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January 27, 2009

**HAND DELIVERY**

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

Re: Utility Source, LLC; Docket No WS-04235A-05-0707; Decision Nos. 68962 and 70530; Compliance Filing

Dear Ms. Kilger:

On December 30, 2008 we filed the Coconino County Franchise in compliance with the subject Decisions. That Franchise had not been executed by the Company because Mr. McCleve was not available. We indicated at that time that we would refile the fully executed Franchise as soon as possible.

Enclosed please find fifteen (15) copies of the fully executed Coconino County Franchise issued December 16, 2008.

With the filing of this Franchise, the Company is of the opinion that all Compliance Items required by the subject Decisions have been met. If the Staff is of a differing opinion, please advise the undersigned at the above new address as soon as possible.

Sincerely,

Richard L. Sallquist

Enclosures

cc: Utilities Division  
Lonnie McCleve

Arizona Corporation Commission  
**DOCKETED**

JAN 27 2009

DOCKETED BY

AZ CORP COMMISSION  
DOCKET CONTROL

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RECEIVED

**FRANCHISE AGREEMENT  
and  
FRANCHISE  
for  
PUBLIC SERVICE CORPORATIONS**

Date of Franchise: \_\_\_\_\_  
Term of Franchise: 25 years \_\_\_\_\_  
Renewal Date Option: \_\_\_\_\_

This is a Franchise Agreement between the County of Coconino, State of Arizona, and Utility Source, L.L.C., authorizing the location, construction, maintenance and operation of a water and wastewater utility within the unincorporated areas of Coconino County. This Franchise specifically grants expressly subject to the provisions of A.R.S. § 40-283 to Utility Source, L.L.C. the privilege of using the present and future Public Rights-of-Way and Easements of Coconino County in accordance with established policies, practices, and procedures of Coconino County and its several departments.

**RECITALS**

WHEREAS, the Coconino County Board of Supervisors has the duty and responsibility to protect the health, safety and welfare of the residents of Coconino County; and

WHEREAS, the Coconino County Board of Supervisors has the duty and responsibility to assure that present and future Public Rights-of-Way and Easements of Coconino County are used in a responsible manner consistent with the best interests of the residents of Coconino County; and

WHEREAS, the Coconino County Board of Supervisors strives to authorize the use of the Public Rights-of-Way and Easements of Coconino County in a uniform manner among all users; and

WHEREAS, the Coconino County Board of Supervisors deems this form of Franchise Agreement and Franchise to be fair, reasonable and appropriate for Public Service Corporations;

NOW, THEREFORE, the Coconino County Board of Supervisors and Utility Source, L.L.C. do hereby state, promise and agree as follows:

**SECTION 1. DEFINITIONS.**

As used in this Franchise Agreement and Franchise, the following terms have been agreed to have the meanings indicated:

A. "Agreement" means this Franchise Agreement and Franchise.

- B. "Area of Jurisdiction" means that part of Coconino County for which this Franchise is granted. See attachment "A" legal description.
- C. "Board" means the Coconino County Board of Supervisors.
- D. "County" means Coconino County, Arizona.
- E. "Emergency" means any occurrence that may arise without prior notice to Franchisee.
- F. "Franchise" means this Franchise Agreement and Franchise.
- G. "Franchisee" means Utility Source, L.L.C.
- H. "Franchising Authority" means the Coconino County Board of Supervisors.
- I. "Franchise Property" means all materials, equipment, and facilities of Franchisee located, constructed, maintained, and/or operated in the Public Rights-of-Way and Easements of Coconino County pursuant to the terms and conditions of this Franchise Agreement and Franchise.
- J. "Intergovernmental Agreement" means the joint exercise of powers authorized by Title 11, Chapter 7, Article 3 of Arizona Revised Statutes.
- K. "Public Rights-of-Way and Easements" means that real property located within unincorporated areas of Coconino County within which the Coconino County Board of Supervisors has the power and authority to grant a Franchise.
- L. "Rights-of-Way and Easements" shall mean the surface of, the space above, and the space below the Public Rights-of-Way and Easements reasonably necessary to construct, operate, and maintain the Franchise Property.
- M. "Service Area" means the unincorporated areas of Coconino County in which the Franchisee delivers the service for which this Franchise is granted. See attachment "A" legal description.
- N. "Subscriber or User" means any person or entity receiving, for any purpose, the services of the Franchisee.

