown financial responsibility for wells owned by the TR Parties, and finally
32 requires ICRWUA to accept a new and significant water demand by the TR Parties that exceeds ICRWUA's Water
33 Adequacy Certification. **Approval of the WSA would be extremely detrimental to ICRWUA.**

ATTACHMENT A

**ADDITIONAL SUPPLEMENTAL TESTIMONY OF DAYNE TAYLOR
REGARDING THE REQUEST FOR THE WATER SERVICE AGREEMENT (WSA)**

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5 **1.1 Does the transfer of ownership of well 1 called for in the Water Service Agreement meet the**
6 **requirements of Decision 64360 for transfer of well ownership from Harvard Simon I L.L.C. to ICRWUA?**

7 The WSA states that *"Within fifteen (15) days of the Effective Date of this Agreement, ...the TR Parties*
8 *shall transfer Well 1 to ICRWUA via bill of sale ("Well 1 Bill of Sale") in a form mutually satisfactory to the Parties,*
9 *without condition, and subject only to the terms and conditions set forth herein."*

10 Decision 64360 required the transfer of ownership of well 1 within one year after the decision on January
11 15, 2002. To date, nearly 7 years after the Decision, the transfer has not occurred. The conditional transfer of
12 ownership of Well 1 called for in the WSA still does meet the requirements of Decision 64360 (Decision 64360;
13 Findings of Fact 34 and 35; ORDER, page 7, lines 1 through 8) which are incorporated herein as Exhibit 1 since, 1)
14 transfer did not occur within the allocated time, 2) the transfer of ownership of well 1 called for in the WSA is
15 conditional based on the ACC's approval of the WSA and, 3) the land is not transferred with the well 1. Without
16 ACC's approval of the WSA well 1 remains the property of TRGC. In addition, because ICRWUA has never
17 received ownership of the second or backup well that Harvard testified existed during the ACC proceedings for
18 Decision 64360 and that the ACC also required the transfer of ownership, even with the transfer of well 1, the
19 requirement for transfer of well ownership in Decision 64360 still will not have been met.

20 On January 15, 2002 the ACC extended ICRWUA's service area to include the TR sub-division even
21 though ICRWUA did not own a source of water for meeting the water demand of the sub-division. In light of this fact
22 the ACC's decision included a requirement for the Developer of TR, Harvard, to transfer ownership of the wells it
23 had drilled for this purpose to ICRWUA. The ACC's requirement for transfer of well ownership was to ensure that
24 ICRWUA had an adequate water supply for its customers in the extension area and to ensure that ICRWUA was
25 not subject to relying for their water on a third party over which the ACC lacked jurisdiction. Failure on the part of
26 Harvard and ICRWUA to transfer ownership of the wells would render the ACC's decision null and void without
27 further notice.

28 ICRWUA's source of water for the TR sub-division, including the golf course, is the TR well field that
29 consists of three wells (well 1, Registration No. 55-584177; well 2, Registration No. 55-589659; and well 3,
30 Registration No. 55-589660), all of which were drilled by Harvard. As shown by the Driller's Report and Pump
31 Installation Report for well 1, incorporated herein as Exhibit 2, well 1 was constructed between January 3-
32 February 5, 2001 and pump installation was completed April 11, 2001. As shown by the Driller's Report and Pump

1 Installation Report for well 2, incorporated herein as Exhibit 3, well 2 was constructed between March 27 – April 20,
2 2002 and pump installation was completed August 1, 2002. Finally, as shown by the Driller's Report and Pump
3 Installation Report for well 3, incorporated herein as Exhibit 4, this well was constructed between May 13 – May 15,
4 2002 and pump installation was completed September 12, 2002.

5 Decision 64360 required Harvard to transfer the wells "it has drilled" to ICRWUA. Of the three wells in the
6 TR well field, only well 1 had been drilled prior to Decision 64360, and this well was not transferred as required.
7 Ownership of wells 2 and 3, both drilled after Decision 64360, was transferred to ICRWUA instead. These were not
8 the wells Decision 64360 required to be transferred. TRGC continues to own well 1, the only well in existence
9 before Decision 64360 and one of the two wells Decision 64360 required Harvard to transfer to ICRWUA.

10 Although ICRWUA owns wells 2 and 3, it is limited by the Bill of Sale for each well incorporated herein as
11 Exhibits 5 and 6 respectively, in the amount of water that can be pumped for residential or domestic purposes.
12 Based on the results of the October 2007 TR well field test, Well 1 is the best well of the three.

13 As stated, well 1 is one of two wells that Decision 64360 required Harvard to transfer ownership of to
14 ICRWUA. Some argue that this is not the case; that Decision 64360 did not require Harvard to transfer ownership of
15 well 1 and that the transfer of ownership of wells 2 and 3 to ICRWUA meets the requirement of Decision 64360 for
16 transfer of well ownership. This conclusion doesn't make sense, however, because it would mean that Decision
17 64360 required Harvard to transfer ownership of wells that did not exist and that the ACC expected ICRWUA to
18 meet the newly created demand of the TR sub-division with the same non-existent wells.

19 That the requirement of Decision 64360 to transfer well ownership of the wells Harvard had drilled to
20 ICRWUA included well 1 is fully supported by a series of documents in addition to the date of drilling of the well and
21 the wording of Decision 64360. The Staff report dated August 2, 2001, page 2, Docket No. W-02824A-01-0450, Bar
22 Code 0000041595, on ICRWUA's APPLICATION FOR AN EXTENSION OF ITS...SERVICE AREA to include the
23 TR sub-division that Harvard had drilled a well that would be used to supply ICRWUA customers at TR.

24 The report states: On August 1, 2001, Harvard provided Staff with a copy of the April 27, 2001, Water
25 Purchase Agreement between ICR and Harvard. Harvard has drilled a well in the proposed extension territory and
26 has entered into an agreement with ICR to sell water to ICR at \$0.15 per 1,000 gallons, for resale to the ICR
27 customers in Harvard's development. This Agreement was not submitted for approval in this application. Staff's
28 recommendation for approval of this CC&N extension application does not imply a recommendation for any
29 particular future treatment for ICR's authorized expenses. No "used and useful" or "prudent investment" review was
30 requested or made, and no conclusions should be inferred for ratemaking purposes.

31 As stated above, well 1 was completed on February 5, 2001 and was the only well owned by Harvard in
32 August 2001. The Staff report (page 3) identifies the productive capacity of the existing well at 525 gallons per

1 minute (gpm). This same well is referenced by its capacity in the Findings of Facts (FOF 20) associated with
2 Decision 64360. It is further identified in the Well Agreement on page 11 (included herein as Exhibit 7) as well 1
3 having a productive capacity of 525 gpm, a rate that is different from that stated for wells 2 and 3 in the agreement
4 (the Well Agreement is an agreement between ICRWUA, Harvard, and TRGC that was signed by the three parties
5 on February 25, 2003. It was submitted to the ACC on March 7, 2003 but was never approved).

6 Finally, Exhibit 2 of the WSA provides the location of all three wells in the TR well field by their number.
7 Given its number and the driller's reports showing the date each well was constructed including the geologic log for
8 the wells provided in the driller's reports, there can be no question that the only well owned by Harvard at the time
9 of Decision 64360 was well 1.

10 It is not possible to identify the second well that Harvard stated it owned during the proceedings for
11 Decision 64360 and that the decision required Harvard to transfer to ICRWUA; but the ACC's required transfer of
12 ownership of this well was intended to provide ICRWUA with a back-up well that it still does not have (Decision
13 64360; Findings of Fact 34 and 35, ORDER page 7, lines 1 through 8). The inability to identify the second well
14 results from the fact that, despite its testimony, Harvard only owned one well at the time of Decision 64360, i.e., well
15 1 located in the TR well field.

16

17 **1.2 Did the transfer of ownership of wells 2 and 3 to ICRWUA provide ICRWUA with ownership**
18 **and control of its own water supply as contemplated in Decision 64360?**

19 The WSA states that "*the TR Parties hereby waive and release all restrictions on the amount and rate of*
20 *water that may be pumped from Well 2 and Well 3 which are contained in the Well 2 Bill of Sale and the Well 3 Bill*
21 *of Sale.*"

22 As stated above, instead of Harvard and ICRWUA transferring Well 1 as required by Decision 64360, Wells
23 2 and 3 were transferred instead. Even then, ICRWUA did not obtain complete ownership and control of the wells
24 since the Bill of Sale for each well placed constraints on the amount of water ICRWUA could withdraw from the
25 wells. The productive capacity of wells 2 and 3 is less than that of well 1—and combined, production from wells 2
26 and 3 cannot meet the expected maximum daily demand of the TR sub-division at or near full build-out. Thus, the
27 failure of Harvard to transfer ownership of the correct wells to ICRWUA combined with the pumping constraints
28 imposed on wells 2 and 3 by their respective Bills of Sale does not provide ICRWUA with the water supply
29 necessary to meet all residential requirements of the TR sub-division thereby negating the ACC's intent for
30 ICRWUA to have and control its own water supply for this purpose.

31 The restriction on the amount of water that ICRWUA can withdraw from wells 2 and 3 results from the fact
32 that the state of Arizona grants a land owner the right to pump groundwater from that land for a beneficial purpose,

1 but it does not convey this right to the owner of a well on that land if the owner of the well is someone other than the
2 land owner. Although TRGC transferred ownership of two wells to ICRWUA, TRGC retained ownership of the land
3 and therefore retained control of the water from the wells. In order to protect their golf course, TRGC restricted the
4 amount of water that ICRWUA can pump from the two transferred wells. This restriction, obviously, fails to comply
5 with Decision 64360 since it does not provide ICRWUA with ownership and control of its own water supply.

6 The WSA still does not transfer ownership of the land that the wells are located on and it still subjects
7 ICRWUA's ability to provide service to its current and future customers on the TR water system to the terms stated
8 in the WSA.

9 Among these terms, Paragraph 4 of the WSA requires ICRWUA to "*deliver water to any and all of the TR*
10 *Parties up to a maximum amount of 525 acre feet of water per year, of which a maximum of 400 acre-feet of water*
11 *can be used at the Golf Course for Landscape Irrigation, Lake Fill and other non-potable purposes, and, a*
12 *maximum of 125 acre-feet of water can be used for Construction Purposes by any of the TR Parties in the*
13 *development of Talking Rock, subject to the terms and conditions set forth in this Agreement.*" This demand is
14 equal to nearly 40 percent of the well field capacity (from all three wells) at the end of a three-day test conducted at
15 the TR Well Field on October 24-27, 2007 by ICRWUA and Harvard. A combined yield of 828 gallons per minute
16 (1,336 acre-feet per year) at the end test is stated on page 8, included herein as Exhibit 8, of a report on the results
17 of the test titled "Report on the Results of the Three Day Test of the TRR Well Field, October 24-27, 2007." That
18 was provided to the ICR Board by Mr. William Meyer on December 10, 2007.

19 The perpetual requirement to deliver 525 acre-feet of water annually to the TR Parties continues to deny
20 ICRWUA complete control and ownership of its own water supply for servicing the residential demand of the TR
21 sub-division as intended by Decision 64360.

22 The requirement that ICRWUA deliver up to 400 acre-feet per year for irrigation of the golf course on a
23 continuing basis fails to recognize that the TR Parties are required to receive effluent from ICR Sanitary District for
24 irrigation of the golf course; and, as this use increases over time with increasing hook-ups to the District, the need
25 for fresh groundwater to irrigate the golf course will decline. In avoiding a commitment to reduce the need for
26 groundwater as the use of effluent increases, the TR Parties are failing to recognize their commitment to Yavapai
27 County to reduce the need for groundwater as effluent use increases (October 6, 1999, ICR Development
28 Agreement, Yavapai County Book 3707, page 759), and ICRWUA is failing to make appropriate efforts to reduce
29 the demand of the TR Parties on wells owned by ICRWUA. Both are failing to make any commitment to conserve
30 groundwater.

31 The only agreements between ICRWUA and Harvard that have been approved by the ACC (the MXA and
32 the First Amendment to the MXA) do not require ICRWUA to deliver up to 125 acre-feet of water annually from its

1 own wells for Construction Purposes. This delivery of 125 acre-feet of water is an inappropriate condition placed on
2 ICRWUA in the Well Agreement that is being carried forward into the WSA. **The perpetual addition of 125 acre-**
3 **feet per year that ICRWUA is required to provide to the TR Parties for Construction Purposes is a**
4 **significant addition to ICRWUA's water demand that does not appear to have been reviewed by the Arizona**
5 **Department of Water Resources in terms of its impact of ICRWUA's Water Adequacy Certificate.**

6
7 **1.3 The WSA assigns priority of water use from the Talking Rock well field to residential use.**
8 **Since under WSA, ICRWUA will own all three wells in the well field, doesn't this condition give ICRWUA**
9 **control and ownership of its own water supply?**

10 The WSA states that *"Residential delivery of water pumped from the Talking Rock Wells shall have priority*
11 *(the "Residential Priority") over all other use classifications including uses by the TR Parties under this Agreement;*
12 *provided, however, that curtailment ("Curtailment") in order to meet the Residential Priority shall occur only when*
13 *there is insufficient water production from the TR Wells, in aggregate, to meet both the demand from residential*
14 *customers and the demand from non-residential customers at TR (a "Water Shortage"), and shall continue only so*
15 *long as the Water Shortage continues. During any Curtailment, ICRWUA shall make reasonable efforts to meet, in*
16 *par, the demand from the TR Parties after ICRWUA fully meets the Residential Priority, and to resume normal water*
17 *service to the TR Parties under this Agreement as soon as is practicable".*

18 The assignment of residential priority in the WSA is contingent on ACC approval of the WSA and failing this
19 approval ICRWUA is still denied access to well 1 for residential use, and it is also constrained on the amount of
20 water that can be used from wells 2 and 3 for residential use per the Bill of Sale for each well.

21 The priority assigned to residential use in the WSA also lacks a definition for *"insufficient water production"*
22 meaning that it is not possible to definitively state when the restricted use of water from the well field or
23 *"Curtailment"* for residential purposes can occur and for how long the restricted use continues even if the WSA were
24 approved by the ACC.

25 The discussion in the WSA on priority of water use recognizes another issue regarding compliance with
26 Decision 64360, namely that wells 2 and 3, or even all three wells in the TR well field as a whole, cannot meet the
27 combined golf course and residential demand at the TR subdivision at all times of the year, (notably during the pre-
28 monsoon period, from about April to mid-July) at or near full build-out of TR. This conclusion is based on the results
29 of a hydrologic test conducted at the well field by ICRWUA and Harvard in October 2007.

30 These results are confirmed in the minutes of the November 13, 2007 ICR Board meeting under *Old*
31 *Business, c.*, as stated below:

1 **Well Testing—Bill Meyer** Bill reported on the joint ICRWUA/Harvard well tests
2 completed in late October on the TRR well field. The test was conducted with all three
3 wells pumping 24 hours per day for three days. Water depth in each well, well pumping
4 rate, and air entrapped in the pumped water was measured periodically during the test.
5 Water levels were also measured in TRR well #4 during the test. All parties received all
6 data collected during the test. The water levels and pumping rates from each well
7 declined throughout the test period.

8 Bill prepared a report for the ICR Board in which he concluded: "If the problem
9 with aerated water is neglected, the test results indicate that the well field can meet
10 domestic demand at TRR at full build out **or** demand associated with irrigation of the
11 golf course throughout the year, but the well field **cannot** meet **both** demands at all
12 times of the year, or if a well should fail. Given this, the results also indicate that the
13 Utility and Harvard Investments need to revise the Well Agreement to reflect the
14 limitations of well field yield."

15 The minutes of this meeting are included in my surrebuttal filing, Docket No. W-02824A-07-0388, April 2,
16 2008 Bar Code 0000083498 pages 37-41.

17 The assignment of priority to residential purposes in the WSA clearly identifies the fact residential priority
18 does not presently exist for water pumped from the TR well field. The lack of Residential priority results from:

- 19 1. The failure of the Harvard and ICRWUA to transfer ownership (including the land) of well 1 and the
20 unidentified back-up well it had drilled to service the TR sub-division per Decision 64360;
- 21 2. The failure of Harvard to transfer land ownership of the wells it did transfer to ICRWUA;
- 22 3. The restrictions Harvard placed on the amount of water that ICRWUA could use for residential
23 purposes;
- 24 4. The Well Agreement that stipulated the above conditions in direct violation of the requirement and
25 intent of Decision 64360 for ICRWUA to have and control its own water supply.

26 Per the Well Agreement, ICRWUA is obligated to allow TRGC to use wells 2 and 3 to, at least in part, meet
27 its needs for irrigation of the golf course and to meet construction demand, while TRGC is not obligated to provide
28 ICRWUA access to well 1 in the event of a domestic water shortage. The results of the October 2007 well field test
29 have, therefore, given rise to the question of priority of water use from the well field.

30 The ACC in its deliberations prior to rendering Decision 64360 was also concerned with the question of
31 priority of water use and apparently believed that the issue was resolved by the transfer of ownership of the wells

1 required by Decision 64360. Obviously, failure to transfer ownership of Well 1 and the unidentified back-up well has
2 resulted in the current situation.

3
4 **1.4 Does the Commodity Rate allow ICRWUA to recover its cost of service plus an appropriate**
5 **operating margin as stated in the WSA?**

6 As stated in the WSA, *"The amount the TR Parties shall pay for water delivered by ICRWUA under this*
7 *Agreement shall consist of (i) a System Reservation Charge, which shall terminate after ten (10) years; and (ii) a*
8 *Commodity Charge, which shall be subject to annual adjustment, as set forth below in this Section. In accordance*
9 *with Section 11 of this Agreement, the Parties agree that the ACC must approve the charges and the Commodity*
10 *Charge-setting methodology set forth herein for the term of this Agreement."*

11 At issue is whether the TR Parties pay ACC approved tariff rates for water sent to the golf course as
12 required by Decision 64360, the MXA that was approved by the ACC, and as recommended by Staff in their March
13 14, 2008 amended testimony. As noted in Decision 64360, failure of ICRWUA to charge tariff rates in the TR sub-
14 division would render the approval to extend ICRWUA's service area into the sub-division null and void without
15 further notice.

16 Despite the requirement of Decision 64360, ICRWUA entered into the Well Agreement with TRGC and
17 Harvard that requires ICRWUA to charge less than ACC-approved tariff rates for water sent to the golf course. This
18 practice is continued in the WSA wherein the ICR Board and the TR Parties have agreed upon a Commodity Rate
19 that continues ICRWUA's inappropriate practice of charging a rate for water sent to the golf course that is not
20 ICRWUA's ACC-approved tariff. The ICR Board's action in this regard is not in the best interest of the membership
21 it represents. For instance, had ICRWUA charged TRGC ACC-approved rates in 2006, as stated above, Staff has
22 stated in their amended testimony of March 14, 2008 that ICRWUA would have had an additional income of
23 \$114,290. These funds would have allowed ICRWUA to have operated in the black rather than running a deficit for
24 the year. Also, as discussed above, ICRWUA's failure to charge ACC-approved rates since it began delivering
25 water to the golf course in 2003 has cost ICRWUA hundreds of thousands of dollars in lost revenue.

26 Despite the assumption in the WSA that a Commodity Rate of \$1.00 per thousand gallons for water sent to
27 the golf course will allow ICRWUA to recover its cost of service plus an appropriate operating margin the first year
28 the WSA is in effect, this is not the case.

29 The Commodity Rate is based on a Cost of Service Study (COSS) for the year 2006, but it will only become
30 effective when and if the ACC approves the WSA, presumably sometime in early 2009, if it's approved at all. Thus
31 the rate will, at its imposition, be three years out of date. **Of greater importance is that the COSS is based on**
32 **incorrect financial data.** Compounding the problem is that a COSS study incorporates a number of subjective

1 assumptions that are made by the individual conducting the study; meaning that the results of a COSS are
2 subjective in nature and, therefore, subject to an unknown error. Given that the COSS is based on incorrect
3 financial data for 2006, the results of the COSS will not apply to ICRWUA's 2009 expenses even if the other
4 assumptions used in the study are accurate.

5 Because the WSA requires ICRWUA to be responsible for all cost incurred at the TR water system and the
6 Commodity Rate is based on a COSS for 2006, it is important to review all costs for the system that year no matter
7 who paid them. Total stated expenses for the TR water system in 2006 were about \$213,064, while the amount of
8 water pumped from the TR well field for all purposes was 148,867,000 gallons. For reference, the golf course
9 received 125,029,000 gallons in 2006, or 84 percent of the total water withdrawn from the TR well field.

10 Based on the total water withdrawn from the TR well field and the total stated expenses associated with this
11 withdrawal, unit cost (cost per one thousand gallons) for water pumped from the system in 2006 was approximately
12 \$1.43. Of the above cost for operating the TR water system, power cost alone were \$79,489, representing an
13 annual average unit cost of \$0.53. Since the TR Parties must bear this unit cost along with other customers of
14 ICRWUA, the remaining unit cost available to the Commodity Rate for covering all ICRWUA's other 2006 expenses
15 combined is only \$0.37 assuming a margin of 10 percent above cost.

16 Included in the other expenses that ICRWUA incurs are depreciation of plant or utility infrastructure and
17 operator cost. Both costs are incorrectly reflected in the 2006 expenses used in the COSS to calculate the
18 Commodity Rate, even assuming that the procedure and assumptions used in the COSS are sound.

19 The largest error in expenses is associated with depreciation of utility infrastructure at the TR water system.
20 Without adequate supporting documentation, ICRWUA has incorrectly estimated the cost of infrastructure it was
21 operating in 2006 at \$2,451,945. This asset is being depreciated over a forty-year life using a straight-line method,
22 or 2.5 percent depreciation of the asset per year; thereby yielding a depreciation expense for 2006 of \$61,299 for a
23 unit cost for \$0.42. Mr. Busch (manager of ICRWUA) states in the minutes for the ICR Board of Directors meeting of
24 August 26, 2008, incorporated herein as Exhibit 9, that the actual value of the assets owned by ICRWUA total
25 about \$6.65 million with an additional \$1.2 million soon to be transferred. As also stated by Mr. Busch "*there is*
26 *some concern about if and when these assets are to be accepted and included on the balance sheet.*" An audit of
27 ICRWUA financial statements for the year ending December 31, 2007 by Pinney (page 9 of the Audited Financial
28 Statement for the year ending December 31, 2007 by Constance Pinney, CPA, P.C.) incorporated herein as
29 Exhibit 10 increases the TR water system assets operated by ICRWUA from \$2,451,945 to \$6,533,592. ICRWU
30 was advised by Pinney in the October 28, 2008 ICR Board of Directors meeting to file an amended statement for
31 the year 2007 with the IRS to reflect this increased asset.

1 Continued use of the straight-line method for calculating depreciation of existing assets from \$2,451,945 to
2 \$6,533,592 million will increase depreciation expense for the TR system from \$61,299 to \$166,250. This increase is
3 not reflected in the COSS and will raise the unit cost of depreciation for plant assets at the TR Water system from
4 the 2006 value of \$0.42 used in the COSS to \$1.12. Based on information provided by Mr. Busch at the October
5 2008 ICR Board meeting, there is an additional \$1.2 million in plant asset soon to be transferred. Adding an
6 additional value for assets of \$1.2 million in the near future will increase the unit value of depreciation even higher
7 above that assumed in the COSS.

8 Another error in the 2006 expenses used in the COSS to calculate the Commodity rate is the expenses
9 associated with operator cost. ICRWUA contracts with A-Quality for operation, maintenance and repair of the TR
10 system. An error in assigning the expense associated with this service for 2006 resulted in the COSS study using a
11 value of \$23,610.5, or \$0.16 per thousand gallons rather than the actual cost of \$38,154 or \$0.26 per thousand
12 gallons, an increase of \$0.10 over that used in the COSS. Operator cost for 2009 at the TR water system, the year
13 that the WSA would presumably become effective if approved by the ACC, are \$62,760, bringing the cost per
14 thousand gallons to \$0.42 based on 2006 water usage. This expense is \$0.26 per thousand gallons above that
15 assumed in the WSA COSS.

16 Combined, the 2006 cost for depreciation and operator expense alone are \$1.54 per thousand gallons.
17 Adding power cost, the combined rate for all three expenses in 2006 was at least \$2.07 per thousand gallons, \$1.07
18 above the Commodity rate called for in the WSA.

19 It is important to recognize that power costs vary with demand. As shown in the monthly power cost for
20 2006 and 2007 incorporated herein as Exhibit 11, unit power cost for 2006 and 2007 varied monthly, with 2006
21 unit cost ranging from \$0.33 to \$1.16 and 2007 unit cost ranging from \$0.35 to \$2.26. Unit cost for both years
22 increased as **the amount of water pumped and power usage decreased.**

23 The variation in monthly unit cost and the fact that cost increases with decreasing pumpage is important in
24 that the amount of water pumped from the well field and sent to the golf course will decrease as effluent usage
25 increases, thereby raising the average cost for power above \$0.53 even if power rates stayed the same. Ultimately,
26 the amount of groundwater needed by the golf course will be reduced to a monthly average of about 5.7 million
27 gallons bringing the unit cost based on 2006 rates to about \$0.75. Months of lower demand will result in even higher
28 cost that, based on 2007 power cost, could be as high as \$2.26 per thousand gallons.

29 Finally, the Commodity Rate does not consider, and has no basis for estimating, the cost associated with
30 ICRWUA's agreement (per the WSA) to underwrite the expenses associated with operating, testing, inspecting,
31 repairing and maintaining the Additional wells and/or transmission facilities owned by the TR Parties that the WSA
32 allows the latter to connect to the TR water system. Given this fact alone, the ability of the Commodity Rate to cover

1 all of ICRWUA's expenses associated with operating the TR water system and those associated with the Additional
2 wells and/or transmission facilities is simply unknown.

3 The failure of the WSA to allow ICRWUA to recover its cost plus an appropriate margin over the term of the
4 WSA is further compounded by the fact that after the first year, computation of changes in the Commodity rate is
5 not based on actual cost incurred by ICRWUA at all. Rather it is subject to annual adjustment based on the average
6 annual Consumer Price Index - All Urban Consumers: Area-West Urban issued by the US Bureau of Labor
7 Statistics (the "Index").

8

9 **1.5 Does the WSA provide for ACC approval of the Commodity Rate and changes in the rate**
10 **through the term of the WSA?**

11 As stated in the preamble of paragraph 6, for the WSA charges to become effective, the ACC must approve
12 the rate and the rate-setting methodology in the WSA. But this statement is misleading. ACC approval is only for the
13 initial rate and rate-setting methodology, not for the term of the Agreement, i.e., 35 years. After requiring initial ACC
14 approval, the WSA thereafter removes the ACC from its State-mandated role of regulating ICRWUA and of setting
15 its rates throughout the term of the WSA. In addition, the WSA establishes a rate for water sent to the golf course
16 after the term of the WSA that is also not approved by the ACC. This rate continues into perpetuity. The removal of
17 the ACC from its State-mandated role of setting tariff rates for utility service at the TR water system in this manner
18 is definitely not in the best interest of ICRWUA's membership.

19 Paragraph 6b (ii) requires an annual adjustment in the Commodity Rate without any approval by the ACC.
20 Paragraph 6b (iii) allows an adjustment in the rate for new treatment cost required of ICRWUA or for increased cost
21 owing to increased cost associated with contamination of the well field, but the increased rate is decided upon by
22 the TR Parties and ICRWUA at the exclusion of the ACC.

23 On or after the seventh (7th) anniversary of the Effective Date of the WSA, paragraph 6b (iv) allows for the
24 TR Parties or ICRWUA to request, in writing, a one-time adjustment of the Commodity Rate over the term of the
25 WSA in order to assure that it continues to cover ICRWUA's cost of service for supplying water to the TR Parties
26 plus an appropriate margin. The adjustment is to be based upon a COSS conducted by a mutually agreed upon
27 (between ICRWUA and the TR Parties) certified public accountant with at least ten year's public utility accounting
28 experience. Within fifteen (15) days after the COSS has been provided to the Parties, the Parties are required to
29 meet and mutually agree upon an appropriate modification to the Commodity Charge based upon the COSS. This
30 arrangement provides the TR Parties a principal role in setting their own rate over the term of the agreement. It also
31 specifically excludes the ACC from approving the new rate and methodology. Even if it is assumed that the
32 adjustment is made correctly, it does not occur for seven years after initiation of the WSA, and no other adjustment

1 is made for the remaining term of the agreement. The ICR Board's approval of this arrangement is definitely not in
2 the best interest of the membership it represents.