## Section 2. **GRANTING OF FRANCHISE.**

A non-exclusive Franchise is hereby granted to Franchisee for the purpose of locating, constructing, and maintaining Franchise Property in the unincorporated area of Coconino County. This Franchise shall include the authority, privilege, and power to construct, operate, and maintain all necessary Franchise Property in, over, under, across, and upon the present and future Public Rights-of-Way and Easements consistent with the terms and conditions of this Franchise.

### Section 3. **TERM OF FRANCHISE.**

This Franchise shall be for an initial term of twenty five (25) years beginning on the date of Board approval. This term may be extended only by re-application and grant of an extension. Application for an extension shall be submitted to the Board no sooner than three hundred sixty-five (365) days, nor later than one hundred twenty (120) days, prior to the expiration date of this Franchise.

### Section 4. **TERMS AND CONDITIONS.**

This Franchise shall be subject to the following conditions:

A. This Franchise shall not be deemed to limit the authority of the Board to include other conditions or restrictions which may be necessary for the protection of the health, safety and welfare of the residents of the County and/or for the efficient administration of present and future Rights-of-Way and Easements in general.

B. This Franchise is non-exclusive.

C. The Board has granted this Franchise in reliance upon the Franchisee's business skill, reputation, financial capacity, and character. Accordingly, this Franchise and/or any interest hereunder, shall not be assigned, transferred, conveyed, or otherwise encumbered without the express written consent of the Board. Failure of performance by the Franchisee of any of the terms and conditions of this Franchise may be cause for termination of this Franchise pursuant to Section 15 of this Agreement.

D. No privilege or exemption shall be granted or inferred unless specifically set forth in this Franchise.

E. Any privilege claimed under this Franchise by the Franchisee in any Right-of-Way or Easement shall be subordinated to any prior lawful occupancy of the Right-of-Way or Easement.

F. Prior to commencing any activity authorized by this Franchise, the Franchisee shall submit plans and specifications for such activity to the County Public Works Director for approval of required permit; provided, however, whenever Franchisee is required to undertake emergency activities required to protect the health, safety and welfare of the public and/or the safety and reliability of the Franchise Property, Franchisee shall notify the County Public Works Director not later than twenty four (24) hours after notice of the emergency; and provided further, however, should such emergency present an immediate threat or danger to the health, safety and welfare of the public, Franchisee shall notify the County Manager or the County Public Works Director or the County Emergency Services Coordinator or the Chairman of the Board within one (1) hour of notice of the emergency.

G. Any failure of the Board, or its agents, to promptly enforce compliance of the terms and/or conditions of this Franchise shall not be deemed a waiver of such terms and/or conditions.

H. The Franchisee shall have no recourse against the Board or its agents for any loss, cost, expense, or damage arising out of any term, condition or enforcement of this Franchise.

I. The Franchisee shall be subject to all County rules, regulations and/or specifications pertaining to the use of Public Rights-of-Way and Easements which may be adopted from time to time by the Board.

J. Prior to the grant of this Franchise by the Board, and annually thereafter, Franchisee shall submit to the Board a complete financial statement that reflects the current financial status of the Franchisee and a list of names and addresses of proprietors, owners, or beneficial shareholders who hold more than a ten percent (10%) interest in the corporation, organization, or regulated entity.

#### **SECTION 5. RECORDS TO BE KEPT AND MAINTAINED; REPORTS; INSPECTION OF RECORDS.**

A. Franchisee shall prepare and furnish to the Board, or its agents, such reports and records of its operations, affairs, transactions and/or property as the Board deems necessary or appropriate for the enforcement of performance by the Franchisee according to the terms and conditions of this Franchise.

B. Franchisee shall keep and maintain within the County, and make available for County inspection upon reasonable request, full and complete plans and records showing the exact location of all Franchise Property installed and/or in use in the Public Rights-of-Way and Easements.