3 Paragraph 6e excludes ICRWUA from billing or otherwise requiring payment from the TR Parties for water
4 for purposes of Landscape Irrigation, Lake Fill, Construction Purposes and other non-potable purposes except as
5 provided for in the WSA. Thus, even if the ACC took some action with regard to rates charged by the WSA during
6 the term of the agreement, ICRWUA would have a "valid agreement" that restricted it from charging ACC-mandated
7 rates.

8
9 **1.6 The System Reservation Charge in the WSA provides ICRWUA with \$340,000 over a ten-**
10 **year period regardless of how much, if any, water is used by the TR Parties. Isn't this of financial benefit to**
11 **ICRWUA?**

12 There is no question that this income would benefit ICRWUA. What would be of greater benefit to
13 ICRWUA, however, would be for the TR Parties to be required to pay the ACC-approved tariff rate for water
14 delivered to the golf course as required in Decision 64360 and for the TR Parties to be subject to ACC-approved
15 changes in this rate in the future. If the TR Parties were required to pay ACC-approved rates for water sent to the
16 golf course, ICRWUA would realize \$340,000 in revenue from the TR Parties in only a few years' time rather than
17 10 years; and, ICRWUA would be assured that all their customers, including the golf course, pay their fair share of
18 future increases in expenses.

19 As stated in Bourassa's Additional Supplemental Testimony of October 15, 2008, "*the System Reservation*
20 *Charge is intended to reverse ICRWUA's deplorable current financial condition and stabilize its revenues*".
21 Bourassa does not provide a discussion or basis for ICRWUA's existing financial condition, but there can be no
22 doubt that it is mainly, if not entirely, the result of ICRWUA's failure to charge TRGC the ACC-approved tariff rate
23 for water delivered to the golf course from 2003 to the present. *Approval of the WSA, and therefore the Commodity*
24 *Rate, would only continue to keep and deepen ICRWUA's existing financial condition.*

25 Rather than allowing the ACC to reach a decision based on testimony presented in the Rate Case through
26 March 2008, ICRWUA entered into extended negotiations with the TR Parties to allow the latter to pay less than
27 ACC-approved tariff rates as suggested by Staff in their amended filing of March 14, 2008. These negotiations have
28 cost ICRWUA somewhere in the range of \$200,000 with additional expenses forthcoming. The TR Parties agreed to
29 contribute \$30,000 toward these charges, but only if ICRWUA Board signed the WSA, which one Board member
30 did on September 12, 2008. The TR Parties have also agreed to provide an additional \$50,000 to ICRWUA for legal
31 cost associated with negotiating the WSA, but only if the ACC approves the agreement. These conditions, with or
32 without ACC approval of the WSA, still leave ICRWUA's membership with significant legal and other related cost

1 incurred by its ICR Board of Directors for the sole purpose of allowing the TR Parties to circumvent the financial
2 requirements of Decision 64360.

3 If the WSA were to be approved, the funds derived from the System Reservation Charge would simply help
4 to offset the loss of revenue ICRWUA would experience due to the failure of the Commodity Rate to cover
5 ICRWUA's increased cost resulting from such items as depreciation, operating expenses, and higher power cost,
6 as discussed above, and the expenses resulting from legal and related cost incurred during the Rate Case.

7 Mr. Crockett, stated at the Procedural Hearing of September 25, 2008 that the System Reservation Charge
8 is also part of the rate that the TR Parties pay for water sent to the golf course, but this is not the case. A system
9 reservation charge is just that, a system reservation charge; it is not part of the rate at all. Mr. Crockett's statement
10 is also in direct conflict with the testimony of Mr. Bourassa stated above.

11

12 **1.7 Is the agreement in the WSA that allows the TR Parties to connect Additional wells and/or**
13 **Additional transmission facilities owned by any of the TR Parties to ICRWUA's Talking Rock water system**
14 **in the best interest of the members of ICRWU?**

15 The WSA allows any of the TR Parties to connect Additional wells or transmission facilities to ICRWUA's
16 TR water system provided that such use does not unreasonably interfere with ICRWUA's operations. Water
17 delivered from the Additional wells through ICRWUA's TR water system will be charged the Commodity Rate. This
18 agreement and the terms associated with it stated below are definitely not in the best interest of ICRWUA's
19 membership.

20 The WSA further requires that the Additional wells and facilities will be:

- 21 • Operated, tested, inspected, repaired and maintained by ICRWUA at ICRWUA's sole expense even though
22 TRGC retains ownership of the Additional wells and/or facilities.
- 23 • In return ICRWUA is granted the right to pump any Additional Well(s) and withdraw groundwater subject to
24 the terms of the WSA without any charge to ICRWUA for the groundwater withdrawn, as long as such pumping
25 does not interfere with the use of the Additional wells by the TR Parties.

26

27 The WSA ignores the facts that:

- 28 • With ICRWUA's ownership of all three wells at the TR well field and domestic use having priority, the
29 October 2007 well field test shows that ICRWUA will have more than sufficient capacity to meet the domestic
30 demand of the TR sub-division plus back-up capability and does not need the potential, but WSA-limited availability,
31 of water from the Additional wells.

1 • That the Commodity rate specified in the WSA is based on ICRWUA's cost of delivering water from the
2 three wells in the TR well field, not from the Additional wells with or without water from the TR well field. Because
3 the Additional wells will be further removed from the TR sub-division than those in the TR well field, the cost
4 associated with delivering water from the former well field will, by perforce, be greater than that incurred from the
5 latter well field.

6 • That the cost associated with ICRWUA's agreement to operate, test, inspect, repair and maintain the
7 Additional wells and transmission facilities are unknown.

8 • That the yield or productive capacity of the Additional wells is unknown.

9 • That priority of water use from the Additional wells is for the TR Parties.

10
11 In essence, ICRWUA has agreed to accept financial responsibility for operating, testing, inspecting,
12 repairing and maintaining the Additional wells and transmission facilities that are owned by the TR Parties without
13 knowledge of the cost associated with this commitment, without knowledge of the actual yield of the Additional
14 wells, and without a means to be reimbursed by the TR Parties for incurring this unknown cost, all in order to obtain
15 potential, but restricted use of a water supply it does not need.

16
17 **1.8 Is the following in the best interest of the ICRWUA membership: ICRWUA's agreement in the**
18 **WSA that the MXA, as amended, and the Well Agreement, as amended are valid and remain in full force and**
19 **effect until approval of the WSA by the ACC?**

20 The WSA states that ICRWUA and the TR Parties agree that the MXA, as amended, and Well Agreement,
21 as amended, are valid and remain in full force and effect until the Effective Date of WSA.

22 ICRWUA is under the jurisdiction of the ACC and can only charge a rate for the delivery of water that is
23 approved by the ACC, to whatever entity. The WA was not approved by the ACC, but it sets rates for water that
24 ICRWUA delivers to the golf course that are less than ACC-approved rates as required in the MXA, and as many,
25 including Staff contend, is required by Decision 64360. ICRWUA's policy of using the Well Agreement to set
26 TRGC's rate is inappropriate and should be immediately stopped. Once again, ICRWUA's failure to charge the
27 approved ACC rate has cost ICRWUA's membership hundreds of thousands of dollars in lost revenue.

28
29 **1.9 Is there a commitment to conservation of groundwater in the WSA?**

30 The WSA's commitment to conservation of groundwater is that *"The TR Parties agree to continue to use*
31 *reasonable efforts to promote conservation within Talking Rock and to minimize the use of groundwater for*
32 *Landscape Irrigation, Lake Fill and other non-potable purposes. TRGC further agrees to complete construction of*

1 *an additional planned storage pond with an estimated capacity of 25,000,000 gallons no later than February 1,*
2 *2009, which deadline may be extended by the TR Parties for good cause and following notice to ICRWUA."*

3 The above statement is a hollow commitment to conservation. It does not discuss what "reasonable
4 methods" will be used to promote conservation within TR, and it does not discuss how, or when, the demand on
5 groundwater will be reduced and by how much.

6 The WSA ignores the fact that in Harvard's 2001 presentation to Yavapai County for plat approval the
7 company committed to using effluent for irrigation of the golf course and that this source alone would provide the
8 necessary water for irrigation of the golf course in ten years, the projected build-out period for completion of the
9 sub-division.

10 Although the build out period will obviously extend far beyond ten years, substitution of effluent for fresh
11 groundwater is underway. Since 2003, the ICR Sanitary District sends it effluent to Harvard where it is used for
12 irrigation of the golf course. The amount sent will increase as the customer base for the District increases. The
13 WSA makes no reference to this and does not reduce groundwater demand for the golf course over time as effluent
14 becomes available to replace it. The 2007 use of groundwater by TRGC for irrigation of the golf course was
15 130,809,000 gallons, or 401.5 acre-feet, slightly above its permitted rate of 400 acre-feet.

16 Effluent from all four sub-divisions served by the ICR Sanitary District is sent to the TR golf course. At this
17 time, the District, with the current demographics, serves 454 homes producing on average 40,000 gallons of
18 effluent per day, or about 88 gpd per residence. At full build-out the District will serve approximately 2,400 homes.
19 At the present rate of effluent generation, the ultimate amount of effluent generated at full build-out possibly could
20 be 202,400 gpd. As shown in the following table, this would reduce the current annual groundwater demand for
21 irrigation of the golf course from a maximum allowable 130,331,200 gallons per year to 53,243,200 gallons; a
22 reduction of 59 percent.

23

24

Reduction in Groundwater Demand as Effluent Generation Increases

Residences	Effluent Generation (gallons per year)	Groundwater Demand (gallons per year)	Groundwater Demand (gallons per minute)
454	14,600,000	115,731,200	220
1,000	32,120,000	98,211,200	187
1,500	48,180,000	82,151,200	156
2,000	64,240,000	66,091,200	126
2,400	77,088,000	53,243,200	101

25

26

1.10 Is there a benefit in the Construction of a 25,000 gallon storage pond?

27

Definitely. The construction of an additional storage pond by TRGC with an estimated capacity of

1 25,000,000 gallons really addresses the need of TRGC to be able to accommodate effluent. The amount of
2 groundwater used to irrigate the golf course varies monthly and from year to year. The months of lowest demand for
3 2006 and 2007 were November, December, January, and February. Monthly demand during this period varied from
4 a low of 767,000 gallons to a high of 4,857,000 and averaged 2,499,375 gallons. Effluent generation for 1,000
5 homes will average about 2,676,666 gallons per month and it is obvious that a storage pond will be required for this
6 water in the near future.

7 As stated above, at the present rate of effluent generation the ultimate amount of effluent generated at full
8 build-out would be 202,400 gpd and the monthly output of effluent would be between 6,072,000 gallons and 6,274,400
9 gallons, much more than the golf course has required during November, December, January, and February up to
10 the present time.

11 Annual evaporation from the storage pond will reduce the amount of effluent available to the golf course
12 and increase the annual demand for groundwater stated above for full build-out.

13
14 **1.11 The WSA allows ICRWUA to characterize up to 70% of the utility infrastructure provided by**
15 **the TR Parties as contributions in aid of construction. Would treating any of this infrastructure as a**
16 **contribution in aid of construction be in the best interest of ICRWUA's membership?**

17 Treating any of the utility infrastructure provided by the TR Parties as contributions in aid of construction is
18 definitely not in the long-term interest of ICRWUA's membership. Such treatment allows expenses and tariff rates to
19 remain arbitrarily low in the short-term because contributions in aid of construction cannot be depreciated as an
20 expense. This in turn, means that funds are not being accrued for the purposes of infrastructure replacement.
21 Ultimately, of course, replacement must occur at which time ICRWUA members will realize a significant rate
22 increase.

23
24 **1.12 In his October 15, 2008 supplemental testimony Mr. Bourassa has implied that TRGC would**
25 **be forced to use its own water supply to serve itself in the event that TRGC is required to pay tariff rates for**
26 **water used on the golf course. Would you like to comment on this possibility?**

27 Yes. In the first place I do not believe that Mr. Bourassa is qualified to discuss future decisions by TRGC or
28 the TR Parties. Since he was presumably paid by ICRWUA to analyze this condition, I can only speculate that his
29 conclusion is really that of ICRWUA or perhaps that of the TR Parties.

30 In any case, Mr. Bourassa's analysis of the financial impact that would result if TRGC were required to pay
31 tariff rates for water sent to the golf course reflects a lack of understanding of the TR water system and the water
32 demand at the golf course; his analysis is therefore flawed on its face. Bourassa's analysis assumes that TRGC

1 could instantly divorce itself from the TR water system owned by ICRWUA, and this is not the case. Mr. Bourassa's
2 analysis also assumes that TRGC's existing source of water (well 1) is sufficient to meet the demands of the golf
3 course, and this is not the case either. Should the WSA not be approved and the TR Parties continue to own well 1,
4 TRGC would still have to utilize ICRWUA infrastructure to deliver water from the well to the golf course. In
5 additional, well 1 cannot meet golf course demand during the driest part of the pre-monsoon season, and TRGC
6 would still need water from ICRWUA's wells to meet this shortfall. Should the rate case result in the requirement of
7 the TR Parties to transfer well 1 to ICRWUA as required by Decision 64360, the TR Parties would be totally reliant
8 on ICRWUA for water to irrigate the golf course.

9 Based on ICRWUA's experience with the TR Parties from the beginning of the relationship to the present
10 time, it is more than fair to say that ICRWUA's requirement to provide water utility service to the TR Parties has
11 been financially detrimental to ICRWUA. Although Harvard originally approached ICRWUA for the purpose of the
12 latter supplying water to Harvard's TR development, Harvard and TRGC have, from the beginning up to the present
13 time, undertaken actions that promote the well being of the golf course at the expense of ICRWUA. Given this, and
14 with no expectations for improvement, ending the relationship is actually in ICRWUA's best interest.

15 Among other things, the desire of Harvard and TRGC to obtain inexpensive water for irrigation of the golf
16 course has caused ICRWUA to enter into agreements with Harvard and TRGC (the First Amendment to the MXA
17 and the WA) that have not complied with the requirements of the ACC's decision that extended ICRWUA's service
18 area to include the TR sub-division and, therefore, are not in the public interest.