C. Franchisee shall file with the County Public Works Director, on or before the 31st day of December of each year, a map and/or a set of plans showing all Franchise Property installed and/or in use in the Public Rights-of-Way and Easements current as of the immediately preceding November 30th.

D. Franchisee shall keep its Franchise Property in good operating condition, and Franchisee shall cause all customer complaints to be duly investigated and, where the circumstances warrant, corrected within a reasonable period of time. Records reflecting such complaints, and the time and manner in which they are resolved, shall be maintained by the Franchisee for at least one (1) year and shall be made available for inspection by the Board or its agents upon reasonable request.

#### **SECTION 6. INSTALLATION STANDARDS.**

A. Franchisee shall be responsible for meeting all County, State, Federal, and local installation standards.

B. Any other provision of this Franchise notwithstanding, all installations of Franchise Property shall be made in a safe and workmanlike manner and maintained in good condition at all times. Except for the conduct of normal construction and repair activities, all such installations of Franchise Property shall be approximately placed so as not to interfere in any manner with the rights of the public or individual property owners and shall not interfere with the use of public property by the public and shall not obstruct or impede traffic. The Board reserves the right of regulation of the erection and construction of any Franchise Property, by Franchisee and its agents or employees, and to designate where such Franchise Property shall be placed. Franchisee agrees to make changes in its plans, specifications and/or Franchise Property to conform with all requirements of the Board. If any facility constructed, repaired, maintained or installed pursuant to this Franchise is found to interfere unduly with vehicular or pedestrian traffic, Franchisee shall, at its own expense and within a reasonable time after notice thereof, remove or relocate the facility so as to eliminate the undue interference.

C. Franchisee shall be responsible for obtaining all necessary licenses, certificates, permits and approvals from all government authorities having jurisdiction over the activities to be conducted under this Franchise.

#### **SECTION 7. UNDERGROUND LINES.**

Franchisee shall, at its own expense, place its lines underground in areas which it serves where telephone and electric power lines are, or are required to be, underground.

#### **SECTION 8. LOCATION OF FRANCHISE PROPERTY.**

Franchise Property shall be constructed or installed in Public Rights-of-Way and Easements of the County only at such locations and in such manner as shall be approved by the Board or its agents. Construction or installation of Franchise Property shall be in accordance with all Federal, State, and County laws and regulations.

Such authorization or construction pursuant to such authorization does not impose on the County the duty of maintaining the road or highway unless the County accepts the road or highway into the County maintenance system by appropriate resolution.

#### **SECTION 9. REPAIR OF ROADS, STREETS, RIGHTS-OF-WAY AND EASEMENTS.**

Franchisee shall bear all expenses, including damage and compensation, for any alteration of the direction, surface, grade or alignment of a public road or other public way, made for the purpose of this Franchise.

If Franchisee's exercise of its rights under this Franchise causes the alteration, damage, destruction or disturbance of pavement, sidewalk, driveway or other improved surface, or planting or other ground cover, Franchisee shall, at its expense, promptly repair and restore the surface to its prior condition in a manner satisfactory to the Coconino County Public Works Department.

**SECTION 10. FAILURE TO PERFORM AS REQUIRED IN SECTION 9 ABOVE.**

A. Upon failure of Franchisee, and its agent or employees, to complete any work required by this Franchise, the Board or its agents may notify Franchisee of non-compliance by registered mail. Franchisee shall have fourteen (14) days from the receipt of the notice to complete the repairs or to enter into an agreement with the Board and/or its agents for the completion of the repairs.

B. If, in the opinion of the County Director of Public Works and/or the County Manager, the failure to repair or complete construction presents a serious and immediate danger to the public health, safety and welfare, they, separately or together, may take immediate action to mitigate the damage. All costs associated with such actions will be the sole responsibility of Franchisee, and Franchisee shall reimburse the County for such costs within thirty (30) days after receipt of an itemized bill.

**SECTION 11. REMOVAL AND ABANDONMENT OF FRANCHISE PROPERTY/ROADWAY**

A. In the event the use of any Franchise Property is discontinued for a continuous period of twelve (12) months and Franchisee is unable to reasonably demonstrate the usefulness of such Franchise Property for future use, Franchisee shall either remove such Franchise Property or abandon such Franchise Property in place.

B. In the event Franchise Property is installed in violation of any requirements of this Franchise, and Franchisee fails to take reasonable measures to cure such violation within thirty (30) days after written notice of such violation, Franchisee shall either remove such Franchise Property or abandon such Franchise Property in place.

C. Franchise Property to be abandoned in place shall be abandoned in accordance with applicable law. Upon abandonment of Franchise Property in place, Franchisee shall submit to the Board an instrument satisfactory to the Board transferring the ownership of such Franchise Property to the County.

D. If the Board of Supervisors takes action to dispose of an unnecessary public roadway pursuant to A.R.S. § 28-7201 et seq., the Board shall include in the instrument of disposal specific and appropriate language to preserve Franchisee's rights of use as they existed before the disposal.

**SECTION 12. CHANGES REQUIRED BY PUBLIC IMPROVEMENTS.**

If Franchisee's facilities within any current or future public road or other public way must be permanently or temporarily relocated due to the relocation, realignment or improvement of the road or way by Coconino County or another governmental entity (including a County Improvement District), Franchisee shall cooperate fully and shall bear the expense of relocating or changing its facilities; provided, however, Franchisee shall have the right to abandon Franchise Property as provided in Section 11 above.

### **SECTION 13. INDEMNIFICATION OF COUNTY.**

Franchisee shall defend the County against all claims for injury to any person or property caused by the negligence of Franchisee, its agents and/or employees, in the construction or operation of Franchise Property, and, in the event of a determination of liability, shall indemnify the County, the Board, its agents and/or employees. More particularly, Franchisee, its successors and assigns, does hereby agree to indemnify and hold harmless the County, the Board and/or its agents and employees, from any and all liability, claim, demand or judgment arising out of any injury to any person or property as a result of a violation or failure on the part of Franchisee, its successors and assigns, to observe their proper duty or because of negligence in whole or in part arising out of the construction, repair, extension, maintenance, or operation of Franchise Property of any kind or character used in connection with this Franchise.

### **SECTION 14. LIABILITY INSURANCE REQUIRED.**

Franchisee agrees that, at all times during the existence of this Franchise, Franchisee will carry a minimum of \$1,000,000 in excess liability insurance on a combined single limit basis above any permitted self-insured retention. Self-insured retention shall be permitted so long as Franchisee continues to report to the Securities and Exchange Commission of the United States a Total Assets amount in excess of \$100,000,000. The insurance coverage required by this Section shall be provided by one or more insurers permitted under Title 20 or Arizona Revised Statutes to transact insurance business. Further, Franchisee shall provide, to the Clerk of the Board of Coconino County, a Certificate of Insurance naming the County, the Board and/or its agents and employees as additional insured. The Certificate will provide for notification to the Clerk of the Board of Coconino County prior to any change in said policy, or cancellation of said policy, for any reason including nonpayment of premiums.

### **SECTION 15. TERMINATION.**

A. This Franchise Agreement and Franchise may be terminated by the mutual consent of the Board and the Franchisee evidenced by a writing.

B. This Franchise Agreement and Franchise, and all rights granted hereunder, may be terminated by the Board upon any breach of the terms and conditions hereof by Franchisee and Franchisee's failure to undertake reasonable measures to cure such breach within thirty (30) days subsequent to Franchisee's receipt of written notice of such breach. Written notice shall be by registered mail.

**SECTION 16. OTHER PROVISIONS.**

Franchise shall keep a copy of its current Tariffs applicable to Subscribers or Users in Coconino County on file with the Clerk of the Board of Coconino County.

**SECTION 17. RESERVATION OF POWERS.**

A. There is hereby reserved to the Board every right and power which is required to be reserved and Franchisee, by its acceptance of this Franchise, agrees to be bound thereby and to comply with any action or requirements of the Board in its exercise of any such right of power enacted or established.

B. Neither the granting of this Franchise nor any of the provisions contained herein shall be construed to prevent the Board from granting any identical, or similar, Franchise to any person or corporation other than Franchisee.

**SECTION 18. SEVERABILITY.**

In the event any provision of this Agreement is rendered inoperative by virtue of the entry of a final judgment of a Court of competent jurisdiction, such event shall not affect any other provision of this Agreement that can be given effect without such inoperative provision and, for this purpose, the provisions of this Agreement are hereby declared to be severable.