19 These agreements were originally structured when Harvard was purchasing land from the company that
20 controlled ICRWUA's ICR Board of Directors. The Agreements and/or the action of the ICR Board of Directors from
21 that time up to the present have cost ICRWUA hundreds of thousands of dollars in lost revenue from 2003 to the
22 present time, and have left ICRWUA without sufficient water capacity to meet the domestic demand of the sub-
23 division and without a back-up well as required by the ACC's 2002 decision. The Agreements and/or the action of
24 the ICR Board of Directors in favor of the golf course have also resulted in the current insolvency of ICRWUA.

25 ICRWUA's defense of these agreements in the current rate case and the ICR Board's efforts to arrive at a
26 new agreement with the TR Parties that continues to circumvent the Decision 64360 has cost ICRWUA
27 approximately \$250,000, and these costs continue to mount.

28 In comparison, the loss of income that ICRWUA would experience if TRGC decided to supply their own
29 water would not be overly burdensome on ICRWUA customers assuming that TRGC could actually immediately
30 divorce itself from the TR water system. ICRWUA expenses in 2006 equaled \$295,341. Of this amount TRGC paid
31 \$51,123 or 18.7 percent based on OM&R expenses at the TR system and an additional wheeling of \$4,163.

1 Thus ICRWUA would only lose about 18 percent of its income. ICRWUA residences have not objected to
2 potentially higher cost during the entire rate case. ICRWUA customers would actually experience some gain from
3 disengagement by the TR Parties. Disengagement, however, could actually require several years. During this time
4 Harvard would pay tariff rates until they were able to "disengage" from the TR Water system. Water sent to the golf
5 course represented 54 percent of the pumpage from ICRWUA's wells for 2006. The loss of this demand would
6 enhance the capacity of ICRWUA's wells for domestic purposes.

7
8 **1.13 Are there any issues that would have to be resolved if the WSA is not approved by the**
9 **ACC?**

10 Harvard and ICRWUA failed to meet the requirement of Decision 64360 that required Harvard to "*include in*
11 *its advance, the wells it has drilled for the purpose of providing water to the extension area...*" Additional wording in
12 the Decision stated that ICRWUA was required to "*file a copy of the relevant documents transferring ownership of*
13 *the wells and related production facilities to ICR within 365 days of the effective date of this Decision or the*
14 *approval granted herein shall be rendered null and void without further Order by the Commission.*" Because the
15 requirement for well transfer has not been met, the ACC needs to determine if their decision to extend ICRWUA's
16 service area to include the TR sub-division is null and void as stated in Decision 64360, and if not, whether the
17 transfer of ownership of well 1 from Harvard to ICRWUA is still required.

18 Because ICRWUA has failed to meet the requirement of Decision 64360 to charge all its customers in the
19 TR sub-division its existing ACC-approved rates (per Decision 64360) the ACC needs to determine if their decision
20 to extend ICRWUA's service area to include the TR sub-division is null and void as stated in Decision 64360.

21 Assuming that the extension is not null and void and because wells 1, 2, and 3 are all connected to
22 ICRWUA's infrastructure, water from the wells must be sent through this infrastructure in order to reach the golf
23 course; the ACC therefore needs to establish a tariff rate for this water even if one or more of the wells is not owned
24 by ICRWUA.

25
26 **Does this conclude your testimony?**

27 Yes.

28

EXHIBIT 1

**Pages 1-8
of
Decision 64360**

**Docket No. W-02824A-01-0450
Bar Code 0000028683**

BEFORE THE ARIZONA CORPORATION UTILITIES COMMISSION

DOCKETED

JAN 15 2002

1
2 WILLIAM A. MUNDELL
CHAIRMAN
3 JIM IRVIN
COMMISSIONER
4 MARC SPITZER
COMMISSIONER
5

DOCKETED BY

WCP

6 IN THE MATTER OF THE APPLICATION OF ICR
WATER USERS ASSOCIATION, INC. TO
7 EXTEND ITS CERTIFICATE OF CONVENIENCE
AND NECESSITY.

DOCKET NO. W-02824A-01-0450

DECISION NO. 64360

OPINION AND ORDER

8
9 DATE OF HEARING: September 6, 2001
10 PLACE OF HEARING: Phoenix, Arizona
11 ADMINISTRATIVE LAW JUDGE: Marc E. Stern
12 APPEARANCES: Lewis and Roca, L.L.P., by Mr. Michael T. Hallam, on
13 behalf of ICR Water Users Association, Inc.;
14 Fennemore Craig, P.C., by Ms. Karen E. Errant, on
15 behalf of Intervenor Harvard Simon I, L.L.C.; and
16 Ms. Janice M. Alward, Assistant Chief Counsel, Legal
Division, on behalf of the Arizona Corporation Utilities
Division.

17 **BY THE COMMISSION:**

18 On June 1, 2001, ICR Water Users Association, Inc. ("ICR" or "Applicant") filed with the
19 Arizona Corporation Commission ("Commission") an application for an extension of its Certificate
20 of Convenience and Necessity ("Certificate") to provide public water utility service to various parts
21 of Yavapai County, Arizona.

22 On June 7, 2001, Harvard Simon I, L.L.C. ("Harvard") filed a Motion to Intervene
23 ("Motion"). There were no objections to the Motion.

24 On June 26, 2001, by Procedural Order, the above-captioned matter was scheduled for a
25 hearing on September 6, 2001 and Applicant was ordered to publish notice of the application and
26 hearing thereon. Intervention was also granted to Harvard.

27 On August 8, 2001, the Commission's Utilities Division ("Staff") filed its Staff Report in this
28 matter.

1 On September 6, 2001, a full public hearing was convened before a duly authorized
2 Administrative Law Judge of the Commission at its offices in Phoenix, Arizona. ICR, Harvard and
3 Staff appeared with counsel. At the conclusion of the hearing, the matter was taken under
4 advisement pending submission of a Recommended Opinion and Order to the Commission.

5 * * * * *

6 Having considered the entire record herein and being fully advised in the premises, the
7 Commission finds, concludes, and orders that:

8 **FINDINGS OF FACT**

9 1. Pursuant to authority granted by the Commission, ICR is engaged in providing water
10 service to approximately 85 residential customers approximately 12 miles northwest of Prescott,
11 Yavapai County, Arizona.

12 2. ICR's existing Certificate area contains approximately 300 residence sized lots.

13 3. ICR's existing plant includes 110,000 gallons of storage and is valued at \$250,000.

14 4. To serve its existing certificated area, since ICR does not own a well, it purchases all
15 of its water under the terms of a 100-year water purchase agreement for \$.15 per 1,000 gallons from
16 Pierce Properties, a nearby property owner located approximately 2 miles from ICR's certificated
17 service area.

18 5. On June 1, 2001, ICR filed an application for an extension of its existing Certificate in
19 order to provide water service to approximately 3,070 acres of land adjacent to its existing
20 certificated service area which is more fully described in Exhibit A attached hereto.

21 6. ICR has requested the above-described extension of its Certificate because it has
22 received a request from Harvard to provide water service to the area described in Exhibit A for a
23 planned development, Talking Rock Ranch ("Ranch"), a residential subdivision which will contain
24 approximately 1,500 residences when it is entirely built out.

25 7. The Ranch will also include common areas, a club house, swimming pool, fitness
26 center and an 18-hole golf course with storage lakes. Besides the extension area requested herein, the
27 Ranch also includes 400 acres already owned by Harvard in ICR's existing Certificate area.

28 8. In order to provide service to the extension area, ICR and Harvard have entered into a

1 Main Extension Agreement ("Agreement"). Pursuant to the Agreement, Harvard will construct all of
2 the required facilities¹ necessary to serve the Ranch and advance them to ICR which in turn will
3 refund to Harvard, over a period of 25 years, 15 percent of the revenues derived from the provision of
4 service to the extension area. However, refund payments will not start until five years after ICR first
5 provides service in the extension area.

6 9. Pursuant to the terms of the Agreement, the facilities will be constructed in conformity
7 with the rules of the Yavapai County Environmental Services Department and the Arizona
8 Department of Environmental Quality ("ADEQ").

9 10. In the event that any of the facilities are not located in the public rights of way,
10 Harvard will convey permanent easements and rights-of-way to ICR to allow for access to its
11 facilities in the future.

12 11. Any unpaid balance at the end of the 25-year term of the Agreement will become a
13 non-refundable contribution to ICR.

14 12. There are no other public water utilities in the area to provide water service to the area
15 sought to be certificated herein by ICR.

16 13. During the proceeding, Mr. Swayze McCraine, the president of ICR, testified that ICR
17 will comply with all conditions recommended by Staff in its report.

18 14. According to the Agreement, at build out, the facilities to be constructed in phases by
19 Harvard will be worth approximately \$15,160,578.

20 15. ICR has indicated that it will charge those customers in the expansion area its existing
21 rates and charges of \$20 per month for its base rate and \$2 per 1,000 gallons for water usage.

22 16. Under the terms of the Agreement, ICR consents to Harvard using water from its well
23 to provide its golf course and storage lakes within the Ranch subdivision with water. There is also a
24 provision within the Agreement which states that ICR agrees to provide water at the lawful tariff rate
25 to the golf course upon written request from Harvard in the future, consistent with the rules of the
26 Commission. However, the Agreement does not address the issue of priority of use in the event of a

27 _____
28 ¹ Although ICR's utility plant will increase greatly as a result of the Agreement, there is no provision for the transfer of
any wellsites, wells or related water production facilities.

1 water shortage.

2 17. A Harvard representative indicated that the plat for the Ranch's first phase has already
3 been approved and construction has commenced on the golf course.

4 18. According to Harvard's representative, the developer had a number of water
5 hydrology tests performed, which indicate that there is more than ample water available to ICR's
6 existing certificated service area and the extension area where the Ranch is located.

7 19. Under the Agreement, ICR covets that it shall use its best efforts to ensure that the
8 plant advanced by Harvard will not be used to provide water to customers outside of the Ranch area
9 such that it will not adversely impact service to the Ranch area.

10 20. Harvard has drilled two test wells, one of which produces approximately 700 gallons
11 of water per minute. However, water production from it has been lowered to 525 gallons of water per
12 minute because the Ranch's demands at full build-out including the golf course and all residential
13 units are projected at 523 gallons of water per minute. Additionally, Harvard will utilize the second
14 well as a back-up emergency well and has the ability to add a third well, if needed.

15 21. Harvard's well-site is located slightly outside of the extension area on property owned
16 by Harvard.

17 22. Harvard does not wish to transfer its well-sites to ICR because, from a development
18 view point, since it will take more than a decade to build out the project, Harvard believes it is
19 important to retain ownership and control over its wells.

20 23. As the utility plant is constructed by Harvard for ICR and phased into service, ICR's
21 water storage capacity will increase by 600,000 gallons.

22 24. Staff is recommending approval of ICR's application herein.

23 25. Since ICR's certificated service area and the extension area are located outside of the
24 Prescott Active Management Area, Applicant will not be required to file a copy of the developer's
25 Certificate of an Assured Water Supply. Instead, Staff is recommending that ICR file a copy of a
26 certificate of adequate physical availability.

27 26. Staff believes that ICR's existing rates and charges will enable it to continue viable
28 operations because much of ICR's projected expenses with the expected expansion will be related to

1 non-cash depreciation expenses.

2 27. Applicant is in compliance with the rules of ADEQ and is providing water which does
3 not exceed any MCLs and meets the water quality standards of the Safe Drinking Water Act.

4 28. Applicant is current on the payment of its property and sales taxes.

5 29. Applicant will obtain a Yavapai County franchise for the extension area where it is
6 presently not certificated.

7 30. Staff is recommending approval of ICR's application herein subject to the following
8 conditions:

- 9
- 10 • that Applicant file, with the Director of the Commission's Utilities Division,
11 within 365 days of the effective date of this Decision, a copy of the developer's
12 water adequacy report for Phase I which is to be issued by the Arizona Department
13 of Water Resources;
- 14 • that ICR file, with the Director of the Commission's Utilities Division, within 365
15 days of the effective date of this Decision, a copy of the developer's Certificate of
16 Approval to Construct with the appropriate main extension agreement;
- 17 • that Applicant file, with the Director of the Commission's Utilities Division,
18 within 365 days from the date of this Decision, a copy of its Yavapai County
19 franchise for the extension area where it is not presently certificated; and
- 20 • that Applicant continue to charge its existing rates and charges in the extension
21 area.

22 31. Staff is further recommending that, in the event that ICR fails to meet the above
23 recommendations of Staff in a timely fashion, the approval granted hereinafter shall be null and void
24 without further Order by the Commission.

25 32. Staff is also recommending that Applicant file, within five years from the date of this
26 Decision, a rate application.

27 33. Under the circumstances herein, we believe that Staff's recommendations on balance
28 are reasonable and should be adopted.

34. However, we are concerned with the fact that ICR does not own or have its own water
production facilities and that the issue was not addressed adequately. We believe that, as an
additional condition for the extension of the Certificate herein, as part of the Agreement, Harvard

1 should include in its advance, the wells which it has drilled for the purpose of providing water to the
2 extension area described in Exhibit A to ensure that the utility has adequate water for its customers
3 and to ensure that they are not subject to relying for their water on a third party over which the
4 Commission lacks jurisdiction.

5 35. We believe that this additional condition can be met by amending the Agreement
6 between the parties and we shall require ICR to file a copy of the relevant documents transferring
7 ownership of the wells and related water production facilities to ICR within 365 days of the effective
8 date of this Decision or the approval granted herein shall be rendered null and void without further
9 Order by the Commission.

10 **CONCLUSIONS OF LAW**

11 1. Applicant is a public service corporation within the meaning of Article XV of the
12 Arizona Constitution and A.R.S. §§ 40-252, 40-281 and 40-282.

13 2. The Commission has jurisdiction over Applicant and of the subject matter of the
14 application.

15 3. Notice of ICR's application as described herein was given in the manner prescribed by
16 law.

17 4. The public convenience and necessity require and the public would benefit by the
18 extension of ICR's Certificate so that its certificated service area includes the area more fully
19 described in Exhibit A.

20 5. Applicant is a fit and proper entity to receive an amended Certificate which
21 encompasses the area more fully described in Exhibit A.

22 6. ICR's application for the extension of its Certificate should be approved as
23 recommended by Staff in Findings of Fact Nos. 30 and 31 and consistent with Findings of Fact Nos.
24 34 and 35 hereinabove.

25 **ORDER**

26 IT IS THEREFORE ORDERED that the application of ICR Water Users Association, Inc. for
27 an extension of its Certificate of Convenience and Necessity for the operation of water facilities in
28 the area more fully described in Exhibit A be, and is hereby approved, as conditioned herein.

1 IT IS FURTHER ORDERED that ICR Water Users Association, Inc. shall comply with all
2 conditions as described in Findings of Fact Nos. 30, 31, 34 and 35 and Conclusion of Law No. 6
3 hereinabove.

4 IT IS FURTHER ORDERED that the approval granted herein to ICR Water Users
5 Association, Inc. shall be conditioned upon ICR Water Users Association, Inc. complying with the
6 conditions as set forth in Findings of Fact Nos. 30, 31, 34 and 35 and Conclusion of Law No. 6
7 hereinabove or the approval granted herein shall be rendered null and void without further Order of
8 the Commission.

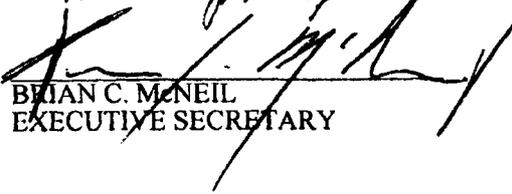
9 IT IS FURTHER ORDERED that ICR Water Users Association, Inc. shall file, within five
10 years from the date of this Decision, a rate application.

11 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

12 BY ORDER OF THE ARIZONA CORPORATION COMMISSION:

13 
14 
15 CHAIRMAN COMMISSIONER COMMISSIONER
16 

17 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
18 Secretary of the Arizona Corporation Commission, have
19 hereunto set my hand and caused the official seal of the
20 Commission to be affixed at the Capitol, in the City of Phoenix,
21 this 15th day of February 2002.

22 
BRIAN C. McNEIL
EXECUTIVE SECRETARY

23 DISSENT _____
24 MES:mlj

25
26
27
28

1 SERVICE LIST FOR: ICR WATER USERS ASSOCIATION, INC.

2 DOCKET NO. W-02824A-01-0450

3

4 Thomas H. Campbell
Michael Hallam
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Phoenix, AZ 85004-4429
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10 Karen E. Errant
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12 Attorneys for Harvard Simon I, L.L.C.

13 Christopher Kempley, Chief Counsel
Legal Division
14 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
15 Phoenix, Arizona 85007

16 Ernest G. Johnson, Director
Utilities Division
17 ARIZONA CORPORATION COMMISSION
1200 West Washington Street
18 Phoenix, Arizona 85007

19

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21

22

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EXHIBIT 2

Driller's Report and Pump Installation Report for well 1

**constructed between
January 3 - February 5, 2001**

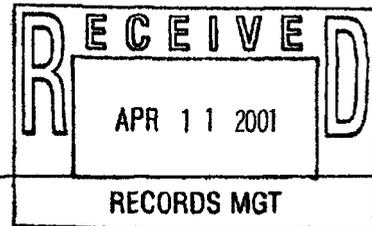
**pump installation completed April
11, 2001**

**ARIZONA DEPARTMENT OF WATER RESOURCES
GROUNDWATER MANAGEMENT SUPPORT SECTION
MAIL TO: P. O. BOX 458 - PHOENIX ARIZONA 85001-0458
Phone 602-417-2470**

COMPLETION REPORT

(Pump Installation Report)

- A. Per A.R.S. § 45-600.B, the Completion Report is to be filed with the Department within 30 days after installation of pump equipment by the registered well owner.
- B. Drawdown of the water level for a non-flowing well should be measured in feet after not less than 4 hours of continuous operations. For a flowing well the shut-in pressure should be measured in feet above the land surface or in pounds per square inch at the land surface.
- C. The static groundwater level should be measured in feet from the land surface immediately prior to the capacity test.
- D. The tested pumping capacity of the well in gallons per minute for a non-flowing well should be determined by measuring the discharge of the pump after continuous operation for at least 4 hours and for a flowing well be measuring the natural flow at the land surface.
- E. Items 1 and 2 are available from the Notice of Intent to Drill.
- F. Items 3 and 4 may be available from the driller.



1. **REGISTRATION NO:** 55-584177 **FILE NO:** _____

2. LOCATION OF THE WELL:

16 ^{NS} Township 3 ^{EW} Range 17 Section 1/4 SW 10-acre 1/4 NW 40-acre 1/4 NW 160-acre

3. EQUIPMENT INSTALLED:

Kind of pump Submersible Kind of power Electric
Turbine, Submersible, Centrifugal, etc. Electric, natural gas, gasoline, etc.
 H.P. Rating of Motor 60 Pumping Capacity 475 GPM Date Pump Installed 2-14-01

4. WELL TEST:

Test pumping capacity 475 GPM Date Well Tested 2-14-01
Gallons per minute

Method of Discharge Measurement Water Meter
Weir, orifice, current meter, etc.

Static Groundwater Level 8' ft. Drawdown 0 ft.

Total Pumping Lift 0 ft. Drawdown 0 lbs
(Flowing Well)

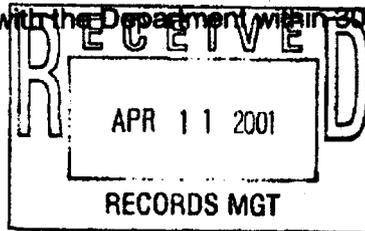
I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief.

Harvard - Simon J, LLC
 Print Well Owner's Name Harvard Investments Address 7600 E. Double Tree Ranch Rd. City Scottsdale State Az. Zip 85258
 *Signature of Well Owner [Signature] Phone Number 480-348-1118 *Date 4.16.01

ARIZONA DEPARTMENT OF WATER RESOURCES
 500 North 3rd Street
 Phoenix, Arizona 85004

WELL DRILLER REPORT

This report should be prepared by the driller in all detail and filed with the Department within 30 days following completion of the well.



1. **DEL RIO DRILLING & PUMP, INC.**
 6645 NORTH HIGHWAY 89
 CHINO VALLEY, AZ 86323-9154

2. Owner Name: Kevin Newell
 Address: 3200 N Central Ste 2100 Phoenix, AZ 85012
City State Zip

3. Location: 16 NS 3 EW 17 1/4 SW 1/4 NW 1/4 NW
Township Range Section 10-acre 40-acre 160-acre

4. Well Registration No. 55-584177 (Required)

5. Permit No. _____ (If Issued)

DESCRIPTION OF WELL

6. Total depth of hole 300' ft.
7. Type of casing Steel solid 3/8" mesh
8. Diameter and length of casing 12 in. from 0' to 20', 8" in from 0' to 300'
9. Method of sealing at reduction points _____
10. Perforated from 200' to 300', from _____ to _____ from _____ to _____
11. Size of cuts Factory Perf Number of cuts per foot _____
12. If screen was installed: Length _____ ft. Diam _____ in. Type _____
13. Method of construction Drilled -
(drilled, dug, driven, bored, jetted, etc)
14. Date started 01 03 01
Month Day Year
15. Date completed 02 05 01
Month Day Year
16. Depth to water 8' ft. (If flowing well, so state)
17. Describe point from which depth measurements were made, and give sea level elevation if available _____
18. If flowing well, state method of flow regulation: _____
19. Remarks: _____

DO NOT WRITE IN THIS SPACE
OFFICE RECORD

Registration No. 88- 584177
 File No. B(18-3) 17 BBC
 Received _____ By _____
 Entered _____ By _____

ENTERED MAY 04 2001

EXHIBIT 3

Driller's Report and Pump Installation Report for well 2

**constructed between
March 27 – April 20, 2002**

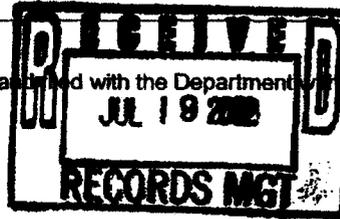
**pump installation completed
August 1, 2002**



Arizona Department of Water Resources
 Records Management Section
 500 N. 3rd Street • Phoenix, Arizona 85004
 (602) 417-2405 • (800) 352-8488
 www.water.az.gov

Well Driller Report
 and
 Well Log

- ❖ Review instructions prior to completing form
- ❖ This report should be prepared by the driller in detail and filed with the Department within 30 days following completion of the well.



WELL REGISTRATION NUMBER 55-589659
PERMIT NUMBER (IF ISSUED)

** PLEASE PRINT CLEARLY **

SECTION 1 - WELL INFORMATION	
Well Owner FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL Harvard Inv.	Location of Well WELL LOCATION ADDRESS (IF ANY)
MAILING ADDRESS 113 W. Goodwin St.	TOWNSHIP (NS) 16N RANGE (EW) 3W SECTION 17
CITY / STATE / ZIP CODE Prescott Az. 86303	160 ACRE 40 ACRE 10 ACRE LONGITUDE NW ¼ NW ¼ SW ¼
CONTACT PERSON NAME AND TITLE Doug Zuber	LATITUDE ° ' " N LONGITUDE ° ' " W
TELEPHONE NUMBER 430-348-1118 FAX	LAND SURFACE ELEVATION AT WELL Feet Above Sea Level
	METHOD OF LATITUDE / LONGITUDE (CHECK ONE) <input type="checkbox"/> USGS Quad Map <input type="checkbox"/> Conventional Survey <input type="checkbox"/> GPS <input type="checkbox"/> Survey-Grade <input type="checkbox"/> Hand-Held
	COUNTY ASSESSOR'S PARCEL ID NUMBER BOOK 300 MAP 28 PARCEL 016P
	COUNTY WHERE WELL IS LOCATED Yavapai

SECTION 2 - DRILLING DETAILS	
Drilling Firm NAME Del Rio Drilling & Pump Inc.	
DWR LICENSE NUMBER 530	
TELEPHONE NUMBER 928-6370-4272	FAX 928-636-1692

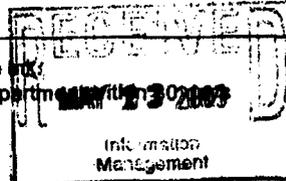
SECTION 3 - WELL CONSTRUCTION DETAILS		
DATE WELL CONSTRUCTION STARTED 03-27-02	DATE WELL CONSTRUCTION COMPLETED 04-20-02	IF FLOWING WELL, METHOD OF FLOW REGULATION <input type="checkbox"/> Valve <input type="checkbox"/> Other:
Drill Method CHECK ONE <input checked="" type="checkbox"/> Air Rotary <input type="checkbox"/> Bored or Augered <input type="checkbox"/> Cable Tool <input type="checkbox"/> Dual Rotary <input type="checkbox"/> Mud Rotary <input type="checkbox"/> Reverse Circulation <input type="checkbox"/> Driven <input type="checkbox"/> Jetted <input type="checkbox"/> Air Percussion / Odex Tubing <input type="checkbox"/> Other (please specify):	Method of Well Development CHECK ONE <input checked="" type="checkbox"/> Airlift <input type="checkbox"/> Bail <input type="checkbox"/> Surge Block <input type="checkbox"/> Surge Pump <input type="checkbox"/> Other (please specify):	Method of Sealing at Reduction Points CHECK ONE <input checked="" type="checkbox"/> None <input type="checkbox"/> Packed <input type="checkbox"/> Swaged <input type="checkbox"/> Welded <input type="checkbox"/> Other (please specify):
	STATIC WATER LEVEL 59' Feet Below Land Surface	
	DATE MEASURED 04-20-02	

ANSWERED AUG 22 2002



Arizona Department of Water Resources
 Records Management Section
 500 N. 3rd Street • Phoenix, Arizona 85004
 (602) 417-2405 • (800) 352-8488
 www.water.az.gov

Pump Installation Completion Report



- Review instructions prior to completing form in black or blue ink.
- The registered well owner should file this report with the Department following installation of pump equipment.

WELL REGISTRATION NUMBER
55-589659
 PW 2

****PLEASE PRINT CLEARLY****

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL Harvard Investments		WELL LOCATION ADDRESS (IF ANY)					
MAILING ADDRESS 7600 E. Doubletree Ranch Road, Suite 220		TOWNSHIP(S) 16 North	RANGE (E/W) 3 West	SECTION 17	160 ACRE NW¼	40 ACRE NW¼	10 ACRE SW¼
CITY / STATE / ZIP CODE Scottsdale, Arizona 85258		COUNTY ASSESSOR'S PARCEL ID NUMBER (MOST RECENT)					
CONTACT PERSON NAME AND TITLE Doug Zuber		BOOK 300	MAP 28	PARCEL 016P			
TELEPHONE NUMBER (480) 348-1118		FAX (480) 348-8976		COUNTY WHERE WELL IS LOCATED Yavapai			

DATE PUMP INSTALLED 8/1/02	Pump Type CHECK ONE <input type="checkbox"/> Air Lift <input type="checkbox"/> Bucket <input type="checkbox"/> Centrifugal <input type="checkbox"/> Jet <input type="checkbox"/> Piston <input type="checkbox"/> Rotary <input checked="" type="checkbox"/> Submersible <input type="checkbox"/> Turbine <input type="checkbox"/> Other (please specify):		Power Type CHECK ONE <input type="checkbox"/> Diesel Engine <input checked="" type="checkbox"/> Electric Motor <input type="checkbox"/> Gasoline Engine <input type="checkbox"/> Hand <input type="checkbox"/> Natural Gas <input type="checkbox"/> Windmill <input type="checkbox"/> Other (please specify):
RATED PUMP CAPACITY 530 Gallons Per Minute	HORSE POWER RATING OF MOTOR 60		

DATE WELL TESTED 8/1/02	CHECK ONE <input type="checkbox"/> Baller <input type="checkbox"/> Bucket - Barrel - Stopwatch <input type="checkbox"/> Current <input type="checkbox"/> Estimated - Air Lift <input type="checkbox"/> Gauge <input checked="" type="checkbox"/> Meter <input type="checkbox"/> Orifice <input type="checkbox"/> Volume <input type="checkbox"/> Weir - Furniture <input type="checkbox"/> Other (please specify):	CHECK ONE <input type="checkbox"/> Air Line <input checked="" type="checkbox"/> Electric Measuring Line (Sounder) <input type="checkbox"/> Steel Tape <input type="checkbox"/> Other (please specify):
STATIC WATER LEVEL (A) 57.2 Feet Below Land Surface		
PUMPING WATER LEVEL (B) 148.29 Feet Below Land Surface		
DRAWDOWN [(B) - (A)] 91.09 Feet Below Land Surface		
TEST PUMPING RATE 530 Gallons Per Minute		
DURATION OF PUMP TEST (Minimum 4 Hours) 12 Hours		
TOTAL PUMPING LIFT Feet		
FOR FLOWING WELL, MEASURED SHUT IN HEAD	<input type="checkbox"/> FT <input type="checkbox"/> PSI	

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief according to A.R.S. § 45-600(B).
 SIGNATURE OF WELL OWNER: *[Signature]* DATE: 5.21.03

ANSWERED MAY 23 2003

EXHIBIT 4

Driller's Report and Pump Installation Report for well 3

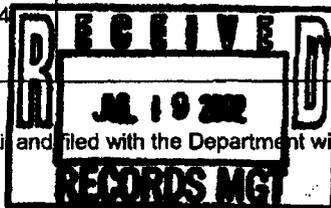
**constructed between
May 13 – May 15, 2002**

**pump installation completed
September 12, 2002**



Arizona Department of Water Resources
 Records Management Section
 500 N. 3rd Street • Phoenix, Arizona 85004
 (602) 417-2405 • (800) 352-8488
 www.water.az.gov

**Well Driller Report
 and
 Well Log**



- Review instructions prior to completing form
- This report should be prepared by the driller in detail and filed with the Department within 30 days following completion of the well.