**SECTION 19. OFFICIAL NOTICES.**

Notices concerning this Franchise Agreement and Franchise shall be sent to:

**FOR THE COUNTY:**

Clerk of the Board  
219 E. Cherry  
Flagstaff, AZ 86001  
520-779-6693

**FOR FRANCHISEE:**

Managing Member      Coconino County  
721 E. San Pedro  
Gilbert, AZ 85234  
(480)-892-8756

**SECTION 20. EFFECTIVE DATE.**

This Franchise shall take effect upon the date of approval by the Board.

Approved by the Coconino County Board of Supervisors this 16th day of December,  
2008.

For the Board:

By: *Deborah Hill*

Chairman of the Board

Accepted for Franchisee:

By: *James A. Allen*

Its Managing Member

Approved as to form:

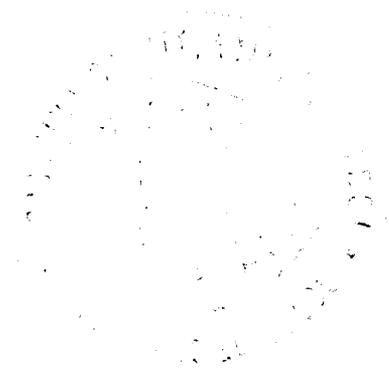
*[Signature]*

County Attorney

ATTEST:

By: *[Signature]*

Clerk of the Board



**FRANCHISE AGREEMENT BETWEEN COCONINO COUNTY AND UTILITY SOURCE, L.L.C.**

**ATTACHMENT "A"  
LEGAL DESCRIPTION**

AS THIS AGREEMENT SUPERSEDES ANY PREVIOUS FRANCHISE AGREEMENTS, THIS LEGAL INCLUDES AREAS PREVIOUSLY APPROVED BY THE BOARD OF SUPERVISORS AND ANY ANNEXATION AREAS THAT ARE REQUESTED (IF ANY)

Please see attached  
Legal Description and Map

**UTILITY SOURCE, LLC,  
REQUESTED FRANCHISE AREA  
FOR WATER AND WASTEWATER SERVICE**

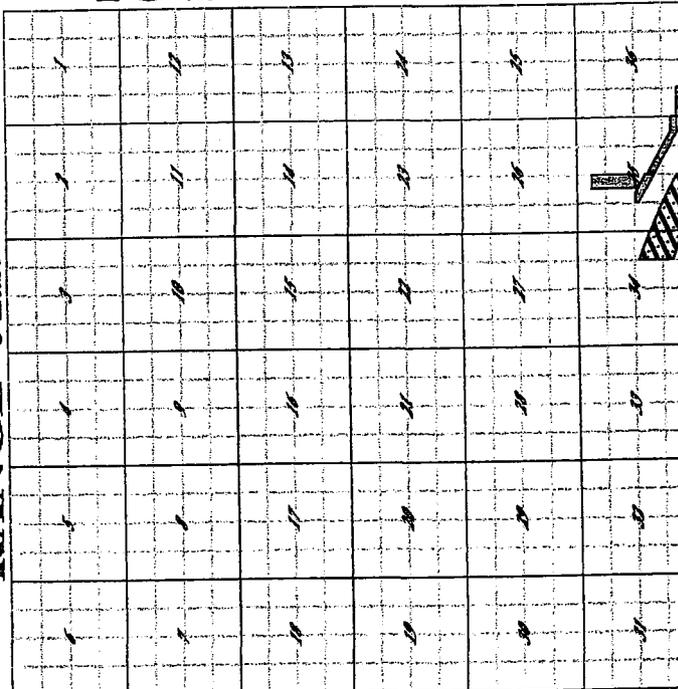
NW4 of the SW4, and the SW4 of the NW4 of Section 6, Township 21 North, Range 6 East,  
and

N2 of Section 1, Township 21 North, Range 5 East, and

E2 of the NW4, and the NE4 of the SW4, and the SE4 of Section 35, Township 22 North,  
Range 5 East, and