WELL REGISTRATION NUMBER 55-589660
PERMIT NUMBER (IF ISSUED)

**** PLEASE PRINT CLEARLY ****

Well Owner		Location of Well					
FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL Harcuaco Inv.		WELL LOCATION ADDRESS (IF ANY)					
MAILING ADDRESS 113 W. Goodwin St.		TOWNSHIP (NS)	RANGE (EW)	SECTION	160 ACRE	40 ACRE	10 ACRE
CITY / STATE / ZIP CODE Prescott, Az. 86303		LATITUDE	LONGITUDE				
CONTACT PERSON NAME AND TITLE Doug Zuber		LAND SURFACE ELEVATION AT WELL Feet Above Sea Level					
TELEPHONE NUMBER 430-1118	FAX	METHOD OF LATITUDE / LONGITUDE (CHECK ONE) <input type="checkbox"/> Hand-Held					
		<input type="checkbox"/> USGS Quad Map <input type="checkbox"/> Conventional Survey <input type="checkbox"/> GPS: <input type="checkbox"/> Survey-Grade					
		COUNTY ASSESSOR'S PARCEL ID NUMBER					
		BOOK 300-	MAP 28-	PARCEL 016P			
		COUNTY WHERE WELL IS LOCATED Yavapai					

Driller Name	
NAME Del Rio Drilling	
DWR LICENSE NUMBER 530	
TELEPHONE NUMBER (928) 636-4272	FAX (928) 636-1692

SECTION 1 - WELL CONSTRUCTION DETAILS		
DATE WELL CONSTRUCTION STARTED 05-13-02	DATE WELL CONSTRUCTION COMPLETED 05-15-02	IF FLOWING WELL, METHOD OF FLOW REGULATION <input type="checkbox"/> Valve <input type="checkbox"/> Other:
Drill Method CHECK ONE <input checked="" type="checkbox"/> Air Rotary <input type="checkbox"/> Bored or Augered <input type="checkbox"/> Cable Tool <input type="checkbox"/> Dual Rotary <input type="checkbox"/> Mud Rotary <input type="checkbox"/> Reverse Circulation <input type="checkbox"/> Driven <input type="checkbox"/> Jetted <input type="checkbox"/> Air Percussion / Odex Tubing <input type="checkbox"/> Other (please specify):	Method of Well Development CHECK ONE <input checked="" type="checkbox"/> Airlift <input type="checkbox"/> Bail <input type="checkbox"/> Surge Block <input type="checkbox"/> Surge Pump <input type="checkbox"/> Other (please specify):	Method of Sealing at Production Point CHECK ONE <input checked="" type="checkbox"/> None <input type="checkbox"/> Packed <input type="checkbox"/> Swedged <input type="checkbox"/> Welded <input type="checkbox"/> Other (please specify):
Water Level Information		
STATIC WATER LEVEL 23' Feet Below Land Surface		
DATE MEASURED 05-15-02		

ANSWERED SEP 10 2002



Arizona Department of Water Resources
 Records Management Section
 500 N. 3rd Street • Phoenix, Arizona 85004
 (802) 417-2405 • (800) 352-8488
 www.water.az.gov

Pump Installation Completion Report

- ❖ Review instructions prior to completing form in black or blue ink.
- ❖ The registered well owner should file this report with the Department within 30 days following installation of pump equipment.

RECEIVED
MAY 23 2003
 Information

WELL REGISTRATION NUMBER
55-589660
 PW 3

****PLEASE PRINT CLEARLY****

FULL NAME OF COMPANY, ORGANIZATION, OR INDIVIDUAL Harvard Investments		WELL LOCATION ADDRESS (IF ANY)					
MAILING ADDRESS 7600 E. Doubletree Ranch Road, Suite 220		TOWNSHIP (NS)	RANGE (EW)	SECTION	160 ACRE	40 ACRE	10 ACRE
CITY / STATE / ZIP CODE Scottsdale, Arizona 85258		16 North	3 West	17	NW¼	NW¼	SW¼
CONTACT PERSON NAME AND TITLE Doug Zuber		COUNTY ASSESSOR'S PARCEL ID NUMBER (MOST RECENT)					
TELEPHONE NUMBER (480) 348-1118		BOOK 300	MAP 28	PARCEL 016P			
FAX (480) 348-8976		COUNTY WHERE WELL IS LOCATED Yavapai					

DATE PUMP INSTALLED 9/12/02	Power Type CHECK ONE	
Pump Type CHECK ONE	<input type="checkbox"/> Air Lift	<input type="checkbox"/> Diesel Engine
<input type="checkbox"/> Bucket	<input type="checkbox"/> Rotary	<input checked="" type="checkbox"/> Electric Motor
<input type="checkbox"/> Centrifugal	<input checked="" type="checkbox"/> Submersible	<input type="checkbox"/> Windmill
<input type="checkbox"/> Jet	<input type="checkbox"/> Turbine	<input type="checkbox"/> Other (please specify):
<input type="checkbox"/> Piston	<input type="checkbox"/> Other (please specify):	<input type="checkbox"/> Gasoline Engine
RATED PUMP CAPACITY 430 Gallons Per Minute	HORSE POWER RATING OF MOTOR 60	

DATE WELL TESTED 9/12/02	CHECK ONE	CHECK ONE
STATIC WATER LEVEL (A) 40.44 Feet Below Land Surface	<input type="checkbox"/> Bailor	<input type="checkbox"/> Air Line
PUMPING WATER LEVEL (B) 185.62 Feet Below Land Surface	<input type="checkbox"/> Bucket - Barrel - Stopwatch	<input checked="" type="checkbox"/> Electric Measuring Line (Sonder)
DRAWDOWN [(B) - (A)] 125.18 Feet Below Land Surface	<input type="checkbox"/> Current	<input type="checkbox"/> Steel Tape
TEST PUMPING RATE 430 Gallons Per Minute	<input type="checkbox"/> Estimated - Air Lift	<input type="checkbox"/> Other (please specify):
DURATION OF PUMP TEST (Minimum 4 Hours) 24 Hours	<input type="checkbox"/> Gauge	
TOTAL PUMPING LIFT Feet	<input checked="" type="checkbox"/> Meter	
FOR FLOWING WELL, MEASURED SHUT IN HEAD	<input type="checkbox"/> Orifice	
	<input type="checkbox"/> Volume	
	<input type="checkbox"/> Weir - Furniture	
	<input type="checkbox"/> Other (please specify):	

I HEREBY CERTIFY that the above statements are true to the best of my knowledge and belief according to A.R.S. § 45-600(B).
 SIGNATURE OF WELL OWNER: *[Signature]* DATE: **5.21.03**

ANSWERED BY [unclear]

EXHIBIT 5

**Bill of Sale
Well 2**

Ana Mayman-Trujillo, Recorder
OFFICIAL RECORDS OF YAVAPAI COUNTY
ROBERT BUSCH

B-4629 P-156
10/24/2008 02:53P
26.00 4271743

Fee
\$ 17
SS ✓
SS
SP ✓
26

Recorded at the re

When Recorded, MAIL TO:
ICR WATER USERS ASSN
P.O. Box 5669
CHINO VALLEY AZ 86323

B-4629 P-156
Page: 1 of 17
CORR 4271743

MB

UNOFFICIAL COPY

RE-RECORDED TO ADD
SCHEDULE OF VALUES
IN EXHIBIT A

FEE
\$4
\$5
\$5
\$1
23
PKN

When Recorded, Return to:

Robert Metti, Esq.
Snell & Wilmer
40 North Central Avenue
Phoenix, AZ 85004-4429

1-4598 P-845
page: 1 of 14
5 4239258

1-4629 P-156
page: 2 of 17
DRR 4271743

BILL OF SALE
(Production Well 2)

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, TALKING ROCK GOLF CLUB, L.L.C., an Arizona limited liability company, ("Seller"), hereby sells, transfers, conveys and absolutely sets over to ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Buyer"), (a) that well identified on Arizona Department of Water Resources records as Well Registration No. 55-589659 located at the property described on Exhibit "1" attached hereto, including all casing, pumps, motors, valves, pipes, meters, electrical facilities and connections, fencing and other parts, equipment, machinery and appurtenances used in the operation of the well (collectively, "Production Well 2"); and (b) that 12-inch water pipeline located at the property described on Exhibit "2" attached hereto, including valves and other parts, equipment, and other connecting facilities, extending from Production Well 2 to the Off-Site Main (herein defined) (collectively, the "PW-2 Connection Facilities"). The Off-Site Main is that 12-inch water transmission pipeline depicted on Exhibit "3" that extends from the wellfield developed at that property described on Exhibit "4" to a master-planned community commonly known as Talking Rock Ranch.

Seller hereby warrants title to Production Well 2 and the PW-2 Connection Facilities, subject to (i) taxes and assessments not yet due and payable; (ii) the terms, conditions, covenants and restrictions contained in that Well Agreement dated February 25, 2003, as amended (the "Well Agreement") between Harvard Simon I, L.L.C., an Arizona limited liability company ("Harvard Simon"), Buyer and Talking Rock Golf Club, L.L.C., an Arizona limited liability company, including, without limitation, paragraphs 12 and 13 thereof; (iii) the terms, conditions, covenants and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona (the "Deed"); and (iv) all other matters of record. Buyer hereby accepts Production Well 2 and the PW-2 Connection Facilities subject to the terms, conditions, covenants and restrictions contained in the Well Agreement and the terms, conditions, covenants and restrictions contained in the Deed. In addition to the terms, conditions, covenants and restrictions contained in the Well Agreement or in the Deed, Buyer agrees that the maximum production capacity of Production Well 2 shall not exceed 530 gallons per minute, and Buyer shall not increase the production capacity of Production Well 2 beyond 530 gallons per minute without the express written consent of Seller, or their successors and assigns. Notwithstanding anything to the contrary contained herein, Seller warrants title to Production Well 2 free and clear of any monetary liens, encumbrances or security interests (other than liens for taxes and assessments not yet due and payable).

Seller warrants that Production Well 2 will be free from all defects and deficiencies in construction, materials and/or workmanship for the longer of (i) one (1) year from the date hereof, or (ii) for the same period of time that the construction warranties provided to Seller pertaining to Production Well 2 remain in effect, if said construction warranties provided to Seller during the warranty period, Seller agrees to promptly undertake any necessary corrective construction efforts required to remedy any defects and deficiencies in construction, materials and/or workmanship upon notice by Buyer. Upon Buyer's acceptance of this Bill of Sale, Buyer shall be deemed to have accepted Production Well 2 in "as is" and "as-constructed" condition, subject only to the warranty concerning defects and deficiencies in construction, materials and/or workmanship provided for herein. Seller makes no representation or warranty whatsoever as to the quantity or quality of water that may be produced from Production Well 2, either on the date hereof or in the future.

IN WITNESS WHEREOF, Seller and Buyer have duly executed this Bill of Sale (Production Well 2) as of this 21st day of May, 2008.

SELLER:

TALKING ROCK GOLF CLUB, L.L.C., an Arizona
limited liability company

By: **HARVARD SIMON I, L.L.C.**, an Arizona
limited liability company
Its: **Manager**

By: **HARVARD TALKING ROCK, L.L.C.**,
an Arizona limited liability company
Its: **Operating Member**

By: **HARVARD INVESTMENTS, INC.**,
a Nevada corporation
Its: **Manager**

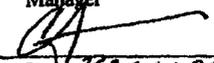
By: 
Its: **PRESIDENT**

EXHIBIT 6

**Bill of Sale
Well 3**

When Recorded, Return to:

Michael T. Hallam, Esq.
Lewis and Roca, LLP
40 North Central Avenue
Phoenix, AZ 85004-4429



3647401 BK 4088 PG 386
Yavapai County, Arizona
Patsy Jenney-Colon, Recorder
10/28/2003 10:11A PAGE 1 OF 13
FIRST AMERICAN TITLE INS CO
RECORDING FEE 13.00
SURCHARGE 8.00
POSTAGE 1.00

BILL OF SALE
(Production Well)

FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which are hereby acknowledged, **TALKING ROCK LAND, L.L.C.**, an Arizona limited liability company, ("Seller"), hereby sells, transfers, conveys and absolutely sets over to **ICR WATER USERS ASSOCIATION**, an Arizona public service corporation ("Buyer"), (a) that well identified on Arizona Department of Water Resources records as Well Registration No. 55-589660 located at the property described on Exhibit "1" attached hereto, including all casing, pumps, motors, valves, pipes, meters, electrical facilities and connections, fencing and other parts, equipment, machinery and appurtenances used in the operation of the well (collectively, "Production Well 3"); and (b) that 12-inch water pipeline located at the property described on Exhibit "2" attached hereto, including valves and other parts, equipment, and other connecting facilities, extending from Production Well 3 to the Off-Site Main (herein defined) (collectively, the "PW-3 Connection Facilities"). The Off-Site Main is that 12-inch water transmission pipeline depicted on Exhibit "3" that extends from the wellfield developed by Seller at that property described on Exhibit "4" to a master-planned community commonly known as Talking Rock Ranch.

Seller hereby warrants title to Production Well 3 and the PW-3 Connection Facilities, subject to (i) taxes and assessments not yet due and payable; (ii) the terms, conditions, covenants and restrictions contained in that Well Agreement dated February 25, 2003, as amended (the "Well Agreement") between Harvard Simon I, L.L.C., an Arizona limited liability company ("Harvard Simon"), Buyer and Talking Rock Golf Club, L.L.C., an Arizona limited liability company, including, without limitation, paragraphs 12 and 13 thereof; (iii) the terms, conditions, covenants and restrictions contained in that Special Warranty Deed from Bluegreen West Corporation to Talking Rock Land dated January 26, 2001 and recorded on January 26, 2001 in book 3807, page 626, records of Yavapai County, Arizona (the "Deed"); and (iv) all other matters of record. Harvard Simon has assigned all of its rights and obligations under the Well Agreement to Seller, and Seller has assumed the same. Buyer hereby accepts Production Well 3 and the PW-3 Connection Facilities subject to the terms, conditions, covenants and restrictions contained in the Well Agreement and the terms, conditions, covenants and restrictions contained in the Deed. In addition to the terms, conditions, covenants and restrictions contained in the Well Agreement or in the Deed, Buyer agrees that the maximum production capacity of Production Well 3 shall not exceed 430 gallons per minute, and Buyer shall not increase the production capacity of Production Well 3 beyond 430 gallons per minute without the express written consent of Seller and Talking Rock Golf Club, L.L.C., an Arizona limited liability company, or their successors and assigns.

Notwithstanding anything to the contrary contained herein, Seller warrants title to Production Well 3 free and clear of any monetary liens, encumbrances or security interests (other than liens for taxes and assessments not yet due and payable).

Seller warrants that Production Well 3 will be free from all defects and deficiencies in construction, materials and/or workmanship for the longer of (i) one (1) year from the date hereof, or (ii) for the same period of time that the construction warranties provided to Seller pertaining to Production Well 3 remain in effect, if said construction warranties provided to Seller pertaining to Production Well 3 extend beyond the one-year period. During the warranty period, Seller agrees to promptly undertake any necessary corrective construction efforts required to remedy any defects and deficiencies in construction, materials and/or workmanship upon notice by Buyer. Upon Buyer's acceptance of this Bill of Sale, Buyer shall be deemed to have accepted Production Well 3 in "as is" and "as-constructed" condition, subject only to the warranty concerning defects and deficiencies in construction, materials and/or workmanship provided for herein. Seller makes no representation or warranty whatsoever as to the quantity or quality of water that may be produced from Production Well 3, either on the date hereof or in the future.

IN WITNESS WHEREOF, Seller and Buyer have duly executed this Bill of Sale (Production Well) as of this 28 day of October, 2003.

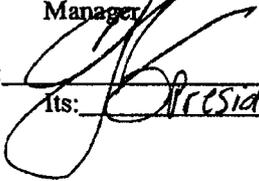
SELLER:

TALKING ROCK LAND, L.L.C., an Arizona
limited liability company

By: **HARVARD SIMON I, L.L.C.**, an Arizona
limited liability company
Its: **Manager**

By: **HARVARD TALKING ROCK, L.L.C.**,
an Arizona limited liability company
Its: **Operating Member**

By: **HARVARD INVESTMENTS, INC.**,
a Nevada corporation
Its: **Manager**

By: 
Its: President

BUYER:

**ICR WATER USERS ASSOCIATION, an Arizona
public service corporation**

By: JM'Claine
Its: Manager - Board of Dir

STATE OF ARIZONA)
) ss
County of Maricopa)

The foregoing instrument was acknowledged before me this 20th day of October, 2003, by Craig Krumwiede, the President of HARVARD INVESTMENTS, INC., a Nevada corporation, Manager of HARVARD TALKING ROCK, L.L.C., an Arizona limited liability company, Operating Member of HARVARD SIMON I, L.L.C., an Arizona limited liability company, Manager of TALKING ROCK LAND, L.L.C., an Arizona limited liability company, on behalf of the company.

D'Bora Y. Tarrant
Notary Public

My Commission Expires:
12/01/06



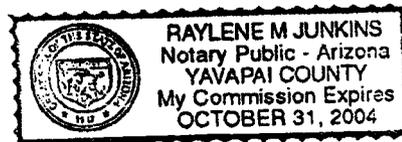
Notary Public State of Arizona
Maricopa County
D'Bora Y Tarrant
Expires December 01, 2006

STATE OF ARIZONA)
) ss
County of YAVAPAI)

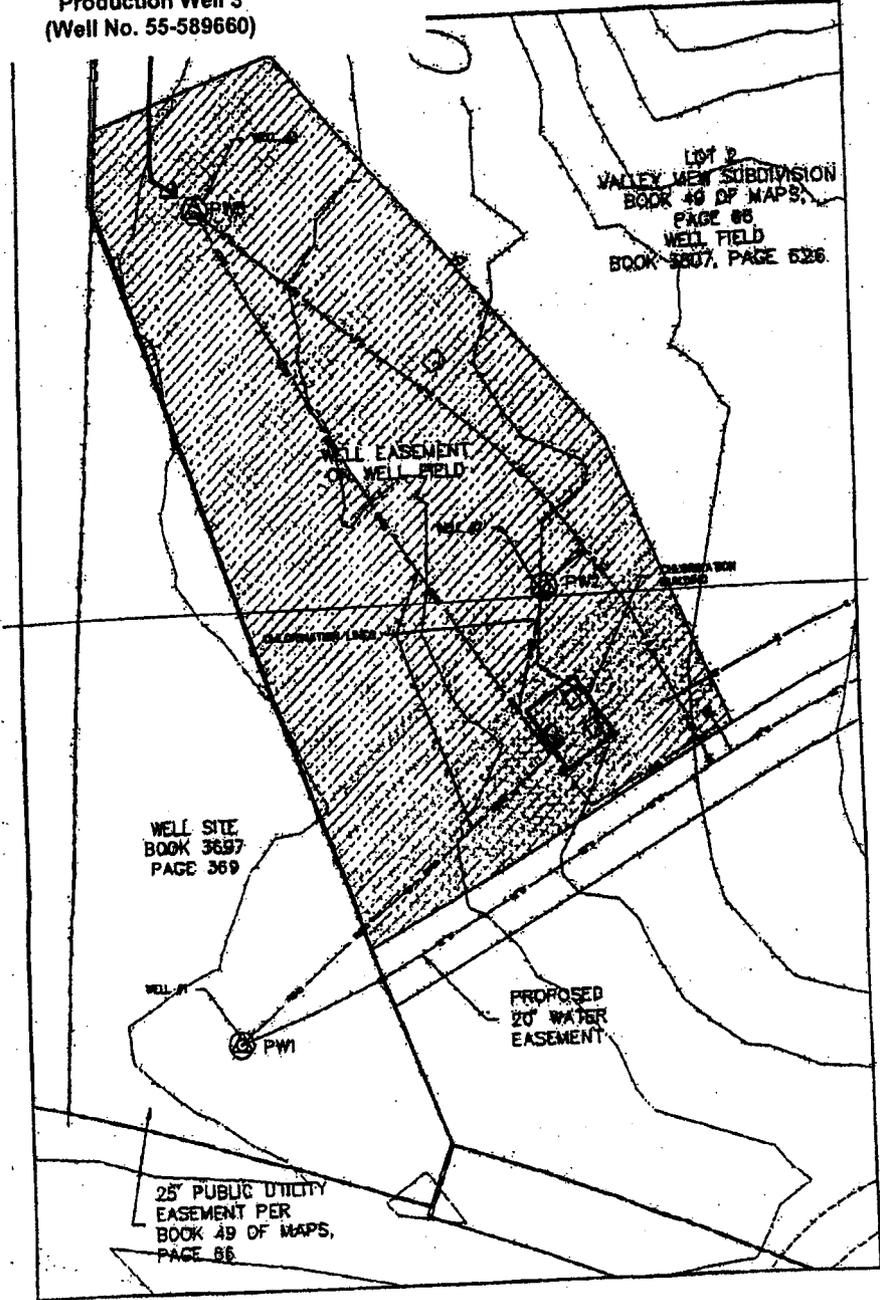
The foregoing instrument was acknowledged before me this 27th day of October, 2003, by Raylene M. Junkins, the Manager / Board of Dir of ICR WATER USERS ASSOCIATION, an Arizona public service corporation, on behalf of the corporation.

Raylene M. Junkins
Notary Public

My Commission Expires:
Oct 31 2004



**Production Well 3
(Well No. 55-589660)**



**RECORDERS MEMO: LEGIBILITY
QUESTIONABLE FOR GOOD REPRODUCTION**

EXHIBIT 7

**Well Agreement
Pages 1 and 11**

WELL AGREEMENT

THIS WELL AGREEMENT (this "Agreement") is made this 25th day of ~~February~~, 2003 by and between ICR WATER USERS ASSOCIATION, an Arizona public service corporation ("Utility"), HARVARD SIMON I, L.L.C., an Arizona limited liability company ("Developer"), and TALKING ROCK GOLF, L.L.C., an Arizona limited liability company ("Talking Rock Golf") for the purposes and considerations hereinafter set forth.

RECITALS

A. Developer is the Second Beneficiary under the First American Title Insurance Agency of Yavapai, Inc. Trust No. 4750, which trust owns approximately 3,470 acres of real property situated in Yavapai County, Arizona, more particularly described in Exhibit "A" attached hereto and incorporated herein by this reference (the "Property"). Developer is authorized to obtain water and wastewater utility services for the Property. A portion of the Property, approximately 400 acres, was previously located within Utility's Certificate of Convenience and Necessity ("CC&N") as shown in the map attached hereto as Exhibit "B" and incorporated herein by this reference. Until recently, the remainder of the Property, approximately 3,070 acres (the "Extension Area"), as shown in Exhibit "B," was not located in the certificated service area of the Utility or of any other certificated water utility provider or in the service area of any municipal water utility service provider. The majority of the Property, approximately 2,500 acres, is located in an area eligible for membership in Utility pursuant to Utility's By-Laws.

B. Utility is a public service corporation as defined in Article XV, Section 2 of the Arizona Constitution and, as such, is regulated by the Arizona Corporation Commission ("Commission"). Utility has been granted a CC&N by the Commission authorizing Utility to provide water utility services.

C. Developer is developing a residential community at the Property to be known as the Talking Rock Ranch that will contain approximately 1627 residential dwellings, certain common areas and a ranch compound with a clubhouse, swimming pool, tennis courts and a health and fitness center. Developer requested that water utility service be extended and provided to the Property by Utility in furtherance of Developer's planned development of the Property. Pursuant to that Main Extension Agreement (Water Service) dated March 5, 2001, between Utility and Developer (the "Main Extension Agreement"), Utility sought approval from the Commission to extend Utilities' CC&N to include the Extension Area and to take all other actions and obtain other government approvals as necessary in connection with the extension of Utility's CC&N to include the Extension Area. Thereafter, Utility is willing to extend water utility service to the Property in accordance with the terms and conditions set forth in the Main Extension Agreement and in accordance with relevant law, including the rules and regulations of the Commission.

D. Pursuant to the Main Extension Agreement, Developer is obligated to construct and install certain Facilities, as defined in the Main Extension Agreement, including without limitation an off-site water transmission main (the "Off-Site Main") described in Exhibit "C" to the Main Extension Agreement.

amount of water Utility may withdraw from the Production Wells transferred and conveyed to Utility shall be 554 acre-feet ("Maximum Amount"). The Maximum Amount is based on the expected annual domestic demand for water at the Property at full-build, plus twenty-five percent (25%). In any calendar year, Utility shall not withdraw water from the Production Wells transferred and conveyed to Utility in excess of the Maximum Amount. The Maximum Amount shall not include water withdrawn from a Production Well and wheeled by Utility to the Golf Course pursuant to paragraph 14 and shall not include water withdrawn from a Production Well and wheeled by Utility to the Property for construction purposes pursuant to paragraph 15. The maximum flow rate measured at the Utility Meter that may be utilized by Utility for domestic water purposes (the "Maximum Flow Rate") shall be the lesser of (a) the actual combined production capacity of the Production Wells transferred and conveyed to Utility at the particular time in question under customary operating parameters, or (b) 687.5 gpm, which is based on the peak daily demand for water at the Property at full buildout, plus twenty-five (25%). The Maximum Flow Rate shall not include the flow rate of water withdrawn from a Golf Course Well (herein defined) or withdrawn from the Production Wells transferred and conveyed to Utility and wheeled to the Golf Course Meter pursuant to paragraph 14 or withdrawn from the Production Wells transferred and conveyed to Utility and wheeled to construction meters at the Property pursuant to paragraph 15. Utility shall have absolutely no right whatsoever to withdraw water from the Production Wells transferred and conveyed to Utility in excess of the Maximum Amount or to utilize water delivered to the Utility Meter for domestic water purposes at a rate in excess of the Maximum Flow Rate.

13. Location of Use. Utility shall use all water withdrawn from the Production Wells transferred and conveyed to Utility (a) to serve customers located within the Property; (b) to satisfy Talking Rock Golf's request for water for the Golf Course, to the extent water is wheeled to the Golf Course from a Production Well pursuant to paragraph 14, and (c) to satisfy Developer's request for construction water wheeled under paragraph 15. Utility shall not withdraw water from the Production Wells transferred and conveyed to Utility for any other purpose, or deliver such water to any other location, or serve such water to any customers located outside the Property.