S2 of the SW4 of Section 36, Township 22 North, Range 5 East,  
Gila and Salt River Base and Meridian, Coconino, County, Arizona

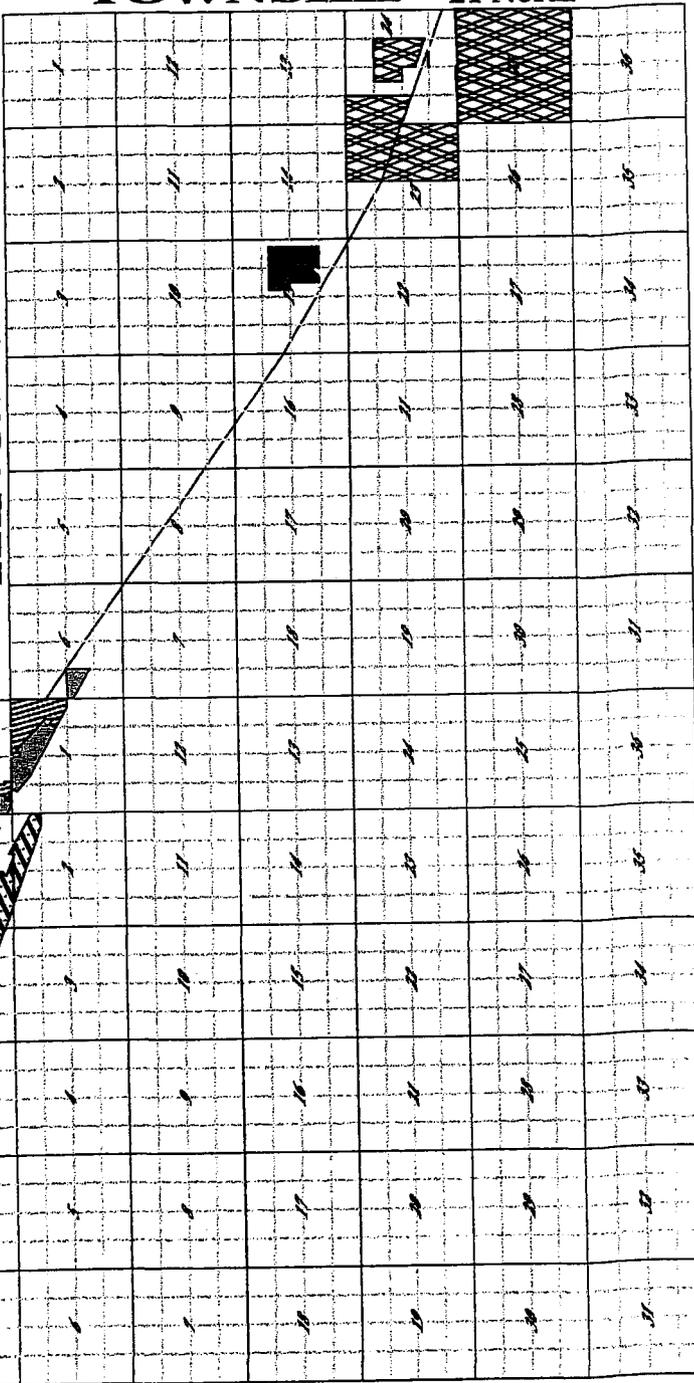
**RANGE 5 East**



**TOWNSHIP 22 North**

-  W-2526  
Bellemont Water Company
-  W-2502  
Flagstaff Ranch Water Company, Inc.
-  WS-4235  
Utility Source, LLC
-  A-1 Ranch Homeowner's Association  
Adjudicated 'Not a Public Service Corporation'
-  Utility Source, LLC  
Docket No. WS-04235A-05-0707  
Application for Extension

**RANGE 6 East**



**TOWNSHIP 21 North**



**IMPORTANT**

If the certificate holder is an **ADDITIONAL INSURED**, the policy(ies) must be endorsed. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

If **SUBROGATION IS WAIVED**, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

**DISCLAIMER**

This Certificate of Insurance does not constitute a contract between the issuing insurer(s), authorized representative or producer, and the certificate holder, nor does it affirmatively or negatively amend, extend or alter the coverage afforded by the policies listed thereon.