14. Golf Course Water, Wheeling. Utility acknowledges that Talking Rock Golf has constructed the Golf Course at the Property. Except as provided in the Main Extension Agreement, Talking Rock Golf will provide water to the Golf Course, as follows:

(a) Developer has caused Production Well 1 to be constructed and installed at the Adjacent Property, having an estimated production rate of 525 gpm, assuming pumping for 12 hours per day independent of Production Well 2 and Production Well 3. Developer has conveyed Production Well 1 and Production Well 2 to Talking Rock Golf, along with the PW-2 Connection Facilities and the piping, valves and other facilities necessary to connect Production Well 1 to the Off-Site Main (the "PW-1 Connection Facilities"). Following the conveyance of Production Well 3 to Utility, and without limiting its rights under this paragraph 14, Talking Rock Golf will deliver water from Production Well 1 and Production Well 2 to the Golf Course to satisfy the landscape irrigation and lake fill demands at the Golf Course. Following the conveyance of Production Well 2 to Utility, and without limiting its rights under this paragraph 14, Talking Rock Golf will deliver water from Production Well 1 to satisfy the landscape irrigation and lake fill demands at the Golf Course. The terms "landscape irrigation" and "golf course irrigation" when used in this Well Agreement mean the irrigation of any and all

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

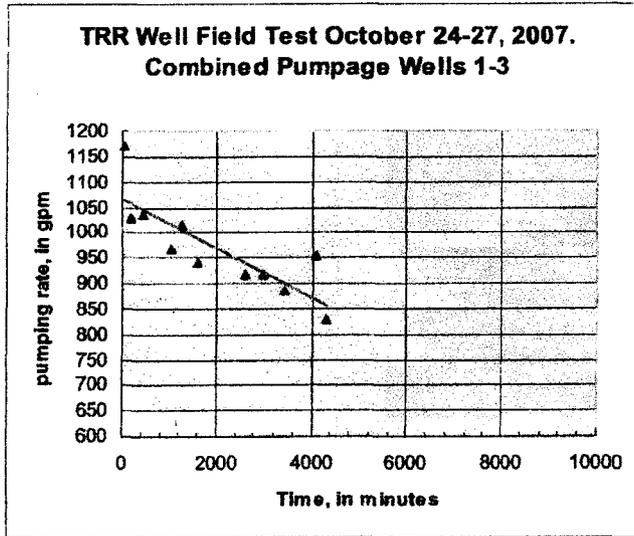


Figure 8

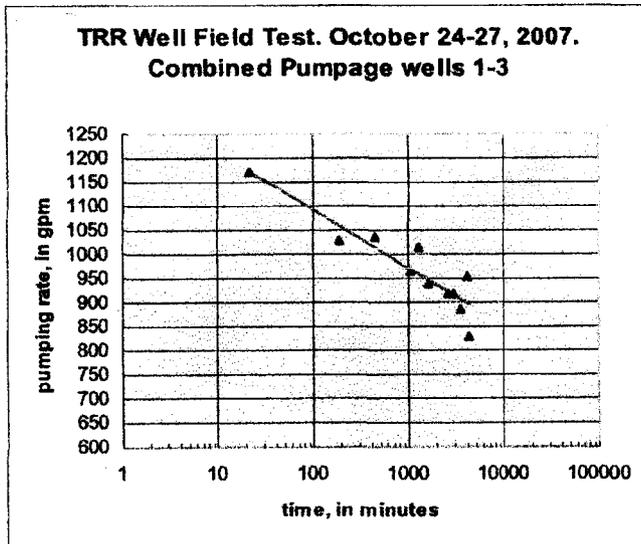


EXHIBIT 9

Minutes

ICR Board of Directors Meeting

August 26, 2008

ICR Water Users Association
MEMORANDUM

TO: Board Of Directors
FROM: Bob Busch
Date: August 26, 2008
Subject: Manager's Report

1. System Operations

Water Audit – The usage reports for July is attached. Last month the TRR System sold 1.7M gallons more than were pumped. This month, the system pumped .7M gallons more than sold. In reviewing meter reading data for the past few months, I discovered that the well read dates have been as much as two days before or after the read date for the golf course meter, which has probably caused wide fluctuations in monthly usage summaries. We will make a special effort in the future to read wells and golf course meter on the same day. In reviewing water loss year to date, we have pumped 66,590,000 gallons from January through July for the TRR System. The total unaccounted for water for January through July is 657,212 gallons. **This is less than 1% (.987%) water loss or unaccounted for, a very acceptable percentage.** The ICR System has pumped 16,240,000 year to date, and has 1,847,022 gallons unaccounted for, (11.37%).

Auto Pay Plan – 58 customers are presently signed up for Auto Pay.

2. Bills of Sale

Preserve at the Ranch – On hold.

Talking Rock – Following a meeting with Harvard on August 21st, Harvard has revised and resubmitted bills of sale with contractor invoice backup for all facilities completed in TRR from the beginning of the development to date. (Backup for phase 27- already transferred, has not yet been received, nor have contractor invoices been received for well costs.)

Attached is a summary of assets by phase and the value of each. The total value of the infrastructure presently operated by ICRWUA is \$6,649,233.42. Another 1,225,987 is pending with the completion of Phase 10. Since about 2.4 million is presently carried on ICRWUA financial statements, these bills of sale represent an additional 4.2 million.

Since no values were recorded with the original deeds for wells, pump station, and infrastructure transferred in 2003, it is planned to re-record those bills of sale, and to re-record the bills of sale for phase 2, because values listed in them were in error.

Whispering Canyon - Nothing new to report.

3. ADEQ Notice – re wells influenced by surface water - (Nothing new to report)

4. Financial Audit- Asset records have been provided to Constance Pinney. She is reviewing asset records vs backup data. No report yet received. **5. Talking Rock- Phases 10,12&13 – Acceptance** – A report providing the status of these infrastructure improvements has been provided to board members. A walkthrough is scheduled for August 28th.

6. Website - The new website, *icrwua.com* was activated late in July. The site presently has pages for rate case related information; service application and Auto Pay applications; newsletter; water quality report; meeting agenda; meeting minutes and an archives page for past meeting reports. The site also has a news flash link for the latest news. The cost for the website was estimated at \$800 to \$1,000, but actually cost \$1,214 including domain name and hosting setup. As a comparison, ICRWUA spent \$2,187.27 for postage and mailing expense in May and June for mailing information to members regarding the rate case.

The site received 247 visits during the last week of July and 276 unique site visits and 694 individual page visits since August 14th. The highest day total was 93 on Tuesday, July 29th.

7. Asset Records – In connection with the asset reconciliation of the Talking Rock infrastructure and associated adjustments to ICRWUA financials, I recommend that ICRWUA create a complete and detailed electronic record of all ICRWUA assets. Detailed information would then be available as to how many fire hydrants are in the system, how many feet of 8", 10", 12" pipe, etc, and the value of these items. Each asset should be classified to the subdivision and the NARUC plant account (which is manner ICRWUA reports assets to the ACC annually). I am investigating what type of software will be needed to record and maintain this kind of data.

Respectfully submitted,

Bob Busch

Attachment: July Water Usage Summary

P.O. Box 5669, Chino Valley, AZ 86323 Phone: (928) 583-0741 Fax: (928) 636-9771 P.O. Box 5669, Chino Valley, AZ 86323 Phone: (928) 583-0741 Fax: (928) 636-9771

Summary of Infrastructure Costs

Summary of Infrastructure Costs

STATUS OF CONVEYANCE OF TALKING ROCK WATER FACILITIES TO ICRWUA AS OF 8-22-08

WATER FACILITIES - BILLS OF SALE (8-08)

	Value	Status
Double Adobe - Phases 1, 2, and 3	\$401,028.74	OK to sign original
Double Adobe - Phase 3D	\$76,110.00	OK to sign original.
Double Adobe Phase 9D & 9D Water Loop	\$200,301.00	OK to sign original.
Phase 1A	\$815,438.00	See attached revised Bill of Sale & Backup
Phase 1B	\$237,214.00	See attached revised Bill of Sale & Backup
Phase 1C	\$501,698.00	See attached Bill of Sale & Backup
Phase 3A	\$78,600.00	OK to sign original
Phase 3B	\$34,834.00	OK to sign original
Phase 3C	\$41,779.00	OK to sign original.
Phase 3D	\$96,508.00	OK to sign original.
Phase 4A	\$29,839.00	OK to sign original
Phase 5	\$204,098.00	See attached Bill of Sale & Backup
Phase 8A	\$171,042.00	OK to sign original.
Phase 8B	\$137,414.00	See attached Bill of Sale & Backup
Phase 8C	\$197,998.00	OK to sign original
Phase 8A	\$176,702.00	OK to sign original.
Phase 9B	\$199,027.00	OK to sign original.
Phase 9C	\$266,448.00	OK to sign original.
Phase 9D	\$156,508.00	OK to sign original.
Phase 10	\$1,253,881.00	See attached Bill of Sale & Backup
	<u>\$4,976,556.74</u>	

WATER FACILITIES - BILLS OF SALE ACCEPTED AND/OR RECORDED

Facilities	Date	Value	Status
Production Well 3	10/28/2003	\$180,091.08	Need original to re-record. Summary of well cost attached.
Off-Site Main	10/27/2003	\$957,018.00	Was not recorded-need original to record. Backup attached
Chlorination Facilities	10/27/2003	\$14,618.02	Was not recorded-need original to record. Backup attached.
Phase 2	7/30/2007	\$300,572.00	Need original to re-record to reflect accurate costs-recorded
Phase 27	7/30/2007	\$125,037.00	Need original to re-record. Working on backup.
Production Well 2	5/27/2008	\$115,341.58	Need original to re-record. Summary of well cost attached.
		<u>\$1,672,677.68</u>	

PENDING WATER FACILITIES TO BE TRANSFERRED

Facilities	Value	Description
Water Tank & Booster Tank (Phase 9 & 10)	\$1,079,126.00	300,000 gal water tank
Production Well 1	\$81,543.00	Well Registration No. 55-584177
Ranch Compound	\$65,318.00	Utility Extension
	<u>\$1,225,987.00</u>	

TOTAL OF CONSTRUCTED FACILITIES \$7,875,220.42

EXHIBIT 10

**Page 9
of
Audited
Financial Statement
for
year ending
December 31, 2007**

**by
Constance Pinney, CPA, PC**

**ICR WATER USERS ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
for the year ended December 31, 2007
(continued)**

Changes in depreciation and amortization methods are regarded as changes in accounting estimates. When such changes are made, they are reflected in deferred debits and credits on the balance sheet.

Extraordinary Items and Prior Period Adjustments

Unusual, material and non-recurring items of income and expense, upon approval by the Arizona Corporation Commission, are treated as extraordinary items on the statement of net revenues.

Prior period adjustments, upon approval by the Arizona corporation Commission, are charged or credited to opening retained earnings.

NOTE 2: UTILITY PLANT AND EQUIPMENT

Utility plant in service, including appropriate equipment, consists of the following at December 31, 2007:

Inscription Canyon Ranch	\$ 1,462,941
Whispering Canyon	1,441,808
Talking Rock Ranch	6,533,592
The Preserve	None
Total Utility Plant in Service	<u>\$ 9,438,341</u>
Less: Accumulated Depreciation	<u>- 927,140</u>
Net Utility Plant and Equipment	<u>\$ 8,511,201</u>

Depreciation expense was \$193,482 for the year ended December 31, 2007. As required by the Uniform System of Accounts, this amount is reduced by a credit representing 2007 amortization of Contributions in Aid of Construction of \$35,479. The net depreciation appears on the Statement of Income and Expense and Changes in Members' Equity as \$158,003. (See Notes 1 and 6.)

Included in Utility Plant are three small parcels of land which hold a tank and two pump houses for the Inscription Canyon water system.

These notes and the accompanying independent auditor's report are an integral part of the financial statements.

EXHIBIT 11

**Monthly
Power
Costs**

2006-2007

Power cost for Talking Rock water system for 2006 and 2007

Source of information

Email files from Robert Busch:

2006 PWR July 23 2008 3:49:55 PM MST

2006 PWR July 23 2008 6:52:35 PM MST

2006 PWR July 28 2008 7:00:51 PM MST

2006 PWR August 27 2008 5:47:56 AM MST

Monthly 2006 Power Costs					
month	power cost	total water pumped	unit power cost	water sent to golf course	golf course power cost
January	\$3,849	6,005,000	\$0.64	4,857,000	\$3,113
February	\$3,686	6,027,000	\$0.61	4,584,000	\$2,803
March	\$4,372	3,774,000	\$1.16	2,759,000	\$3,196
April	\$5,053	10,310,000	\$0.49	9,536,000	\$4,674
May	\$8,957	26,858,000	\$0.33	24,058,000	\$8,023
June	\$10,409	28,867,000	\$0.36	23,745,000	\$8,562
July	\$10,468	14,636,000	\$0.72	11,764,000	\$8,414
August	\$7,851	15,825,000	\$0.50	12,940,000	\$6,420
September	\$7,556	12,027,000	\$0.63	10,045,000	\$6,311
October	\$7,879	12,026,000	\$0.66	11,321,000	\$7,417
November	\$5,125	6,878,000	\$0.75	6,058,000	\$4,514
December	\$4,284	5,634,000	\$0.76	3,359,000	\$2,554
Total	\$79,489	148,867,000		125,026,000	\$66,001

Monthly 2007 Power Costs					
month	power cost	total water pumped	unit power cost	water sent to golf course	golf course power cost
January	\$3,330	1,763,000	\$1.89	1,084,000	\$2,047
February	\$3,367	2,467,000	\$1.36	1,691,000	\$2,308
March	\$5,346	10,067,000	\$0.53	894,000	\$475
April	\$7,114	12,835,000	\$0.55	12,642,000	\$7,007
May	\$8,572	21,850,000	\$0.39	19,310,000	\$7,576
June	\$10,579	24,218,000	\$0.44	23,611,000	\$10,314
July	\$11,616	26,619,000	\$0.44	23,277,000	\$10,158
August	\$6,854	12,652,000	\$0.54	13,753,000	\$7,450
September	\$8,584	16,714,000	\$0.51	14,196,000	\$7,291
October	\$7,912	10,450,000	\$0.76	9,169,000	\$6,942
November	\$4,060	11,625,000	\$0.35	10,415,000	\$3,637
December	\$5,804	2,573,000	\$2.26	767,000	\$1,730
Total	\$83,138	153,833,000		130,809,000	\$66,935